



SANVO Fine Chemicals Group Limited 三和精化集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 301

SHARE OFFER



Sole Sponsor



建泉融資有限公司
VBG Capital Limited

Joint Bookrunners and Joint Lead Managers



建泉融資有限公司
VBG Capital Limited



浦銀國際
SPDB INTERNATIONAL



富滙證券
WealthLink
Securities Limited



GREAT ROC
CAPITAL SECURITIES LIMITED
鴻勝資本證券有限公司

IMPORTANT

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



SANVO Fine Chemicals Group Limited 三和精化集團有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	:	100,000,000 Shares
Number of Public Offer Shares	:	10,000,000 Shares (subject to reallocation)
Number of Placing Shares	:	90,000,000 Shares (comprising 80,000,000 new Shares and 10,000,000 Sale Shares) (subject to reallocation)
Offer Price	:	Not more than HK\$1.4 per Share and expected to be not less than HK\$1.2 per Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	301

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



Co-Manager



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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

The Offer Price is expected to be determined by agreement between VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 8 January 2020 and, in any event, not later than Friday, 10 January 2020. The Offer Price will be not more than HK\$1.4 per Offer Share and is currently expected to be not less than HK\$1.2 per Offer Share, unless otherwise announced. Applicants for the Public Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$1.4 per Offer Share, plus a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined should be lower than HK\$1.4 per Offer Share. If, for any reason, the Offer Price is not agreed by Friday, 10 January 2020 between VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder), the Share Offer will not proceed and will lapse.

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

VBG (for itself and on behalf of the Underwriters) may, with the consent of our Company (for ourselves and on behalf of the Selling Shareholder), reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price Range below that stated in this prospectus (which is HK\$1.2 to HK\$1.4 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price Range will be published on the website of our Company at www.sanvo.com and on the website of the Stock Exchange at www.hkexnews.hk as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer. Further details are set forth in the sections headed "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus.

Prospective investors of the Public Offer Shares should note that the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure subscribers for, the Public Offer Shares, are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the subsection headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States. There will be no public offer of the securities of our Company in the United States.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable of the Public Offer, we will issue an announcement in Hong Kong to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.sanvo.com

Public Offer commences and **WHITE** and **YELLOW**

Application Forms available from 9:00 a.m. on Friday, 27 December 2019

Latest time to complete electronic applications under

White Form eIPO service through the
designated website www.eipo.com.hk⁽²⁾ 11:30 a.m. on Tuesday, 7 January 2020

Application lists of the Public Offer open⁽³⁾ 11:45 a.m. on Tuesday, 7 January 2020

Latest time to lodge **WHITE** and **YELLOW**

Application Forms and give **electronic**
applications instructions to HKSCC⁽⁴⁾ 12:00 noon on Tuesday, 7 January 2020

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Tuesday, 7 January 2020

Application lists of the Public Offer close⁽³⁾ 12:00 noon on Tuesday, 7 January 2020

Expected Price Determination Date⁽⁵⁾ Wednesday, 8 January 2020

(1) Announcement of:

- the Offer Price;
- an indication of the level of interest in the Placing;
- the level of applications in the Public Offer; and
- the basis of allocation of the Public Offer Shares to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.sanvo.com⁽⁶⁾ on or before Wednesday, 15 January 2020

(2) Announcement of results of allocations in the Public Offer (including successful applicants' identification document numbers or business registration numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at www.hkexnews.hk and our Company's website at www.sanvo.com⁽⁶⁾ (see the section headed "How to Apply for the Public Offer Shares — 11. Publication of results" in this prospectus for further details) from Wednesday, 15 January 2020

(3) A full announcement of the Public Offer containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.sanvo.com⁽⁶⁾ from Wednesday, 15 January 2020

Results of allocations for the Public Offer will be available at www.iporeresults.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" function. Wednesday, 15 January 2020

EXPECTED TIMETABLE⁽¹⁾

Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on^{(7) & (9)} Wednesday, 15 January 2020

Despatch/collection of **White Form** e-Refund payment instructions/refund cheques on^{(8) & (9)} Wednesday, 15 January 2020

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Thursday, 16 January 2020

The application for the Public Offer Shares will commence on Friday, 27 December 2019 through Tuesday, 7 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service 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 an application 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 tropical cyclone warning signal number 8 or above, a “black” rainstorm warning in force and/or Extreme Conditions in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 7 January 2020, the application lists will not open on that day. See the section headed “How to Apply for the Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus for further details.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should see the section headed “How to Apply for the Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus for further details.
- (5) The Price Determination Date is expected to be on or around Wednesday, 8 January 2020 and, in any event, not later than Friday, 10 January 2020. If, for any reason, the Offer Price is not agreed between VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder), the Share Offer will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates are expected to be issued on Wednesday, 15 January 2020 but will only become valid provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Thursday, 16 January 2020. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per 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 the Public Offer Shares” in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

Applicants who apply through the **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** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

- (9) Applicants who apply for 1,000,000 Public Offer Shares or more may collect Share certificates (if applicable) and/or refund cheques (if applicable) in person and may do so 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 Wednesday, 15 January 2020 or any other date as notified by us in the newspapers as the date of dispatch of share certificate/e-Refund payment instructions/refund cheques. Applications being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms may collect their refund cheques (if applicable), in person but may not collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be dispatched by ordinary post to the addresses specified in the relevant applications at the applicant's own risk. Further information is set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

You should read carefully the sections headed "Underwriting", "Structure of the Share Offer" and "How to Apply for the Public Offer Shares" for details relating to the structure of the Share Offer, procedures on the applications for Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund monies and Share certificates.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Public Offer and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the 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 and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of our or their respective affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full text of this prospectus. You should read the whole document before you decide 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 forth in “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are an established fine industrial chemical products manufacturer based in the PRC. We focus principally on the manufacture, research and development, and sale of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and building materials and towards automotive maintenance. Our products can be broadly categorised into the following segments: (i) aerosols, (ii) organic silicone adhesives, (iii) synthetic adhesives, and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints. According to Frost & Sullivan, our Group had an aggregate market share of approximately 0.4% in terms of sales value of aerosol products and adhesives and sealants in the PRC in 2018, and had market shares of approximately 0.5%, 1.4% and 0.3% in terms of sales value of aerosol products, industrial and automotive aerosol products, and adhesives and sealants respectively in the PRC in 2018. In particular, our Group was the second largest spray paint manufacturer in the PRC in terms of sales value in 2018 with a market share of 2.4%.

The history of our Group can be traced back to 2002 when our founder, Mr. Ernest Chen, a Controlling Shareholder and an Executive Director, established one of our major operating subsidiaries, Guangdong Sanvo, which focused on the manufacturing and sale of, among other things, acrylic varnish, acrylic paint thinner, multipurpose adhesive, and water-based paint. Since then, under the leadership of Mr. Ernest Chen, together with his brother, Mr. Leo Chen, our Group has undergone the business development and has become an established industrial chemical products manufacturer based in the PRC.

With a view to develop and enter into the organic silicone adhesives market and expand our production capacity, on 27 April 2018, our Group acquired the entire equity interest in Sanvo Holdings from LKD HK, an independent third party, at a total consideration of approximately RMB51.3 million. For further details on the acquisition of Sanvo Holdings, please refer to the subsection headed “History, Reorganisation and Corporate Structure — Our corporate history — 2. The Operating Subsidiaries — Sanvo Holdings” and the Accountant’s Report as set out in Appendix I to this prospectus.

During the Track Record Period, we generated our revenue exclusively from the sale of fine industrial chemical products. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we recorded, respectively:

- (i) a revenue of approximately RMB512.2 million, RMB669.3 million, RMB769.2 million and RMB371.4 million; and
- (ii) a net profit of approximately RMB24.2 million, RMB20.4 million, RMB22.7 million and RMB16.7 million.

SUMMARY

Our Business Model

We have two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under our brands of “SANVO 三和” and “FullTeam 芙田” (of which the sales of our “SANVO 三和” branded products accounted for over 98% of our non-OEM sales throughout the Track Record Period); and (ii) on an OEM basis. During the Track Record Period, the revenue derived from the sale of our OEM products accounted for approximately 5.8%, 7.7%, 6.9% and 4.1% of our total revenue, respectively.

With respect to our “SANVO 三和” and “FullTeam 芙田” branded products, we primarily sell these on a wholesale basis to our distributors based in the PRC, the majority of which have exclusive rights to distribute our products within their designated areas. Our distributors distribute our products via different channels, including through (i) on-selling to downstream resellers and/or end users, or (ii) in the case of certain distributors, their self-operated points of sales.

Our pricing policy for our products generally comprises (i) a uniform price list pursuant to which we provide products to our distributors, (ii) mandatory minimum price levels for our distributors to resell our products (i.e. wholesale), and (iii) suggested price levels for our distributors to resell our products. Our Directors believe that this pricing policy, together with the geographical restriction related to distribution territory, have, and will continue to, effectively minimise the risk of market cannibalisation among our distributors.

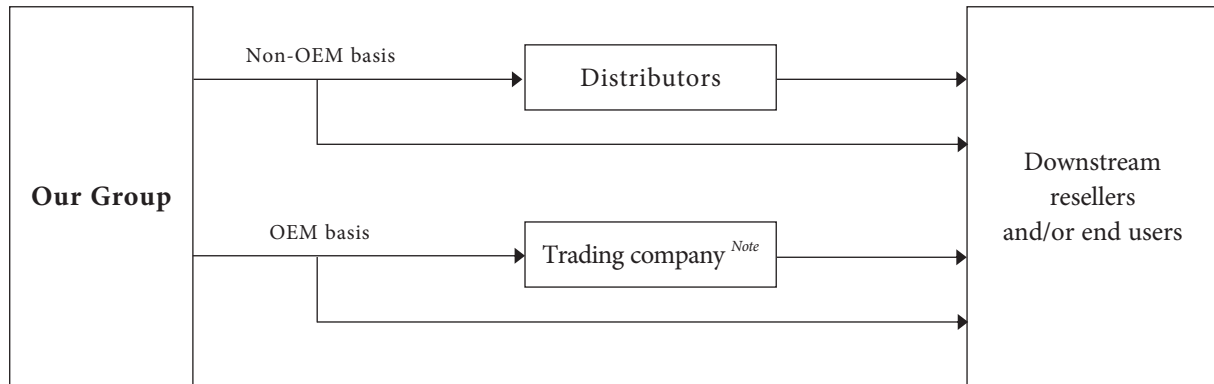
We determine our product price levels on an annual basis using a cost-plus approach and review our prices from time to time with the assistance of, among others, our sales and marketing, finance and research and development departments, taking into account various factors including the demand for our products, production costs, raw material costs and the prices of our competitors’ or other similar products. In order to maintain our competitiveness and optimise our profit margin, we review our pricing strategies and adjust our price levels from time to time to adapt to changes in market conditions.

As at the Latest Practicable Date, we had entered into distribution agreements with over 937 distributors, 787 of which with exclusive rights and 150 of which with non-exclusive rights, across 290 cities covering 22 provinces, four municipalities and five autonomous regions in the PRC. For further details on our distribution network, please refer to the subsection headed “Business — Our sales network — Distribution network for our products” in this prospectus.

During the Track Record Period, we also (i) sold our products on an OEM basis; and (ii) have started to sell our products via certain e-commerce platforms in the PRC since 2016. For details of the breakdown of our revenue attributable to each of our principal sales channels during the Track Record Period, please refer to the subsection headed “Business — Our sales network” in this prospectus.

SUMMARY

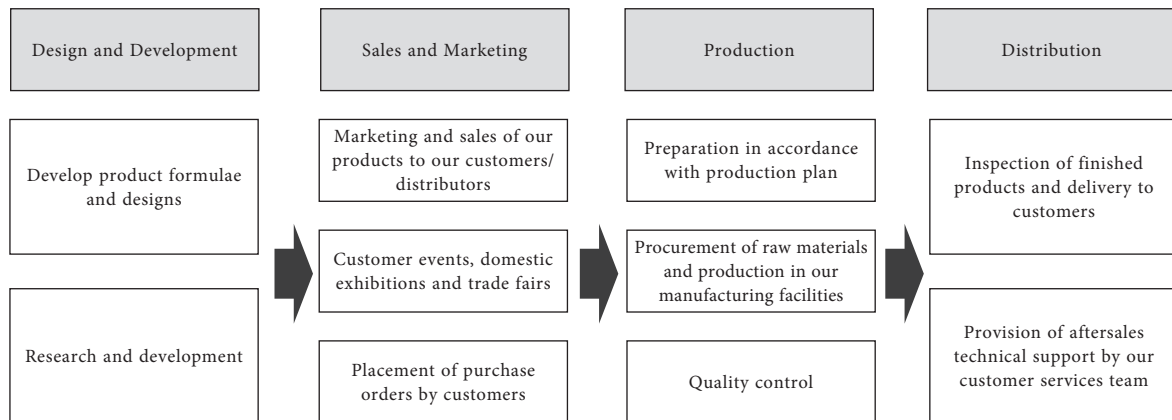
The diagram below provides an overview of our business model as at the Latest Practicable Date:



Note: Products sold to our PRC trading company customer on an OEM basis are exported and sold to offshore resellers and/or end users.

Our operations

For illustration purposes, our operations principally involve the processes set out in the simplified operational workflow diagram below:



As at the Latest Practicable Date, we operated four manufacturing facilities, namely the SV Production Site, FV Production Site, SK Production Site and XV Production Site, which are all situated in Zhongshan City and Shunde District, Foshan City in the Guangdong Province in the PRC with an aggregate of 16 production lines, comprising (i) eight aerosol production lines, (ii) two organic silicone adhesives production lines, (iii) two synthetic adhesives production lines, and (iv) four other miscellaneous products production lines. All of the manufacturing processes of our products take place at our four current production sites.

The production of our major products can generally be completed within five days, depending on the volume of individual purchase orders. From placement of a purchase order to delivery of products to our customers, the average product lead-time is approximately 13 days (depending on the delivery location). During the Track Record Period, our inventory turnover days ranged from approximately 41 days to 48 days.

SUMMARY

In order to expand our production capacity and capabilities, we have acquired a plot of land in November 2014 with a site area of approximately 63,825.3 sq.m. in Zhongshan City, Guangdong Province, the PRC for the construction of our new production plant, being the MV Production Site. As at the Latest Practicable Date, construction works relating to the first phase of construction plans have been substantially completed and we will target to commence trial production in 2020. As part of our expansion plans, we will also relocate our aerosol productions currently situated at our SV Production Site and FV Production Site after completion of construction and development of the MV Production Site. For further details, please refer to the subsection headed “Business — Our operations — Manufacturing — Relocation to the MV Production Site and expansion plans” in this prospectus.

Our Customers, Distributors and Suppliers

For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, the majority of our revenue was derived from sales to our distributors in the PRC, which accounted for approximately 80.6%, 76.9%, 90.0% and 94.5%, respectively, of our total revenue. Our customers mainly comprised distributors of various industrial chemical products or materials in the PRC, who sell the products to downstream resellers and/or end users, or in the case of certain distributors, their self-operated points of sales in the PRC.

During the Track Record Period, the majority of our customers were our distributors. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, sales to our five largest customers accounted for approximately 24.1%, 26.8%, 13.5% and 9.2% of our revenue, respectively, and sales to our single largest customer accounted for 12.9%, 13.9%, 6.9% and 2.2% of our revenue for the corresponding periods. Save for Sanvo Holdings, previously a direct sales customer, which we acquired in April 2018, all of our five largest customers for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 are independent third parties and not suppliers of our Group.

We source various types of raw materials from our suppliers. The major types of materials used by us include packaging materials, additives, pigments, fillers, color powder, metallic powder, resin, rubber and solvents. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our five largest suppliers, accounted for 31.5%, 32.9%, 28.8% and 29.7% of our total purchases, respectively, and our single largest supplier accounted for 7.8%, 7.4%, 7.5% and 8.8% of our total purchases during the same periods respectively. Our five largest suppliers for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 include principally suppliers for raw materials or components for our business, each of which is an independent third party.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our success: (i) extensive nationwide distribution network for our products, (ii) we offer a comprehensive and diversified product portfolio, (iii) our experienced and dedicated management team and workforce, (iv) our long-term well-established relationships with major customers and suppliers, (v) our commitment to deliver quality products with stringent quality control measures, and (vi) we are a recognised manufacturer of various types of fine industrial chemical products in the PRC, including in particular aerosols, organic silicone adhesives and synthetic adhesives, with strong brand recognition.

SUMMARY

OUR STRATEGIES AND FUTURE PLANS

We aim to further strengthen our market position by implementing the following business strategies: (i) expand and enhance our production capacity, (ii) deepen our penetration of and strengthen our market position in the PRC fine industrial chemical products industry, (iii) strengthen our brand image through marketing and advertising initiatives, as well as to (iv) further enhance our research and development ability.

SELECTED RESULTS OF OPERATIONS

During the Track Record Period, our revenue, which was net of any trade discount and sales related tax, was solely derived from sale of various chemical products which can be broadly categorised into (i) aerosols, which contributed over 50% of the revenue during the Track Record Period, (ii) organic silicone adhesives, (iii) synthetic adhesives, and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints. During the Track Record Period, revenue was affected by, among others, our products mix, sales volume, pricing policy and the effectiveness of our distributors.

The following tables set forth breakdowns of our revenue by product type for the periods indicated:

	For the year ended 31 December											
	2016				2017				2018			
	Average		% of		Average		% of		Average		% of	
	Sales	selling	Revenue	revenue	Sales	selling	Revenue	revenue	Sales	selling	Revenue	revenue
	volume	price	RMB'000	%	volume	price	RMB'000	%	volume	price	RMB'000	%
	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	<i>%</i>	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	<i>%</i>	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	<i>%</i>
Aerosols	20,785.9	15.5	321,558	62.8	27,448.2	15.6	426,820	63.8	23,997.7	16.1	387,562	50.4
Organic silicone adhesives	6,021.3	11.5	69,124	13.5	6,179.1	13.0	80,514	12.0	13,350.9	13.9	186,245	24.2
Synthetic adhesives	3,520.4	15.6	54,919	10.7	4,179.3	18.8	78,612	11.7	3,580.1	18.4	65,909	8.6
Other miscellaneous products	6,655.0	10.0	66,618	13.0	6,317.4	13.2	83,328	12.5	9,575.1	13.5	129,455	16.8
			512,219	100.0			669,274	100.0			769,171	100.0

SUMMARY

For the six months ended 30 June

	2018				2019			
	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue
		<i>RMB'000</i>				<i>RMB'000</i>		
	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	<i>%</i>	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	<i>%</i>
			<i>(unaudited)</i>					
Aerosols	9,506.8	16.1	153,249	48.1	12,276.0	16.3	199,486	53.7
Organic silicone adhesives	6,325.0	13.9	88,107	27.7	6,065.9	14.1	85,590	23.0
Synthetic adhesives	1,514.8	18.4	27,827	8.7	1,706.4	18.5	31,535	8.5
Other miscellaneous products	3,658.4	13.5	49,425	15.5	4,031.2	13.6	54,743	14.8
			<u>318,608</u>	<u>100.0</u>			<u>371,354</u>	<u>100.0</u>

Our revenue increased by approximately 30.7% from approximately RMB512.2 million for the year ended 31 December 2016 to approximately RMB669.3 million for the year ended 31 December 2017, among which, (i) the revenue from sale of aerosols increased by approximately 32.7% from approximately RMB321.6 million to approximately RMB426.8 million, (ii) the revenue from the sale of organic silicone adhesives increased by approximately 16.5% from approximately RMB69.1 million to approximately RMB80.5 million, and (iii) the revenue from the sale of synthetic adhesives increased by approximately 43.1% from approximately RMB54.9 million to approximately RMB78.6 million.

Our revenue further increased by approximately 14.9% from approximately RMB669.3 million for the year ended 31 December 2017 to approximately RMB769.2 million for the year ended 31 December 2018. It was primarily due to the increase in the number of our distributors from 924 as at 31 December 2017 to 1,022 as at 31 December 2018, which further led to (i) an approximately 131.3% increase in revenue from sale of organic silicone adhesives from approximately RMB80.5 million to approximately RMB186.2 million, and (ii) an approximately 55.4% increase in revenue from sale of other miscellaneous products from approximately RMB83.3 million to approximately RMB129.5 million. The increase in revenue of approximately 131.3% from sale of organic silicone adhesives primarily resulted from our acquisition of Sanvo Holdings in April 2018.

Our revenue was approximately RMB371.4 million for the six months ended 30 June 2019, representing an approximately 16.6% increase as compared to the revenue generated for the same period in 2018, being approximately RMB318.6 million. Such increase was primarily due to the increase in revenue arising from the sale of aerosols, which amounted to approximately RMB153.2 million and RMB199.5 million for the six months ended 30 June 2018 and 2019, respectively.

SUMMARY

While we continuously strived to enlarge our distribution networks, we have also tried to diversify our sales channels by promoting sales through trading companies, direct sales and e-commerce platforms. The table below sets forth a breakdown of our revenue by sales channel for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Distributors in the PRC	412,545	80.6	515,007	76.9	692,421	90.0	276,410	86.8	350,946	94.5
Trading company/ OEM sales	29,883	5.8	51,475	7.7	52,724	6.9	24,145	7.6	15,365	4.1
Direct sales	69,153	13.5	94,159	14.1	15,968	2.1	12,595	3.9	3,683	1.0
E-commerce platforms	638	0.1	8,633	1.3	8,058	1.0	5,458	1.7	1,360	0.4
	<u>512,219</u>	<u>100.0</u>	<u>669,274</u>	<u>100.0</u>	<u>769,171</u>	<u>100.0</u>	<u>318,608</u>	<u>100.0</u>	<u>371,354</u>	<u>100.0</u>

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The following tables set out breakdowns of our summary of financial information for the periods/as at the dates indicated and should be read together with the audited consolidated financial statements included in Appendix I to this prospectus, including the accompanying notes, and the information set out in the section headed “Financial Information” in this prospectus. Our consolidated financial statements set out in the Accountant’s Report are prepared in accordance with IFRS.

SUMMARY

Summary of Consolidated Statements of Comprehensive Income

The following table sets forth a summary of the consolidated statements of comprehensive income for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue	512,219	669,274	769,171	318,608	371,354
Cost of sales	(378,476)	(516,338)	(583,359)	(256,177)	(258,235)
Gross profit	<u>133,743</u>	<u>152,936</u>	<u>185,812</u>	<u>62,431</u>	<u>113,119</u>
Gain from bargain purchase	—	—	4,847	4,847	—
Profit/(loss) before income tax	29,143	24,339	27,526	(3,316)	18,252
Income tax expense	<u>(4,962)</u>	<u>(3,933)</u>	<u>(4,792)</u>	<u>(260)</u>	<u>(1,576)</u>
Profit/(loss) for the year/ period	<u>24,181</u>	<u>20,406</u>	<u>22,734</u>	<u>(3,576)</u>	<u>16,676</u>

Cost of raw materials, which amounted to approximately RMB352.9 million, RMB487.1 million, RMB550.2 million and RMB237.1 million for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, constituted a significant portion of our cost of sales, representing approximately 93.2%, 94.3%, 94.3% and 91.8% of our total cost of sales for the respective periods.

For the reasons referred to in the paragraphs under “Selected Results of Operations” above, our gross profit increased by approximately 14.4% from approximately RMB133.7 million for the year ended 31 December 2016 to approximately RMB152.9 million for the year ended 31 December 2017, primarily driven by the increase in the sales volume of each type of our products. Over the same period, however, our overall gross profit margin decreased from approximately 26.1% to approximately 22.9%, primarily due to decrease in gross profit margin of aerosol products, from approximately 30.3% to approximately 23.5%, which in turn was primarily due to increases in prices for key raw materials for the production of aerosols, while the average selling price of aerosol remained relatively stable.

According to the Frost & Sullivan Report, the price of key raw materials used in fine industrial chemical products manufacturing recorded a general trend of decline during 2018 to first quarter of 2019, mainly due to the decrease in demand from downstream manufacturing and trading industries as a result of trade war between the United States and the PRC and high stock level of the materials. Therefore, for the six months ended 30 June 2018 and 2019, our cost of sales remained stable at approximately RMB256.2 million and RMB258.2 million, respectively, despite the increases in our sales volume during the six months ended 30 June 2019 as compared to the same period in 2018.

SUMMARY

Due to the increase in our overall sales volume, our gross profit increased by approximately 21.5% from approximately RMB152.9 million for the year ended 31 December 2017 to approximately RMB185.8 million for the year ended 31 December 2018. Over the same periods, our overall gross profit margin remained stable at approximately 22.9% and approximately 24.2%, respectively.

For the year ended 31 December 2018, we also generated gain from bargain purchase of approximately RMB4.8 million in connection with the acquisition of Sanvo Holdings on 27 April 2018.

Our Group's net profit fluctuated during the Track Record Period. The decrease of net profit for the year ended 31 December 2017 as compared to that for the year ended 31 December 2016, was due to the increases in administrative expenses and selling and distribution expenses, despite the revenue increased over the same period. Net profit increased for the year ended 31 December 2018 as compared to that for the year ended 31 December 2017, primarily due to the increases in revenue and the gross profit margin over the same period. We recorded a net profit of approximately RMB16.7 million for the six months ended 30 June 2019 as compared to a net loss of approximately RMB3.6 million for the six months ended 30 June 2018, primarily due to the increases in revenue and the gross profit margin over the same period.

Please refer to the section headed "Financial Information" in this prospectus for further details on our financial performance during the Track Record Period.

Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of our consolidated statements of financial position as at the dates indicated.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	73,750	90,981	189,323	212,345
Current assets	297,073	303,867	155,786	187,298
Current liabilities	222,247	245,943	267,582	293,793
Non-current liabilities	78,446	67,949	49,754	61,500
Net current assets/(liabilities)	74,826	57,924	(111,796)	(106,495)
Net assets	70,130	80,956	27,773	44,350

We had net current liabilities of approximately RMB111.8 million as at 31 December 2018, as compared to net current assets of approximately RMB57.9 million as at 31 December 2017. This was primarily due to a significant decrease of our current assets from approximately RMB303.9 million to approximately RMB155.8 million, which was a result of a decrease in cash and cash equivalents of approximately RMB21.6 million, primarily due to (i) the acquisition of Sanvo Holdings; (ii) the investment in property, plant and equipment; (iii) the acquisition of land use right; and (iv) the payment of dividends of approximately RMB66.3 million, while our current liabilities remained relatively stable at approximately RMB245.9 million and RMB267.6 million, as at 31 December 2017 and 2018 respectively.

SUMMARY

Net current liabilities remained stable at approximately RMB111.8 million and RMB106.5 million as at 31 December 2018 and 30 June 2019, respectively.

Despite our net current liabilities position of approximately RMB74.5 million as at 31 October 2019, we have not experienced material financial difficulties with respect to our cash flow because (i) our revenue grew steadily and our net profits experienced an overall increase during the Track Record Period, which enabled us to obtain refinancing or to fund for repayment of debts when due; and (ii) our unutilised banking facilities amounted to approximately RMB25.5 million as at 31 October 2019.

Subsequent to 31 July 2019, part of the amounts due to Mr. Ernest Chen, being approximately RMB33.2 million was capitalised as a contribution from Mr. Ernest Chen in equity of our Group in October 2019, and the remaining RMB30 million has been settled with cash in August 2019, which further enhanced our liquidity and capital sufficiency.

As such, taking into consideration the anticipated cash flows from our operations, the financial institution and banking facilities available to us and the estimated net proceeds from the Share Offer, our Directors confirm, and the Sole Sponsor concurs with our Directors that, we have sufficient working capital for the next 12 months from the date of this prospectus.

Our net assets increased for the year ended 31 December 2017 and the six months ended 30 June 2019, primarily due to the increase in profitability during these periods. Our net current assets experienced a downturn of approximately RMB169.7 million for the year ended 31 December 2018, primarily due to the declaration of dividends of approximately RMB66.3 million in 2018. Additionally, to effect our Reorganisation, our Group acquired the majority of equity interest in certain companies which were previously held directly or indirectly by Mr. Ernest Chen, our Controlling Shareholder, with consideration in aggregate of approximately RMB22.0 million. As such, the relevant transactions were accounted for as deemed distributions under IFRSs. Please refer to the subsection headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus for further details in respect of the Reorganisation.

Please refer to the subsection headed “Financial Information — Description of Selected Balance Sheet Items” in this prospectus for further details.

SUMMARY

Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of the consolidated statements of cash flows for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating profit/(loss) before working capital changes	39,465	34,754	35,933	(2,110)	26,859
Net cash generated from operating activities	77,623	25,796	1,614	7,151	32,810
Net cash (used in)/generated from investing activities	(92,038)	30,603	23,053	33,399	(19,641)
Net cash generated from/(used in) financing activities	468	(37,266)	(46,442)	(17,288)	13,969
Net (decrease)/increase in cash and cash equivalents	(13,947)	19,133	(21,775)	23,262	27,138
Cash and cash equivalents at the beginning of the year/period	35,219	21,272	40,405	40,405	18,818
Effect of foreign exchange rates changes	—	—	188	600	(99)
Cash and cash equivalents at the end of the year/period	21,272	40,405	18,818	64,267	45,857

Please refer to the subsection headed “Financial Information — Liquidity and Capital Resources — Cash Flow Information” in this prospectus for further details.

SUMMARY

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at the dates or for the periods indicated:

	For the year ended 31 December /As at 31 December			For the six months ended 30 June/ As at 30 June
	2016	2017	2018	2019
Gross profit margin ¹	26.1%	22.9%	24.2%	30.5%
Net profit margin ²	4.7%	3.0%	3.0%	4.5%
Return on equity ³	41.9%	27.0%	41.8%	46.2%
Current ratio ⁴	1.3x	1.2x	0.6x	0.6x
Quick ratio ⁵	1.1x	0.9x	0.3x	0.4x
Gearing ratio ⁶	1.9x	1.4x	3.4x	2.5x

¹ Gross profit margin is calculated by dividing gross profit by revenue.

² Net profit margin is calculated by dividing profit by revenue.

³ Return on equity is calculated by dividing profit by the average total equity at the beginning and the end of each year/period.

⁴ Current ratio is calculated by dividing current assets by current liabilities at the end of each year/period.

⁵ Quick ratio is calculated by dividing the result of current assets less inventories by current liabilities at the end of each year/period.

⁶ Gearing ratio is calculated by dividing total interest-bearing borrowings by equity at the end of each year/period.

For detailed discussion on above-mentioned ratios, please refer to the subsection headed “Financial Information — Key Financial Ratios” in this prospectus.

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTMENT

Our Controlling Shareholders

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be granted under the Share Option Scheme), our Company will be owned as to 73.45% by Sanvo Fine Chemicals. Sanvo Fine Chemicals is wholly-owned by Mr. Ernest Chen and Mr. Ernest Chen is therefore deemed to be interested in the Shares held by Sanvo Fine Chemicals. Mr. Ernest Chen and Sanvo Fine Chemicals are therefore regarded as our Controlling Shareholders under the Listing Rules.

SUMMARY

Pre-IPO Investment

On 12 April 2018, our Company allotted and issued 4 Shares to Mr. Victor Heng, an individual investor, at the consideration of RMB12,560,000.

On 6 June 2018, OWHK, a company incorporated in Hong Kong and indirectly wholly-owned by Mr. Victor Heng:

- (i) entered into an equity transfer agreement with Mr. Ernest Chen, pursuant to which, Mr. Ernest Chen agreed to transfer 10% of his equity interest in Guangdong Fuvo to OWHK at the consideration of RMB277,000; and
- (ii) entered into an equity transfer agreement with Mr. Leo Chen, pursuant to which, Mr. Leo Chen agreed to transfer 10% of his equity interest in Zhongshan Minhe to OWHK at the consideration of RMB390,200.

On 23 July 2018, as part of the Reorganisation, our Company agreed to acquire the entire equity interest in Olive Woods from Mr. Victor Heng at the consideration of RMB1,227,200.

After taking into account of the aforementioned transactions pursuant to the Reorganisation, the actual amount of consideration paid by Mr. Victor Heng for the Pre-IPO Investment equals to RMB12,000,000. For further details, please refer to the subsection headed “History, Reorganisation and Corporate Structure — Pre-IPO Investment” in this prospectus.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group entered into certain agreements with certain connected person of our Company in the ordinary and usual course of business during the Track Record Period. Upon Listing, such transactions will continue between our Group and the relevant connected person, which will constitute continuing connected transactions for our Company under the Listing Rules.

Each of these continuing connected transactions (including those required to be aggregated under the Listing Rules where required) falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules, and is therefore exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements applicable under Chapter 14A of the Listing Rules. Please refer to the section headed “Continuing Connected Transactions” in this prospectus for further details.

SUMMARY

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that the Share Offer and the Capitalisation Issue are completed and 427,499,900 Shares are newly issued in the Share Offer, details of which are set out in the section headed “Structure of the Share Offer” in this prospectus.

	Based on an Offer Price of HK\$1.2 per Share (being the low end of the indicative Offer Price Range)	Based on an Offer Price of HK\$1.4 per Share (being the high end of the indicative Offer Price Range)
Market capitalisation of our Shares ^(Note 1)	HK\$513.0 million	HK\$598.5 million
Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share ^(Note 2)	RMB0.28 (HK\$0.32)	RMB0.32 (HK\$0.36)

Notes:

- (1) The calculation of the market capitalisation of our Shares is based on 427,500,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue, without taking into account the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.
- (2) The unaudited pro forma adjusted consolidated net tangible assets of our Group per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this Prospectus for further details.

The application for the Public Offer Shares will commence on Friday, 27 December 2019 through Tuesday, 7 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.3 per Offer Share, being the mid-point of the indicative Offer Price Range, we estimate that we will receive net proceeds from the Share Offer (after deducting the underwriting commissions and other estimated expenses in connection with the Share Offer) of approximately HK\$75.2 million.

We currently intend to apply the net proceeds (assuming an Offer Price of HK\$1.3, being the mid-point of the indicative Offer Price Range, after deduction of underwriting commissions and other estimated expenses in connection with the Share Offer) in the following manner:

- approximately 80.0%, or HK\$60.2 million, will be used for investment in our new manufacturing facility at the MV Production Site;
- approximately 10.0%, or HK\$7.5 million, will be used for sales and marketing activities to enhance our brand recognition in the PRC and overseas; and

SUMMARY

- the remaining amount of approximately HK\$7.5 million, representing no more than 10.0% of the net proceeds, will be used for working capital and other general corporate purposes.

For further details on our future plans and use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Share Offer. Assuming an Offer Price of HK\$1.3, being the mid-point of the indicative Offer Price Range, the total amount of listing expenses in connection with the Share Offer is estimated to amount to approximately RMB40.2 million (equivalent to approximately HK\$46.4 million), of which approximately RMB4.1 million (equivalent to approximately HK\$4.6 million) will be borne by the Selling Shareholder. The listing expenses to be borne by us are estimated to be approximately RMB36.1 million (equivalent to approximately HK\$41.8 million), of which approximately RMB10.1 million is directly attributable to the issue of new Shares to the public and to be capitalised, and approximately RMB3.1 million, RMB8.5 million and RMB6.6 million have been reflected in our consolidated statements of comprehensive income for the year ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively, and the remaining approximately RMB7.8 million, in conjunction with the listing expenses incurred during the six months ended 30 June 2019, is expected to be reflected in our consolidated statements of comprehensive income for the year ending 31 December 2019.

DIVIDENDS

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, our constitutional documents and the Companies Law and our Memorandum and Articles of Association, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. The Board may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may be relevant at such time.

There can be no assurance that we will be able to achieve profit for the year for each financial year after the Listing. Accordingly, we cannot assure that we will be able to declare or distribute any dividend. We currently do not have any pre-determined dividend payout ratio. Our Board has the absolute discretion to decide whether to recommend payment of dividends in any year.

During the Track Record Period, (i) no dividend was declared or paid by our Company, and (ii) the subsidiaries of our Group had declared and paid dividends of approximately RMB76.0 million to the relevant shareholders of the subsidiaries.

Our historical dividends may not be indicative of the future payments. Please refer to the subsection headed “Financial Information — Dividends” in this prospectus for further details.

SUMMARY

RISK FACTORS

There are certain risks involved in our business and operations and in connection with the Share Offer. These risks can be categorised as: (i) risks relating to our business, (ii) risks relating to our industry, (iii) risks relating to the PRC, and (iv) risks relating to the Share Offer.

We believe that the following are some of the major risks that we face: (a) if we fail to maintain an effective distribution network for our products or manage the activities of our distributors, our business could be adversely affected, (b) our Group recorded net current liabilities and high gearing ratio during the Track Record Period, and our business may be adversely affected if we fail to maintain sufficient working capital and liquidity, (c) we depend on third parties to deliver certain raw materials that meet our quality standards in a timely manner to manufacture our products, (d) we may be subject to liability in connection with accidents that occur during the production process at our manufacturing facilities due to, amongst others, failure to comply with safety measures and procedures, and (e) increases in raw material prices in the PRC may adversely affect our business. We are also susceptible to changes in existing laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC.

As different interpretations and standards may be applied for determining the materiality of a risk, you should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described in the section headed “Risk Factors” in this prospectus.

NON-COMPLIANCE INCIDENTS

During the Track Record Period and up to the Latest Practicable Date, we were in compliance with relevant laws and regulations in all material respect except as disclosed in this prospectus, and had obtained all requisite material licenses, permits and registrations for our business operations. In relation to our historical incidents of non-compliance with PRC laws and regulations, please refer to the subsections headed “Business — Legal compliance and litigation” and “Business — Properties” in this prospectus for further details.

COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, attributable to the wide range and diverse types of products, the overall fine industrial chemical products industry in the PRC is highly fragmented and comprises mainly a large number of small and medium-sized enterprises specialising in the development, manufacture, distribution and sales of certain types of fine industrial chemical products. Similarly, the spray paint market in the PRC is also relatively fragmented. Our Group faces intense competition from other fine industrial chemical products manufacturers in the PRC. The major entry barriers of the fine industrial chemical products industry in the PRC include, among others, technical knowledge, high initial capital investment, and stringent licensing requirement and industry standards. A significant amount of investment would also be required for the establishment and maintenance of brand recognition or distribution channels. Please refer to the subsection headed “Business — Market and competition” in this prospectus for further details.

SUMMARY

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our industry remained relatively stable after the Track Record Period and up to the Latest Practicable Date, and there were no material changes in the general economic and market conditions and regulatory environment in the industry in which we operate.

Listing expenses to be borne by us are estimated to be approximately RMB36.1 million (equivalent to approximately HK\$41.8 million), of which RMB14.0 million (including the listing expenses of RMB6.6 million reflected for the six months ended 30 June 2019) is expected to be reflected in our consolidated financial statement of comprehensive income for the year ending 31 December 2019. Our Directors are of the view that the listing expenses are expected to have a material impact on our Group's operating results for the year ending 31 December 2019. Our Directors would like to emphasize that the current estimated listing expenses are a current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should be aware of the material and adverse impact of the estimated listing expenses on our Group's financial performance for the year ending 31 December 2019.

Based on the unaudited interim consolidated financial statements of our Group as at 31 October 2019, our profitability has remained stable as compared to the six months ended 30 June 2019. We expect that the gross profit margin for the year ending 31 December 2019 will be slightly lower than that for the six months ended 30 June 2019. For the year ending 31 December 2020, we expect that (i) the revenue will increase as compared to the revenue for the year ending 31 December 2019, due to the growth of sales volume of our products and (ii) the net profit will decrease compared to the year ending 31 December 2019, due to additional administrative and other operating expenses including Directors' emoluments and professional fees after the Listing.

Save as disclosed above, after the Track Record Period and up to the Latest Practicable Date, there have been no other material recent developments on our financial condition, and there were also no material changes to our business model. Our Directors have further confirmed that, save as disclosed above, there has been no material adverse change in our business operations or financial or trading position since the end of the Track Record Period and up to the date of this prospectus and no event has occurred that would materially affect the information shown in the Accountant's Report in Appendix I to this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Accountant’s Report”	the report of our reporting accountants, the text of which is set out in Appendix I to this prospectus
“American Sanvo”	American Sanvo Chemical Technology Holdings Limited (美國三和化工科技集團有限公司), a company incorporated in Hong Kong with limited liability on 25 May 2018, and an indirect wholly-owned subsidiary of our Company
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 13 December 2019, which will become effective upon the Listing Date and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“board lot”	the board lot in which the Shares are traded on the Stock Exchange from time to time
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

DEFINITIONS

“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirement relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Capitalisation Issue”	the issue of 337,499,900 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 subsection headed “Statutory and General Information — A. Further information about our Company — 3. Resolutions of our Shareholders passed on 13 December 2019” in Appendix V to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include Hong Kong, the Macau Special Administrative Region and the Republic of China
“Co-Manager”	Conrad Investment Services Limited
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“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 or supplemented from time to time
“Company”, “our Company”, “we” or “us”	SANVO Fine Chemicals Group Limited (三和精化集團有限公司), a company incorporated on 12 April 2018 under the laws of the Cayman Islands as an exempted company with limited liability
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, means each of Mr. Ernest Chen and Sanvo Fine Chemicals

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 13 December 2019 executed by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for each of our subsidiaries), details of which are set out in the subsection headed “Statutory and General Information — E. Other information — 1. Tax and other indemnities” in Appendix V to this prospectus
“Director(s)”	the director(s) of our Company
“Executive Director(s)”	the executive director(s) of our Company
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong in accordance with the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Hong Kong Labour Department in June 2019
“FV Production Site”	our production site located at Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC and operated by Guangdong Fuvo
“French Fullteam”	French Fullteam Chemicals Group Limited (法國芙田化學集團有限公司), a company incorporated in Hong Kong with limited liability on 25 May 2018, and an indirect wholly-owned subsidiary of our Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry consultant engaged by us and an independent third party
“Frost & Sullivan Report”	the market research report on the fine industrial chemical product market in the PRC prepared by Frost & Sullivan and commissioned by us
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group” or “the Group”, “we”, “our” or “us”	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of our Company at the time

DEFINITIONS

“Guangdong Fullteam”	Guangdong Fullteam Chemicals Limited* (廣東芙田化學有限公司), a limited liability company established in the PRC on 8 December 2014, and an indirect wholly-owned subsidiary of our Company
“Guangdong Fuvo”	Guangdong Fuvo Industrial Co., Limited* (廣東阜和實業有限公司), a limited liability company established in the PRC on 28 December 2001, and an indirect wholly-owned subsidiary of our Company
“Guangdong Sanvo”	Guangdong Sanvo Chemical Industry Technology Limited* (廣東三和化工科技有限公司), a limited liability company established in the PRC on 9 April 2002, and an indirect wholly-owned subsidiary of our Company
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards and International Accounting Standards, which include the related standards, amendments and interpretations issued by the International Accounting Standards Board
“Independent Non-executive Director(s)”	independent non-executive Director(s) of our Company
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected persons of our Company as defined under the Listing Rules
“Integrity Knights”	Integrity Knights Group Limited (守正集團有限公司), a company incorporated in the BVI with limited liability on 25 April 2018, and a direct wholly-owned subsidiary of our Company

DEFINITIONS

“Joint Bookrunners”	VBG Capital Limited, SPDB International Capital Limited, Wealth Link Securities Limited and Great Roc Capital Securities Limited
“Joint Lead Managers”	VBG Capital Limited, SPDB International Capital Limited, Wealth Link Securities Limited and Great Roc Capital Securities Limited
“Latest Practicable Date”	17 December 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“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 Thursday, 16 January 2020 on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“LKD BVI”	LKD Holdings Limited, a company incorporated in the BVI with limited liability on 14 October 2016, which is wholly owned by Mr. Li Tao and is an independent third party
“LKD HK”	Lacosta Development Limited (利高達發展有限公司), a company established in Hong Kong on 23 July 1985, which is wholly owned by LKD BVI and is an independent third party
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 13 December 2019, and as amended from time to time
“Mr. Ernest Chen”	Mr. Chen Bingqiang (陳炳強), our chief executive officer, an Executive Director of our Company, the chairman of our Board and a Controlling Shareholder of our Company
“Mr. Leo Chen”	Mr. Chen Bingyao (陳炳耀), an Executive Director of our Company
“Mr. Victor Heng”	Mr. Heng Victor Ja Wei (邢家維), our Pre-IPO Investor
“mu”	the traditional Chinese unit of area (畝), one mu is equivalent to approximately 666.67 sq.m.

DEFINITIONS

“MV Production Site”	our production site located at Shazi Industrial Park, Minzhong Town, Zhongshan City, Guangdong, the PRC and operated by Zhongshan Minhe, the site intended to house our new manufacturing facilities
“OWHK”	OWHK Limited, a company incorporated in Hong Kong with limited liability on 29 December 2017, and an indirect wholly-owned subsidiary of our Company
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.4 and expected to be not less than HK\$1.2, at which Public Offer Shares are to be subscribed for and to be determined in the manner further described in the subsection headed “Structure of the Share Offer — Pricing and allocation” in this prospectus
“Offer Price Range”	not more than HK\$1.4 and not less than HK\$1.2 per Offer Share
“Offer Share(s)”	the Public Offer Shares and Placing Shares
“Olive Woods”	Olive Woods Investments Limited, a company incorporated in the BVI with limited liability on 12 December 2017, and a direct wholly-owned subsidiary of our Company
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company and the Selling Shareholder at the Offer Price with selected professional, institutional and/ or other investor in Hong Kong as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 Shares (comprising 80,000,000 new Shares and 10,000,000 Sale Shares) (subject to reallocation) initially being offered by our Company at the Offer Price for subscription or by the Selling Shareholder for sale under the Placing subject to the terms and conditions as described in the section headed “Structure of the Share Offer” in this prospectus

DEFINITIONS

“Placing Underwriters”	the underwriters of the Placing Shares who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing to be entered into between amongst others, our Company, the Selling Shareholder, our Controlling Shareholders, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Placing Underwriters, particulars of which are summarised in the subsection headed “Underwriting — Underwriting arrangements and expenses — The Placing” in this prospectus
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	King & Wood Mallesons, our Company’s legal adviser as to PRC laws
“Pre-IPO Investment”	the pre-IPO investment made by Mr. Victor Heng, details of which are set out in the subsection headed “History, Reorganisation and Corporate Structure — Pre-IPO Investment” in this prospectus
“Pre-IPO Investor”	Mr. Victor Heng
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Date”	the date, expected to be on or around Wednesday, 8 January 2020 (Hong Kong time), on which the Offer Price is determined, or such later date as VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) may agree, but in any event no later than Friday, 10 January 2020
“Production Sites”	the SV Production Site, the XV Production Site, the FV Production Site, the SK Production Site and the MV Production Site
“Property Valuer”	LCH (Asia-Pacific) Surveyors Limited, an independent third party qualified property valuer who provided the valuation report as set out in Appendix III to this prospectus

DEFINITIONS

“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 10,000,000 new Shares initially offered for subscription pursuant to the Public Offer (subject to reallocation) as described in the section headed “Structure of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer listed in the subsection headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated Friday, 20 December 2019 relating to the Public Offer and entered into among our Company, the Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters as further described in the subsection headed “Underwriting — Underwriting arrangements and expenses — Public Offer” in this prospectus
“RMB” or “Renminbi”	the lawful currency of the PRC
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation implemented to form our Group in preparation for the Listing as described in the subsection headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“SK Production Site”	our production site located at No. 5 Xinliu West Road, Huangpu District, Zhongshan City, Guangdong, the PRC and operated by Sanvo Holdings
“SV Production Site”	our production site located at Dacen Industrial Park, Huangpu District, Zhongshan City, Guangdong, the PRC and operated by Guangdong Sanvo
“Sale Shares”	the 10,000,000 Shares being offered for sale by the Selling Shareholder at the Offer Price under the Placing

DEFINITIONS

“Sanvo Fine Chemicals”	Sanvo Fine Chemicals Limited, a company incorporated in the BVI with limited liability on 16 April 2015 which is wholly-owned by Mr. Ernest Chen, and also a Controlling Shareholder
“Sanvo Holdings”	Guangdong Sanvo Holdings Co., Limited* (廣東三和控股有限公司) (previously known as Guangdong Xin Sanhe Development Co., Limited* (廣東新山禾發展有限公司), a limited liability company established in the PRC on 2 June 2000, and an indirect wholly-owned subsidiary of our Company
“Selling Shareholder”	Sanvo Fine Chemicals
“Share(s)”	share(s) of par value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Shares
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 13 December 2019, the principal terms of which are summarised in the subsection headed “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus
“Shunde Sanvo”	Guangdong Shunde Sanvo Chemical Industry Technology Limited* (廣東順德三和化工有限公司), a limited liability company established in the PRC on 20 March 2003, and an indirect wholly-owned subsidiary of our Company
“Sole Sponsor” or “VBG”	VBG Capital Limited, being the sole sponsor to the Listing and a corporation licensed to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“sq.m.”	square metre
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance
“Track Record Period”	the period comprising the three years ended 31 December 2018 and the six months ended 30 June 2019
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“US\$” or “USD”	United States dollars, the lawful currency of the U.S.

DEFINITIONS

“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“XV Production Site”	our production site located at Jiyou Industrial Park, Xingtang Town, Shunde District, Foshan City, Guangdong, the PRC and operated by Shunde Sanvo
“White Form eIPO”	the application for 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
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“Zhongshan Minhe”	Zhongshan Minhe Chemical Industry Technology Limited* (中山市珉和化工科技有限公司), a limited liability company established in the PRC on 24 January 2013, and an indirect wholly-owned subsidiary of our Company
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, and amounts presented as percentages have been rounded to the nearest tenth of a percent. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.

“adhesives”	materials or substances applied to bind separate items together
“aerosol(s)”	substances that are stored in a pressured container, which can be released as a foam and/or a fine spray through a nozzle with the aid of propellants
“alkyd”	modified resins made from soya bean and linseed oils in different combinations
“architectural paints”	paint products used for renovation purposes and are normally applied onto walls, floors and indoor and outdoor surface of construction
“ERP system”	a business management system used to collect, store, manage and interpret data relating to inventory turnover
“fine industrial chemical products”	chemical products manufactured and packaged in a relatively low volume container with specific applications (such as catalysts, lubricants, pesticides), which are produced through complicated processes from research and development, to manufacturing and packaging, in specialised facilities
“ISO”	the International Organization for Standardization, a non-governmental organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	the certification for an internationally recognised standard for quality management
“ISO 14001”	the certification for an internationally recognised standard for environmental management
“industrial paints”	paint products used in the production process and are normally applied onto furniture, vehicles and a wide range of industrial and consumer products for protection and decoration purposes
“lacquers”	paints used primarily on wood with a base of nitrocellulose and alkyd; coloured lacquers have pigments added to them
“lubricant oil”	a substance introduced to reduce friction between surfaces in mutual contact, which ultimately reduces the heat generated when the surfaces move
“OEM”	original equipment manufacturing whereby products are manufactured in accordance with the customer’s design and specification and are marketed under the customer’s brand name

GLOSSARY OF TECHNICAL TERMS

“paints”	any liquid, liquefiable or mastic composition that, after application to a substrate in a thin layer, converts into a solid film and are commonly used to protect, colour or provide texture to objects
“pigments” and “fillers”	materials used primarily in paint and coating industry for the purpose of giving better colour strength and intensity
“propellant”	typically consist of liquefied or compressed gases, which would propel the vaporised liquid solvent with active ingredient(s) from the container
“SBS”	styrene-butadiene-styrene
“sealant”	material used for sealing two components so as to fill holes and seal off any gaps to block passage of fluids
“solvent-based paints”	paint products containing high level of organic solvents, such as alkyd or linseed oils, and are made up of liquefying agents that will be evaporated through chemical reaction with oxygen, thereby reducing the drying time
“VOC”	volatile organic compounds, organic chemicals that have a high vapour pressure at room temperature and cause large number of molecules to evaporate from the liquid to the surrounding air
“water-based paints”	paint products containing low level of organic solvents, also known as acrylic emulsion, paints in the production process and release zero or low level of VOC during the drying time

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals, targets, and future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “consider”, “continue”, “could”, “estimate”, “expect”, “foresee”, “going forward”, “intend”, “may”, “ought to”, “predict”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed “Risk Factors” in this prospectus and the following:

- our business strategies, initiatives, plans and prospects;
- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity price or other rates or prices;
- business opportunities and plans that we may pursue;
- our ability to identify and successfully take advantage of new business development opportunities;
- future events and developments, trends and conditions in the industry and markets in which we operate/ plan to operate;
- expected changes in our reserves and certain costs or expense items and our ability to reduce costs;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practice; and
- other factors beyond our control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no 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. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section as well as the risk factors set out in the section headed “Risk Factors” in this prospectus. We caution you not to place undue reliance on any forward-looking statements or information.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

RISK FACTORS

In addition to other information in this prospectus, prospective investors should carefully consider the following risk factors, which may not be typically associated with investing in our Shares, before making any investment decisions in relation to the Offer Shares. You should pay particular attention to the fact that we are a company incorporated under the laws of the Cayman Islands and our business and most of our assets are located in the PRC. If any of the possible risks described below materialise, our business, financial condition and results of operations could be materially and adversely affected and the market price of our Shares could decrease significantly.

There are certain risks involved in our business and operations and in connection with the Share Offer. These risks can be categorised as: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the PRC; and (iv) risks relating to the Share Offer.

RISKS RELATING TO OUR BUSINESS

If we fail to maintain an effective distribution network for our products or manage the activities of our distributors, our business could be adversely affected.

We rely on our distributors to distribute and market our products. During the Track Record Period, revenue generated from the sales to the distributors amounted to approximately RMB412.5 million, RMB515.0 million, RMB692.4 million and RMB350.9 million, respectively, representing 80.6%, 76.9%, 90.0% and 94.5% of our revenue, respectively.

The performance of the distributors, their sales network and their ability to expand their businesses are crucial to the future growth of our business and directly affect our sales volume and profitability. If most of our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot assure you that we will be able to maintain our agreements with the distributors on favourable terms or at all. The distributors may not be able to maintain their competitiveness, or sell and market our products successfully, or we may not be able to monitor the distributors directly to ensure efficient sales of our products to their customers.

Furthermore, if the sales volume of our products cannot be maintained at a satisfactory level, the distributors may not place orders on our new products with us or may reduce the quantity of our existing products or may ask for discount on the purchase price. In addition, we may not have sufficient control over the distributors, and we cannot assure you that the distributors will not breach their distribution agreements or will comply with their obligations thereunder, including those with respect to our retail policies. The loss of the distributors, or reduced orders from them or if the distribution agreements cannot be renewed or if the distributors breach any of the terms thereunder, could materially and adversely affect our business and financial condition and operating results.

We are focused on identifying, recruiting and retaining quality distributors as part of our growth strategies. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.

RISK FACTORS

Our Group recorded net current liabilities and high gearing ratio during the Track Record Period. Our business may be adversely affected if we fail to maintain sufficient working capital and liquidity.

We used a significant amount of cash in our business, principally for the procurement of raw materials, construction of production facilities and equipment as well as the repayment of our borrowings. We have historically relied on short-term and long-term borrowings to fund a portion of our working capital and capital expenditure, and expect to do so in the future. We had incurred net current liabilities of approximately RMB106.5 million as at 30 June 2019. Our gearing ratio was 1.9 times, 1.4 times, 3.4 times and 2.5 times as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. In particular, our net current liabilities position as at 31 December 2018 was primarily due to (i) payments relating to the acquisition of Sanvo Holdings, (ii) capital expenditures in relation to the construction and development of the MV Production Site, (iii) dividend payments of approximately RMB66.3 million, and (iv) an increase in the amount due to a Director in the sum of approximately RMB58.9 million. Our net current liabilities remained stable at approximately RMB111.8 million and RMB106.5 million as at 31 December 2018 and 30 June 2019, respectively.

Our net current liabilities position would expose us to liquidity risk, and could constrain our operational flexibility and adversely affect our ability to expand our business. Our ability to fund our operations and meet our debt obligations largely depends on our ability to generate sufficient revenues from our operations or maintain sufficient cash and financing. We cannot assure you that we will be able to obtain adequate financing to meet our future working capital requirements. If we do not have sufficient working capital and are unable to generate sufficient revenues or raise additional funds, we may significantly reduce the scope of our current business plan or substantially curtail our operations. Our business, results of operations and financial condition may be materially and adversely affected, and we may not be able to expand our business as expected. For further details, please refer to the subsection headed “Financial Information — Liquidity and capital resources — Net Current Assets/(Liabilities)” in this prospectus.

We depend on third parties to deliver certain raw materials that meet our quality standards in a timely manner to manufacture our products.

We procure raw materials, such as packaging materials, additives and pigments, which account for a large proportion of our cost of sales, from external suppliers. We have no long-term contractual arrangements with our suppliers or third party contractors. Any sudden shortage of raw materials supply, increase in demand, price movements, or other factors internal to our suppliers may result in an interruption in such supply of raw materials critical to our production process. Such shortage of supply or rejection of materials may affect our manufacturing schedule, and we may have to source supplies from alternative suppliers at a higher price, which may delay the delivery of products to our customers adversely affecting our reputation. Any of the foregoing events could cause a delay in our delivery and an increase in our costs, which may have a material adverse effect on our business, financial condition and results of operations.

We may be subject to liability in connection with accidents that occur during the production process at our manufacturing facilities due to, amongst others, failure to comply with safety measures and procedures.

In the course of operations and production, we require our employees to comply with and implement all the safety measures and procedures as stipulated in our internal policies. Nevertheless, there is no assurance that our safety measures or other related rules and regulations by our employees or the subcontractors are strictly followed. As our production process at our manufacturing facilities inevitably involves the operation of tools, equipment and machinery, accidents resulting in employee injuries or even deaths may occur. There is no assurance that

RISK FACTORS

these accidents, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. Any violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at our manufacturing facilities, which may materially and adversely affect business operations as well as financial position to the extent not covered by insurance policies.

In November 2018, a fire broke out at our FV Production Site. As a result of the fire incident, our Group suffered a total financial loss of approximately RMB500,000, although no employees or other persons were harmed or injured as a result. For further details, please refer to the section headed “Business — Occupational health and work safety — Fire Incident at our FV Production Site” in this prospectus. There is no assurance that there will not be any violations of rules, laws or regulations or breach of safety measures and procedures imposed by our Group on the part of our employees or other contractors. In such event, we may be liable for personal injury or death and monetary losses suffered by our employees, fines or penalties or other legal liability arisen from violation of applicable PRC laws and regulations. We may also be subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Further, any enhanced safety measure imposed by the PRC Government from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our operations.

We are dependent on a stable supply of raw materials and increases in raw material prices in the PRC may adversely affect our profitability.

Our production process requires reliable and stable sources of large quantities of raw materials. In particular, amongst others, packaging materials, resin and glue, additives and pigments, solvent are key materials in the manufacture of our products, all of which we source from third parties. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our cost of raw materials accounted for approximately 93.2%, 94.3%, 94.3% and 91.8%, respectively, of our total cost of sales. Although we generally maintain a certain level of inventory of our raw materials for future production or to meet future demand according to our production plan, we do not have hedging arrangements against fluctuations in raw material prices and therefore we bear the risks associated with raw material cost fluctuations. The prices of packing materials, resin and glue, solvent have historically been subject to frequent price fluctuations. The pricing of our raw materials is also sensitive to supply disruptions, general economic conditions, and many other factors that are beyond our control.

We expect the prices of our raw materials, in particular packing materials and solvent to increase in the future. We generally determine our product price levels on an annual basis. As such, although we do attempt to reflect raw material price fluctuations in the selling prices of our products, there can be no assurance that we will be able to reflect all such increases in the selling prices of our products on a timely basis or at all. We do not currently employ any commodity risk management strategies or engage in any hedging transactions to minimise our risks relating to fluctuations in the price of raw materials. If we are unable to reflect increases in the price of raw materials efficiently or adequately in the prices of our products, our cost base may increase, which may lead to a reduction in our gross profit margin, and the operating results for our products may be materially and adversely affected.

Please also refer to the subsection headed “Financial Information — Key factors affecting our results of operations — Cost of Raw Materials” in this prospectus.

RISK FACTORS

Labour shortages or increases in labour costs could harm our business, reduce our profitability and slow our growth.

Experienced professional staff and other labour are important for the operation of our businesses, and therefore, our success depends in part on our ability to attract, retain and motivate a sufficient number of our research and development personnel and staff for our production work. Qualified individuals in the relevant industries are in short supply and competition for workers is intense. In addition, competition for qualified individuals or workers could also require us to pay higher wages, which could result in higher labour costs.

Labour cost in the PRC has been on a rising trend over the years, and it may rise further in the future. We may not be able to fully transfer the increased cost of labour to our customers or offset the increase in labour cost against corresponding increases in the prices of our products. In the event that we are unable to cope with the increasing labour cost, our business, financial performance and results of operations may be adversely affected.

Our agreements with our customers and/or distributors do not contain specific labour cost adjustment mechanism, and we may fail to anticipate or may be unable to transfer the full impact of the increase in labour cost to our customers on a timely basis. In such cases, our business and results of operations may be adversely affected.

Any failure by our customers to make payments to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our trade and bills receivables were approximately RMB50.0 million, RMB70.0 million, RMB33.9 million and RMB48.4 million, respectively. Further information on our trade and bills receivables is set forth in the subsection headed “Financial Information — Description of selected balance sheet items — Trade and Bills Receivables, Other Receivables and Prepayments” in this prospectus. Our trade and bills receivables turnover days were 40.4 days, 32.7 days, 24.6 days and 19.9 days for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. The trade and bills receivables turnover days are based on the average of the beginning and the ending balance of trade receivables of the respective year/period divided by the revenue for that corresponding year/period multiplied by 365 days and annualised, where applicable.

Any failure by our customers to make payments to us, or any dispute over or significant delays in receiving such payments from our customers, could require us to write off or make provision against our trade receivables, either of which could adversely affect our cash flows and profitability. Our Directors review the trade receivables on a timely basis, to ensure that impairment losses would be recognised when necessary. No impairment losses on trade receivables were recognised during the Track Record Period. If we cannot collect our trade and bills receivables in full in a timely manner, we would need to make further provision for impairment and our business and financial conditions and operating results could be adversely affected.

RISK FACTORS

Our success and business operations rely on certain key personnel and our ability to attract and retain talented staff.

Our success and business operations have always relied on, and will continue to rely on certain key personnel. In particular, we rely on the expertise and experience of our chairman of the Board and Executive Director, Mr. Ernest Chen, and our chief technical engineer and Executive Director, Mr. Leo Chen, have over 20 years and 19 years of experience in the chemicals industry in the PRC, respectively. If one or more of the members of our senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to find suitable replacements in a timely manner, or at all. There is no guarantee that we will be able to attract and retain our current personnel or that they will not leave our Group's employment in the future. In addition, individuals with sufficient training may not be available to hire, and we will need to expend significant time and expense training the employees we hire. Furthermore, our ability to train and integrate new employees into our operations may not meet the growing demands of our business, which may materially and adversely affect our ability to grow our business and our results of operations.

If any of our senior management or key personnel terminates his or her services with us, our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain qualified personnel. We have not obtained any "key person" insurance on our key personnel. If any of our senior management or key personnel joins a competitor or forms a competing company, we may lose customers, know-how and key professionals and staff members.

Our plan to expand our manufacturing facilities may not be successful or such expansion may result in significant increase in our cost of sales and may materially and adversely affect our operations and financial results.

To support our growing operations, we will further expand our existing manufacturing facilities by, in particular, development on the MV Production Site. The total cost arising from the expansion is expected to be approximately RMB235.0 million, out of which, the outstanding capital expenditure expected to be spent towards the MV Production Site is estimated to be approximately RMB150.3 million and the construction work relating to the first phase of construction have been substantially completed as at the Latest Practicable Date and we will target to commence trial production in 2020.

Our expansion plans may involve the following risks: (i) our actual production volume may vary depending on the demand and purchase orders for our products which in turn may be affected by market trends, customers' preferences or other factors which are beyond our control; (ii) the demand for our products and revenue to be generated may not increase in line with our increase in production capacity; (iii) we expect to incur increased fixed costs, such as amortisation of right-of-use assets and depreciation costs, in connection with capital investments relating to the expansion of our manufacturing facilities, which are expected to amount to approximately RMB2.6 million, and will be charged to our Group's income statement each year. Other variable costs incurred in relation to the expansion will be accounted for based on the actual production volume, level of distribution and business activities engaged in by our Group, and relocation of staff from other Production Sites; (iv) we cannot guarantee our expansion plans will be successfully implemented without delay or at all; and (v) we may not be able to obtain the necessary licences from the PRC regulatory authorities for our expansion plans.

Meanwhile, the future plans of our Group as described in the subsection headed "Business — Our business strategies" in this prospectus are based on current intentions and assumptions. The future execution of such plans may be subject to capital investment and human resources constraints. Furthermore, our expansion plan may also be hindered by other factors beyond our control, such as the general market conditions, the economic and political environment of the PRC and the world. Therefore our expansion plan may not materialise in accordance with the timetable or at all.

RISK FACTORS

We face challenges in achieving the goals of our business strategies, and we may not be successful in implementing our strategies and business initiatives.

In recent years, we have experienced considerable growth in our business. We have set out our business plans in the subsection headed “Business – Our business strategies” in this prospectus. We seek to pursue strategies that we believe would further strengthen our market position, such as deepening our penetration of the PRC fine industrial chemical products industry by further expanding our distribution network in Eastern and Southern China. We also plan to strengthen our brand image through marketing and advertising initiatives, and further enhance our research and development ability.

The implementation of these business strategies requires us to effectively and efficiently manage our sales, marketing, procurement, production and other aspects of our operations. Our ability to implement such strategies will depend on a variety of factors, some of which are beyond our control, including regulatory constraints, increased competition from competitors and the general market conditions in the market segments in which we operate. For instance, while we are a market leader as manufacturer of spray paint (being a sub-category product of aerosols for industrial and automotive applications), we might not be as successful with sales of our other product segments, which may be more sensitive to general economic conditions. While we believe our business strategies will help us to achieve our strategic goals, we might not be able to successfully carry out such strategies or our strategies might not yield the desired results.

Our success relies on the image of our “SANVO 三和” brand. Any damage to or deterioration in the image of such brands could materially and adversely affect our business and results of operations.

We believe that our customers and distributors, their downstream resellers and end users consider brand image a critical factor affecting their decision to purchase our fine industrial chemical products. We market our products mainly under our “SANVO 三和” brand. As such, if our brands become less attractive to our customers or less popular due to our failure to continue to maintain and promote the image of such brands, ineffective marketing strategies or any negative publicity or dispute relating to such brands, including product defects and counterfeit products, market perception and consumer acceptance of such brands may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

We may be subject to liability in connection with the use of hazardous materials.

Our production process involves the use and storage of flammable and/or explosive raw materials, other hazardous materials or chemical compounds, which may cause industrial accidents if we do not handle these materials properly. Thus, we cannot assure you that any accident causing explosion, disruption of operation, injuries or death resulting from our negligence or mishandling of these hazardous materials will not happen at our manufacturing facilities. In such event, we may be liable for the loss of life and property, personal injuries, medical expenses suffered by the victims in the accident and we may have to pay fines and penalties for violation of applicable PRC laws and regulations. Furthermore, our manufacturing facilities may be required to halt operation pending investigations from the authorities, which would adversely affect our business operation, reputation and financial performance.

RISK FACTORS

We may not maintain an effective quality control system at our manufacturing facilities, and any failure or deterioration of our quality control system would adversely affect our operations and financial condition.

The quality of our products is critical to the success of our business. Our product quality depends significantly on the effectiveness of our quality control system, which, in turn, depends on a number of factors, including implementation of our quality control policies as well as the composition of our quality control team. Any significant failure or deterioration of our quality control system could seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which could in turn lead to fewer orders in the future, and harm our financial condition and operating results.

We may not be able to effectively manage increase in inventory while we grow our business.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the balance of our inventory was approximately RMB61.8 million, RMB73.9 million, RMB70.4 million and RMB59.0 million, respectively. Further information on the components of our inventory is set forth in the subsection headed “Financial Information — Description of selected balance sheet items — Inventories” in this prospectus. During the Track Record Period, our inventory turnover days were 41.3 days, 47.9 days, 45.1 days and 45.1 days, respectively. As at the Latest Practicable Date, we consumed approximately 94.0% of our inventory balance as at 30 June 2019. This level of inventory, particularly of finished goods, may result in obsolescence if we over-estimate the demand level or if there is a sudden change in customer preference. If we cannot manage increases in our inventory, our business and financial conditions and operating results could be adversely affected.

There are defects in the title of or right to use certain of our leased and owned properties in the PRC and we may be required to relocate from our existing production sites.

Our SV Production Site, FV Production Site, SK Production Site and XV Production Site, at which all of our production took place during the Track Record Period, are subject to certain title defects. There is no assurance that the relevant PRC Government authorities will not order our landlords or us to demolish the buildings within a prescribed time period and/or request us to vacate or relocate our operations. In addition, there is also no assurance that the relevant PRC Government authorities will not order us to suspend our production activities. If we are required to demolish the buildings, relocate our operations and/or suspend our production activities, our business operations may be affected and any disruption to our production activities may affect our ability to satisfy our customers’ purchase orders in a timely manner or at all. Any of the above circumstances may materially and adversely affect our reputation, business operations, financial condition and results of operations. Please refer to the subsection headed “Business — Properties — Properties with defective titles” in this prospectus for further details.

We may be subject to fines or penalties under PRC laws and regulations for our failure to register for and/or make appropriate contributions to social insurance and housing provident funds on behalf of some of our employees.

During the Track Record Period, we did not make sufficient contribution to the social insurance fund for certain employees (which amounted to approximately RMB2.1 million, RMB3.8 million, RMB3.8 million and RMB2.4 million for each of the three years end 31 December 2018 and the six months ended 30 June 2019, respectively). During the Track Record Period, we also failed to register with relevant local housing provident fund administrative agencies within the required timeframe and did not open housing provident fund account and make full housing provident fund contribution for certain employees, and as at the Latest Practicable Date, we have registered with relevant local housing provident fund administrative agencies as required by relevant PRC laws. As advised by our PRC Legal Adviser, the relevant PRC Government authorities may order us to make the outstanding contributions to the social insurance fund within a stipulated period and impose a daily late payment surcharge equivalent to 0.05% of

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the overdue payment from the date on which the payment becomes due; if we fail to make the overdue contributions within the stipulated period, the relevant PRC Government authorities may impose a fine equivalent to one to three times the amount of outstanding contributions. Our PRC Legal Adviser has also advised us that, under the relevant PRC laws and regulations, due to our failure to make sufficient contributions to the housing provident fund, we may be ordered to pay the outstanding housing provident fund contributions (which amounted to approximately RMB2.9 million, RMB4.5 million, RMB6.1 million and RMB6.1 million as at 31 December 2016, 2017 and 2018 and 30 June 2019) within a prescribed time period, and if we fail to make such payments, a penalty ranging from RMB10,000 to RMB50,000 may be imposed and the relevant PRC Government authorities may apply for an order to enforce such payments from the relevant people's court.

We cannot assure you that the relevant PRC Government authorities would not notify and require us in the future to pay the outstanding contributions by a stipulated deadline. In the case we fail to pay the outstanding contributions in accordance with PRC laws and as required by the relevant PRC Government authorities, we may be subject to a penalty fine and/or an order from the relevant people's court to enforce such payment. For further details, please refer to the subsection headed "Business — Legal compliance and litigation — Non-compliance" in this prospectus.

We may be involved in disputes or legal and other proceedings arising out of our operations from time to time.

We may be involved in disputes with various parties, including the local governments, suppliers, customers, distributors and contractors. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development and operation schedule, and the diversion of resources and management's attention, regardless of the outcome. We may also have disagreements with regulatory authorities in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties or delay or disrupt the development and operations of our facilities. We may also be involved in disputes with parties who do not have direct business with us. For example, individuals who had sustained injuries through the use of our products may claim against us despite the absence of direct contractual relationship between us and such individuals. In such cases, our reputation, business, financial condition, results of operations and prospects could be materially and adversely affected.

During the Track Record Period, an accident took place which resulted in the injury of the employee of a contractor who carried out construction works at our FV Production Site. The injured individual has filed a summons of claim with the Zhongshan Second Intermediate People's Court (the "**Court**") for a claim of RMB1.9 million against Guangdong Fuvo, Mr. Ernest Chen and the constructions work contractor (the "**Defendants**"). According to the Court's judgment of second instance handed down on 27 May 2019, the Defendants were ordered to pay the plaintiff personal injury damages in the amount of approximately RMB1.4 million and litigation costs of approximately RMB35,000. Guangdong Fuvo paid up the damages in full to the plaintiff on 19 June 2019. As at the Latest Practicable Date, Guangdong Fuvo had filed a summons of claim with the Court against the constructions work contractor for the repayment of all personal injury damages and litigation costs suffered by Guangdong Fuvo, and had received a notice of trial, pursuant to which it was announced that the court hearing is scheduled to be held on 21 January 2020. For further details, please refer to the section headed "Business — Legal compliance and litigation — Litigation and claims" in this prospectus.

In particular, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decrees that result in pecuniary liabilities. We may be involved in legal and other proceedings in the future that may have a material adverse effect on our financial condition, results of operations or cash flow.

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We use, generate and dispose of environmental wastes which may subject us to liabilities.

We are subject to PRC environmental protection laws and regulations which govern the emission, discharge, release and disposal of environmental wastes and other pollutants. Under the applicable laws and regulations, enterprises that produce environmental wastes are required to adopt effective measures to control, properly manage and dispose of environmental wastes, including waste gas, wastewater, solid wastes and noise. Producers discharging environmental wastes and other pollutants are required to pay fines for discharges above permitted levels under the applicable PRC environmental protection laws and regulations. Failure to comply with the applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, and may lead to the loss of environmental and production licences. The PRC Government and PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations.

During the Track Record Period, Shunde Sanvo had used a drainage outlet that was not designated by the relevant PRC Government authority to dispose of waste water, which resulted in, amongst others, it being imposed with a fine of RMB80,000. For further details, please refer to the subsection headed “Business — Legal compliance and litigation — Non-compliance” in this prospectus. We cannot assure you that we will be in full compliance with such laws and regulations at all times. In the event that the PRC Government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance and as such we may be unable to pass on these additional costs to our customers.

Any failure to protect our intellectual property rights could harm our business and competitive position.

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our products. As at the Latest Practicable Date, we held 143 registered trademarks and 65 pending trademark applications in the PRC. We also have 50 registered patents and 35 pending patent applications in the PRC. Seeking patent protection can be lengthy and expensive, and we cannot assure you that our patent applications will result in patents being issued or that our existing patents or patents issued in future will be sufficient to provide us with the meaningful or required protection or commercial advantage. Our patents and patent applications may be challenged, invalidated or circumvented. Our current or potential competitors, many of whom have substantial resources and have made substantial investments in competing technologies, may have, and may develop, products that compete directly with our products despite our possession of intellectual property rights. Implementation and enforcement of the relevant intellectual property-related laws in the PRC have historically been deficient and ineffective, primarily due to the lack of procedural rules for discovery of evidence, low damage awards and low rates of criminal penalties against intellectual property right infringements.

Accordingly, protection of intellectual property rights in the PRC may not be as effective as that overseas. In addition, policing unauthorised use of proprietary technology is difficult and expensive, and we may need to commence litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation

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vary, and the outcomes are also unpredictable. In the event of any such litigation or an adverse determination in any such litigation, could result in substantial costs and diversion of resources and management attention, which could harm our business, reputation and competitive position.

We may be unable to obtain adequate financing to fund our capital requirements.

We have in the past funded our capital expenditures primarily by shareholder equity injections, cash generated from our operations and through credit facilities. There can be no assurance that cash generated from our operations will be sufficient to fund our future development and expansion plans. For us to grow and remain competitive, we may require new capital in the future. There can be no assurance that such additional financing will be available to us on reasonable terms or at all. Our ability to obtain additional capital in the future is subject to a variety of uncertainties beyond our control, including market conditions, credit availability and interest rates. If we are unable to raise sufficient capital in the future on commercially acceptable terms, we may have to abandon, delay, or postpone certain of our planned capital expenditures. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations. In addition, the terms and amount of capital raised through issuing equity securities may significantly dilute the interests of shareholders.

Gain on bargain purchase of subsidiaries and certain other income items is non-recurring in nature. Accordingly, we may not record such gain in the future.

For the year ended 31 December 2018, we recorded a gain from bargain purchase of approximately RMB4.8 million in connection with the acquisition of Sanvo Holdings on 27 April 2018. Gain from bargain purchase was derived from the difference in net asset value of Sanvo Holdings between the date of determining the consideration and the acquisition date. During the Track Record Period, our other income and gains also comprised non-recurring government subsidies which were unconditional, amounting to approximately RMB0.2 million, RMB0.9 million, RMB1.6 million and RMB0.01 million for each of the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. For further details, please refer to Notes 7 and 37 to the Accountant's Report. Such gains were non-recurring in nature. Therefore, we may not be able to record such gains in the future, which may in turn affect our profitability.

We could sustain substantial losses from damages not covered by, or exceeding the coverage limits of, our insurance policies.

Insurance policies taken out by us, including those against fire, natural disasters, operational interruptions and third-party liability, are subject to exclusions and limitations of liability both in amount and with respect to the insured events. We and/or our officers (as the case may be) may be exposed to claims in respect of matters that are not covered by any insurance policies we maintain. In addition, although we maintain insurance coverage we believe to be adequate based on the industry we operate in, including product liability insurance, property insurance, group life insurance, employer liability insurance, work safety liability insurance, motor vehicle insurance and mandatory social insurance and housing provident fund for our employees, there may be circumstances (such as earthquakes, war, floods, transportation disruption, power shortages and disruption of or damage to our manufacturing facilities, equipment or products) in which we would not be covered adequately, or at all. Uninsured losses incurred, or payments we may be required to make, may have a material adverse effect on our financial condition and operating results.

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With respect to losses which are covered by our insurance policies, it may be a difficult and lengthy process to recover such losses from insurers. In addition, we may not be able to recover the full amount from the insurer. There can be no assurance that our policies would be sufficient to cover all potential losses, regardless of the cause, or whether we can recover such losses.

Certain of our customers settled their payment to us through third parties during the Track Record Period and we may be subject to claims for return of funds and risks of money laundering.

During the Track Record Period, certain of our customers settled their payments to us through third parties in the PRC by way of bank remittance or deposit (the “**Third Party Payments**”). The Third Party Payments occurred during the Track Record Period and up until October 2018. For the years ended 31 December 2016, 2017 and 2018, the Third Party Payments amounted to approximately RMB26.3 million, RMB39.6 million and RMB32.5 million, respectively, representing approximately 5.1%, 5.9% and 4.2% of our total revenue, respectively. Please refer to the subsection headed “Business — Our sales network — Third Party Payments” in this prospectus for further details on the Third Party Payments.

As advised by our PRC Legal Adviser, we may be subject to risks of money laundering under the Criminal Law of the PRC (中華人民共和國刑法) if we (i) clearly know that the Third Party Payments represent proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organisations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud; and (ii) commit certain acts for the purpose of covering up or concealing the source and nature of the above proceeds or gains. There is no assurance that the Third Party Payments during the Track Record Period will not be subject to claims for return of funds or expose us to risks of money laundering. If we are faced with claims for return of funds or suspected of having committed money laundering, our reputation, business, results of operations and financial condition may be materially and adversely affected.

If our preferential tax treatments become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, our results of operations would be materially and adversely affected.

During the Track Record Period, we enjoyed preferential tax treatment under applicable tax incentive programs. We cannot assure you that we will continue to enjoy similar preferential tax treatment in the future. The PRC Enterprise Income Tax (“EIT”) Law and its implementation rules have adopted a flat statutory EIT rate of 25% to all enterprises in China (if not entitled to any preferential tax treatment). As at 30 June 2019, four of our operating subsidiaries were recognised as high and new technology enterprises by the PRC Government, which entitled each of them to a reduced preferential income tax rate of 15%. For further details, please refer to Note 11 to the Accountant’s Report. The qualification as a high and new technology enterprise is subject to a three-year review by the relevant authorities in China. In order to maintain such qualifications and the preferential tax rates, the said subsidiaries shall submit a review application to the relevant Science and Technology Commission (科學技術委員會) agencies. We plan to apply for the extension of this preferential tax treatment before expiration. We do not believe there is any legal impediment for us to extend such qualifications. However, we cannot assure you that our subsidiaries that are currently qualified as high and new technology enterprises will continue to qualify for such status in the future. If our subsidiaries fail to maintain their high and new technology enterprise qualifications or renew these qualifications when the relevant term expires, their applicable income tax rates would increase to 25%, which could adversely affect our

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financial condition and results of operations. For illustrative purposes only, the estimated increase in tax expenses for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 would amount to approximately RMB3.4 million, RMB3.7 million, RMB4.4 million and RMB4.2 million, respectively.

In the ordinary course of our business, we are subject to complex income tax and other taxation regulations and judgment is required in the determination of a provision for income taxes. We recorded tax payables of approximately RMB5.6 million on our balance sheet as at 30 June 2019, to reflect our management's estimate of our potential income tax liability. Although we believe our income tax provisions are reasonable, if the PRC tax authorities successfully challenge our positions and we are required to pay tax liabilities in excess of our income tax provisions, our results of operations and financial position would be materially and adversely affected.

In addition, the PRC Government from time to time adjusts or changes its policies on value-added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial condition and results of operations. Furthermore, we are subject to periodic examinations on our fulfilment of tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although we have acted in compliance during the Track Record Period with requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could adversely affect our business, financial condition and results of operations as well as our reputation.

We may not be able to fully capture the business opportunities under the trend of development of low-VOCs or water-based aerosols and as a result, our reputation, operating results and prospects may be adversely affected.

According to Frost & Sullivan, fine industrial chemical manufacturers in the PRC have increasingly followed the trend of (i) eliminating the use of chlorofluorocarbons and (ii) reduce the amount of VOCs in their products. In addition, according to the Frost & Sullivan Report, industry standards such as “Packaging Industry Standard in the PRC — Aerosol Paint” (《中華人民共和國包裝行業標準 — 氣霧漆》) have been published and such standards are expected to become more stringent and to fall in line with international standards. Hence, strong capability in meeting the regulatory requirement and industry standards serves as a key competitive edge for fine industrial chemical manufacturers in the PRC. As at the Latest Practicable Date, out of the 31 types of aerosols fine industrial chemical products developed and sold by our Group, only two were water-based or low-VOCs products. For further details, please refer to the subsection headed “Business — Environmental matters” in this prospectus.

We cannot assure you that we will be able to develop additional low-VOCs or water-based aerosols products which accounted for over half of our Group's revenue in the near future, and as such, we may not be able to adhere to evolving industry standards efficiently or in a timely manner, which may reduce our competitive edge in the fine industrial chemical products industry in the PRC and our reputation, operating results and prospects may be adversely affected.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

We require various registrations, licences, permits and certificates to operate our businesses. The loss of, expiry, withdrawal, revocation, downgrading or failure to obtain or renew any of such registrations, licences, permits and certificates could materially and adversely affect our operations and financial results.

Under relevant PRC laws and regulations, we are required to hold various licences and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. Our PRC Legal Adviser has advised us and our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable material laws and regulations in the PRC, have obtained all the necessary registrations, licences, permits and certificates for our business and as confirmed by our Directors, we have not experienced any difficulty in the renewal of such registrations, licences, permits and certificates in relation to our production and operations. Please refer to the section “Regulatory Overview” in this prospectus for a summary of such registrations, licences, permits or certificates.

These registrations, licenses, permits and certificates may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Failure to comply with these laws and regulations, or the loss of or failure to renew our licences and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

We operate in a very competitive industry and competition among our competitors may saturate the market, resulting in lower prices and margins, and a reduction in our profitability and market share.

The industry in which we operate is highly competitive and fragmented. Competitive factors include product quality, price, design and development capability, timely delivery, valuable service, scale and capacity, and efficiency. We face competition from existing and new players in the fine industrial chemicals industry worldwide, including numerous manufacturers in the PRC and elsewhere which offer similar fine industrial chemical products at lower prices than we do, as well as other enterprises which offer an increasing number of related products which could be used as substitutes for our products.

We expect competition in our industry to intensify in the future. There can be no assurance that we can stay competitive due to improvements by our competitors or other factors. If we cannot maintain or improve our competitiveness and fail to maintain our leading positions in the fine industrial chemical products industry, our business, results of operations or financial condition may be materially and adversely affected.

To compete effectively, we may be forced, among other actions, to reduce prices, provide more sales incentives to customers and increase capital expenditures in our labour force, plant, property and equipment. Any or a combination of these events may reduce our profitability which could, in turn, adversely affect our business, financial condition, results of operations and prospects. Any intensification of the competition or failure by us to compete successfully with our competitors could have an adverse impact on the demand for, and pricing of, our products, and as a result, could result in a reduction of our market share and have an adverse effect on our business, financial condition, results of operations and prospects.

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The market demand and the sales and growth for our products are dependent on the condition of the PRC economy.

During the Track Record Period, we derived the vast majority of our revenue from sales in the PRC. The demand for our products depends substantially on the condition of the PRC economy.

In the PRC, factors including economic growth, consumer confidence, general economic condition, inflation, unemployment rates, interest rate levels and demographic trends, affect the growth of industries where our products are used. A downturn in the relevant industries or in the markets where our products are used or sold to, a downturn in the general economic condition or competition in the markets in which our products are currently sell to, or intend to sell, could affect our sales, resulting in downward pressure on the prices, affecting the volume sold and margins achieved or achievable in the future. A decline in demand or a lower demand for our products resulting from deteriorating economic condition may adversely affect our business and financial condition and operating results.

RISKS RELATING TO THE PRC

Changes in existing laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditure.

PRC environmental protection laws and regulations require manufacturers that may cause environmental wastes to adopt effective measures to control and dispose of industrial wastes. In addition, we are required to obtain clearances and authorisations from government authorities for the treatment and disposal of such discharge. As our manufacturing processes generate noise, waste water, waste gas and other industrial wastes, we are required to comply with national and local environmental regulations. If we fail to comply with environmental regulations, in particular, in relation to the use of or discharge of hazardous substances (if any), we may be required to pay potentially significant monetary damages and fines, suspend production or cease operations, which would have a material adverse effect on our business and operating results. There can also be no assurance that the PRC Government will not change the existing laws or regulations, or impose additional or more stringent laws or regulations, or interpret or implement the existing laws and regulations more strictly in order to seek better environmental protection. Compliance with any of these additional or more stringent laws or regulations or more stringent implementations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers by increasing the prices for our products.

Our business operations may be affected by regulatory changes.

The establishment and many aspects of the business operations of our PRC subsidiaries are governed by various local, provincial and national regulations. The PRC legal framework, qualification requirements and enforcement trends in the fine industrial chemical products industry may change, and we may not be able to respond to such changes in a timely manner. Such changes may also cause the compliance cost to increase, which may materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

Changes to PRC laws, regulations and government policies in relation to environmental protection and occupational health and safety could adversely impact our business, financial condition and results of operations.

We are and will continue to be subject to PRC laws, rules and regulations concerning environmental protection as well as occupational health and safety requirements, including in relation to the operation of our facilities and the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes and noise pollution. Any breach of the PRC environmental protection and health and safety regulations could subject us to a substantial fine, damage our reputation, cause delays in production or result in some or all of our production facilities being temporarily suspended or permanently shut down. There is no assurance that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner or establish local practice to enforce the laws or regulations in any manner which is unfavourable to our business. In case the PRC Government amends such laws, rules and regulations to impose a more stringent standard, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard, which could result in increased operating costs and thus adversely affecting our financial condition and results of operations.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.

Our business and operations are conducted in the PRC and governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and their interpretations in terms of application and enforcement by relevant legislative and judicial authorities, various administrative regulations and decrees. There is only a limited number of published court decisions which may be cited for reference and in any case, unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Since the late 1970s, the PRC Government has committed to building up a socialistic legal system to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving shareholders' rights, foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the PRC has not developed a fully-integrated legal system, and its laws and regulations may not sufficiently cover all aspects of economic activity in the PRC, including those governing the resolution of disputes arising from the PRC issuer's articles of association and the transfer of the PRC issuer's shares. As many of these laws and regulations are relatively new, and given the limited volume of published decisions and the involvement of different enforcement bodies of the relevant laws and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of these laws and regulations involve significant uncertainties.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

Substantially all of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a

RISK FACTORS

court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a corresponding treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for our Shares, thus an active or liquid trading market for the Shares may not develop and the trading price of our Shares may be volatile.

Our Shares have not been listed or quoted on any stock exchange or open market prior to the Share Offer. There is no assurance that there will be an active trading market for our Shares on the Stock Exchange upon the Listing. In addition, the market price of our Shares to be traded on the Stock Exchange may differ from the Offer Price and prospective investors should not treat the Offer Price as an indicator of the market price of our Shares to be traded on the Stock Exchange.

Upon the Listing, the trading volume and the market price of our Shares may be affected or influenced by a number of factors from time to time, including but not limited to, our revenue, profit and cash flow, acquisitions, strategic partnerships, joint ventures or capital commitments, changes in our management and general market conditions or other developments affecting us or our industry. There is no assurance that such factors will not occur and it is difficult to quantify their impact on the trading volume and the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of the Shares, regardless of our operating performance or prospects.

In addition, the following factors may cause the market price of our Shares following the Share Offer to vary significantly from the Offer Price: (i) variation in our turnover, earnings and cash flow; (ii) liability claims brought against us based on, for example, defective products; (iii) interruptions to our distribution arrangements; (iv) our failure to execute our business strategies; (v) any unexpected business interruptions resulting from operational breakdowns or natural disasters; (vi) inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties' intellectual property rights; (vii) any major changes in our key personnel or senior management; (viii) our inability to obtain or maintain regulatory approval for our products; and (ix) political, economic, financial and social developments.

The market price of our Shares when trading begins may be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

The Offer Price will be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Stock Exchange until they are delivered. As a result, investors might not be able to sell or otherwise deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares when trading begins may be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

RISK FACTORS

Prospective investors of our Shares may experience dilution upon issue of new Shares under the Share Option Scheme and further dilution if our Company issues additional Shares in the future.

Prospective investors may experience dilution to the extent that the Shares are issued upon exercise of options pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance expansions of our operations or new acquisitions. If additional funds are raised through issuance of new Shares or other securities that may be converted into the Shares other than on a pro rata basis to our existing Shareholders, the percentage ownership of the existing Shareholders may be reduced and Shareholders may experience subsequent dilutions. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or that take priority over those conferred by the Shares. Prospective investors of our Shares may also experience further dilution in the net tangible assets book value per Share if our Company offers or issues new Shares at a price lower than the then net tangible assets book value per Share.

Our Controlling Shareholders may exert substantial influence over our operations and may not act in the best interests of our independent Shareholders.

Immediately upon completion of the Share Offer and the Capitalisation Issue, our Company will be owned as to 73.45% by Sanvo Fine Chemicals (without taking into account any Shares which may be issued pursuant to the Share Option Scheme). Therefore, our Controlling Shareholders will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. Our Controlling Shareholders will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interest of our Controlling Shareholders may not always coincide with our Company or your best interests. If the interest of our Controlling Shareholders conflicts with the interest of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Future sales or a major divestment of Shares by our Controlling Shareholders after the Listing could adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods, details of which are set out in the subsections headed "Underwriting — Underwriting arrangements and expenses — Undertakings given to the Stock Exchange pursuant to the Listing Rules — Undertakings by our Controlling Shareholders" and "Underwriting — Underwriting arrangements and expenses — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertakings by our Controlling Shareholders" in this prospectus. We cannot guarantee that our Controlling Shareholders will not dispose of our Shares following the expiration of their respective lock-up periods after the Listing Date. Our Group cannot predict the effect, if any, of any future disposal of Shares by any of our Controlling Shareholders, or that the Shares held by our Controlling Shareholders are available for purchase in the market may have on the market price of our Shares. Future sales, disposals, or other transfers of a substantial number of our Shares by our Controlling Shareholders in public markets, or any prospects or possibilities of such

RISK FACTORS

sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto, could adversely impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

We may not be able to pay any dividends on the Shares.

Following completion of the Share Offer, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any future dividend will be at the discretion of our Board and will depend on, among others, our earnings, financial condition, cash requirement and availability, and other factors as our Directors may deem relevant. As such, factors and the payment of dividends are at the discretion of our Board which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend policy.

Our Shareholders may experience difficulties in enforcing their shareholder rights because we are incorporated under Cayman Islands laws, which may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by, among other things, our Memorandum and Articles of Association, Cayman Companies Law 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 in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

We cannot guarantee the accuracy of the facts and statistics in this prospectus relating to the PRC, the PRC economy and the industry in which we operate.

Facts, forecasts and other statistics in this prospectus, relating to the PRC, the PRC economy and the fine industrial chemical products industry, are derived, in part, from official government sources and certain other public industry sources. Our Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, or any of its or their respective affiliates, or advisers, have not independently verified these materials and, therefore, make no representations as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective collection methods, discrepancies between published information and market practice, or other problems, the statistics in this prospectus, including without limitation those in the section headed “Industry Overview” in this prospectus, may be inaccurate or may not be similar to statistics produced by other sources. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Prospective investors should give consideration as to how much weight or importance they should attach to and not place undue reliance on any of such information and statistics contained in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has sought the following waiver from strict compliance with Rule 8.12 of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Company are primarily located, managed and conducted in the PRC. Our assets are located in the PRC. With the exception of Mr. Ng Cheuk Lun, who is our Executive Director and company secretary, all of our Executive Directors and senior management members are and will continue to be ordinarily based in the PRC and our Company does not and, in the foreseeable future, will not have sufficient management presence in Hong Kong, for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Group complies with the Listing Rules at all times. The two authorised representatives are Mr. Ernest Chen and Mr. Ng Cheuk Lun. Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) each of the authorised representatives has means to contact all members of the Board and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, we will implement a policy that (a) each Director will have to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the authorised representatives and his respective alternates; and (b) in the event that a Director expects to travel and be out of office, he will endeavour to provide the phone number of the place of his accommodation to the authorised representatives or maintain an open line of communication via his telephone;
- (c) in addition, all Directors will provide their mobile phone numbers, residential phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange; and
- (d) furthermore, all Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange within a reasonable period of time upon prior notice from the Stock Exchange.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In compliance with Rule 3A.19 of the Listing Rules, we have appointed VBG Capital Limited as the compliance adviser to act as the alternate channel of communication with the Stock Exchange for the period commencing on the date of the initial listing of the Shares on the Main Board of the Stock Exchange and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. VBG Capital Limited will provide professional advice on matters relating to compliance with the Listing Rules and other obligations for companies listed in Hong Kong. VBG Capital Limited will, in addition to the authorised representatives and alternative authorised representatives, act as a channel of communication with the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus 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) (as amended), and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters the omission of which would make any statement in this prospectus materially misleading.

INFORMATION ABOUT THE SHARE OFFER AND THE PROSPECTUS

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer. Details of the structure of the Public Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus, and the procedures for applying for Public Offer Shares are set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus and in the relevant Application Forms.

The Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Share Offer, or to make any representation not contained in this prospectus, and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of our or their affiliates and any of their respective directors, officers, agents or advisers or any other person involved in the Share Offer.

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.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 8 January 2020. If, for whatever reason, our Company (for ourselves and on behalf of the Selling Shareholder) and VBG (for itself and on behalf of the Underwriters) are unable to agree on the Offer Price by Friday, 10 January 2020, or such other time as may be agreed between our Company and VBG, the Share Offer will not proceed.

STRUCTURE OF THE SHARE OFFER

See the section headed “Structure of the Share Offer” in this prospectus for further details of the structure of the Share Offer.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SELLING SHAREHOLDER

The Share Offer consists of 10,000,000 Sale Shares being sold by the Selling Shareholder. For further details of the Selling Shareholder, please refer to the subsection headed “Statutory and General Information — 14. Particulars of the Selling Shareholder” in Appendix V to this prospectus.

UNDERWRITING

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on the Price Determination Date, subject to agreement on the Offer Price between VBG (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder). The Share Offer is managed by the Joint Bookrunners. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. Please refer to the section headed “Underwriting” in this prospectus for further details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

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, without limitation to the following, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation 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/or the Application Forms and the offer and sale of the Offer Shares in jurisdictions other than in Hong Kong 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. In particular, the Offer Shares have not been publicly offered or sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

Prospective applicants for the 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer (including any additional 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 Company's share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought on any other stock exchange in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance 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 Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business 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. All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of CCASS settlement arrangements and how such arrangements will affect their rights and interests.

SHARE REGISTER AND STAMP DUTY

All Offer Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited. Our Company's principal register of members will be maintained by our principal share registrar and transfer office, Eterra Trust (Cayman) Limited.

No stamp duty is payable by applicants in the Share Offer. Dealings in Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. Only Shares registered on our branch register of members may be traded on the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the tax implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to our Shares. It is emphasised that none of our Company, the Selling Shareholder, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of our or their affiliates or any of their respective directors, officers, agents, advisers or any other person involved in the Share Offer accepts responsibility for the tax effects on, or liabilities of, any person or holders of the Shares resulting from the subscription for, purchase, holding, disposal, dealing or exercising any rights in relation to the Offer Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

COMMENCEMENT OF DEALING IN THE SHARES

Dealing in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 16 January 2020. Shares will be traded in board lots of 2,000 Shares each.

The stock code of the Shares is 301.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in RMB and Hong Kong dollars. Unless indicated otherwise, the translations between RMB and Hong Kong dollars were made at the rate of RMB0.85687 to HK\$1.0. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date.

No representation is made that any amounts in RMB or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Chen Bingqiang (陳炳強) (Mr. Ernest Chen)	Room 2102, Block C, Tower 3 Shui Yue Cheng Bang Xinrong Lu Daliang Area, Shunde District Foshan City, Guangdong PRC	Chinese
Mr. Chen Bingyao (陳炳耀) (Mr. Leo Chen)	No. 5 Lane 14, Dong Kang Hua Yuan Guang Chang Lu Daliang, Shunde, Guangdong PRC	Chinese
Mr. Ng Cheuk Lun (吳卓倫) HKICPA	Flat 1, 4/F., Block C YY Mansion No. 96 Pok Fu Lam Road Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Ir. Daniel Lai, BBS, JP (賴錫璋)	Block F, 6/F, Hilltop 60 Cloudview Road North Point Hong Kong	Chinese
Mr. Xu Kai (許凱)	Unit 103, Block 1 No. 368 Xingke Road Tianhe District, Guangzhou PRC	Chinese
Mr. Yeung Chun Yue David (楊振宇)	Flat B, 24/F, Scholastic Garden 48 Lyttelton Road Hong Kong	Chinese

For further information, please refer to the section headed “Directors and Senior Management” in this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

VBG Capital Limited

18th Floor, Prosperity Tower
39 Queen’s Road Central
Central
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Joint Bookrunners and Joint Lead Managers

VBG Capital Limited

18th Floor, Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)

SPDB International Capital Limited

33/F, SPD Bank Tower
One Hennessy
1 Hennessy Road
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)

Wealth Link Securities Limited

Suite 1504, 15/F Bangkok Bank Building
28 Des Voeux Road Central
Central
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities)

Great Roc Capital Securities Limited

44/F, Convention Plaza Office Tower
1 Harbour Road
Wanchai
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities)

Co-Manager

Conrad Investment Services Limited

23/F Tung Hip Commercial Building
244-248 Des Voeux Road Central
Sheung Wan
Hong Kong

(A corporation licensed under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities)

Legal advisers to our company

As to Hong Kong law:

King & Wood Mallesons

13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

As to PRC law:

King & Wood Mallesons

25th Floor, Guangzhou CTF Finance Centre
No. 6 Zhujiang East Road
Zhujiang New Town
Tianhe District
Guangzhou 510623
PRC

As to Cayman Islands law:

Appleby

2206-19, Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

**Legal advisers to the Sole Sponsor
and the Underwriters**

As to Hong Kong law:

Dechert
31/F, Jardine House
One Connaught Place
Hong Kong

As to PRC law:

Hills & Co.
11th Floor, Central Tower
No. 88 Fu Hua 1st Road, Fu Tian
Central Business District, Shenzhen
PRC

Reporting accountants and auditor

Moore Stephens CPA Limited
Certified Public Accountants
801-806 Silvercord, Tower 1
30 Canton Road, Tsimshatsui
Kowloon
Hong Kong

Property valuer

LCH (Asia-Pacific) Surveyors Limited
17th Floor, Champion Building
287-291 Des Voeux Road Central
Hong Kong

Industry consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
Room 1018, Tower B
No. 500 Yunjin Road
Shanghai
PRC

Internal control consultant

BT Corporate Governance Limited
2nd Floor
625 King's Road
North Point
Hong Kong

Compliance adviser

VBG Capital Limited
18th Floor, Prosperity Tower
39 Queen's Road Central
Central
Hong Kong
*(A corporation licensed under the SFO to
carry on type 1 (dealing in securities) and type
6 (advising on corporate finance) regulated
activities)*

Receiving bank

CMB Wing Lung Bank Limited
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in the PRC	Dacen Industrial Park Huangpu Town Zhongshan Guangdong Province PRC
Company website	<u>www.sanvo.com</u> <i>(The contents of the website do not form a part of this document)</i>
Company secretary	Mr. Ng Cheuk Lun, <i>HKICPA</i> Flat 1, 4/F., Block C YY Mansion No. 96 Pok Fu Lam Road Hong Kong
Principal place of business in Hong Kong	5/F., 349 Hennessy Road Wanchai Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Chen Bingqiang (Mr. Ernest Chen) Mr. Ng Cheuk Lun, <i>HKICPA</i>
Audit committee	Mr. Yeung Chun Yue David (<i>chairman</i>) Ir. Daniel Lai, <i>BBS, JP</i> Mr. Xu Kai
Remuneration committee	Ir. Daniel Lai, <i>BBS, JP</i> (<i>chairman</i>) Mr. Yeung Chun Yue David Mr. Xu Kai Mr. Chen Bingqiang (Mr. Ernest Chen)
Nomination committee	Mr. Xu Kai (<i>chairman</i>) Ir. Daniel Lai, <i>BBS, JP</i> Mr. Yeung Chun Yue David Mr. Chen Bingyao (Mr. Leo Chen)
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

CORPORATE INFORMATION

**Cayman Islands principal share registrar
and transfer office**

Estera Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
PRC Cayman Islands

Principal bankers (in alphabetical order)

China Merchants Bank
1F, Huaxia New City
No. 56 Guizhou Middle Avenue
Shunde District
Foshan City
Guangdong Province
PRC

Shunde Rural Commercial Bank
No. 2, Yong Cui Road
Daliang Xin Cheng District
Shunde District, Foshan
Guangdong
PRC

INDUSTRY OVERVIEW

The information contained in this section and elsewhere in this prospectus have been derived from various official government 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 Group, the Sole Sponsor, the Joint Bookrunners or their respective directors, advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and affiliates has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. 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 fine industrial chemical product (including major fine industrial chemical products of our Group such as aerosol products and its sub-categories, namely industrial and automotive aerosol products and spray paint, adhesives and sealants) market in the PRC for the period from 2014 to 2023. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We paid Frost & Sullivan a fee of RMB420,000 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 fine industrial chemical product market in the PRC for the prospective investors. The Frost & Sullivan Report includes information of the fine industrial chemical product market in the PRC as well as other economic data, which have been quoted in the prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the fine industrial chemical product market in the PRC. Primary research involved in-depth 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 of 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, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the fine industrial chemical product market in the PRC. Frost & Sullivan believes that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projects, are factual, correct and not misleading. Frost & Sullivan has independently analysed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of these assumptions and the choice of these primary and secondary sources.

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OVERVIEW OF FINE INDUSTRIAL CHEMICAL PRODUCT MARKET IN THE PRC

Definition of fine industrial chemical products

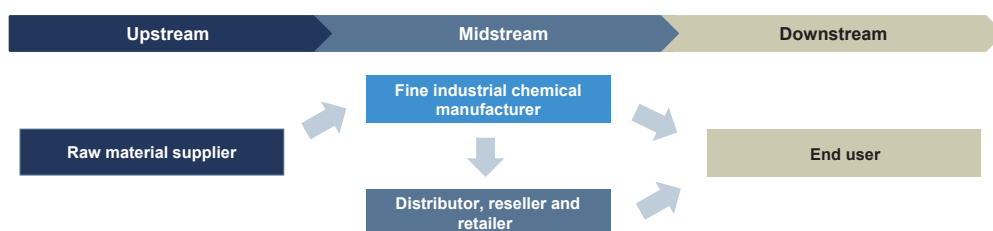
Fine industrial chemical products generally refer to chemical products manufactured and packaged in a relatively low volume container with specific applications (such as catalysts, lubricants, pesticides), which are produced through complicated processes from research and development, to manufacturing and packaging, in specialized facilities. Generally speaking, the fine industrial chemical product market in the PRC features diverse applications across different downstream industries, relatively short product lifecycle, as well as regular upgrades and changes to industry standard and regulatory requirement in respect of environmental protection and product safety. Industrial and automotive aerosol products, adhesives and sealants are key fine industrial chemicals products manufactured by our Group.

- Aerosol products are substances that are stored in a pressurised container, which can be released as a foam and/or a fine spray through a nozzle with the aid of propellants. The propellants typically consist of liquefied or compressed gases, such as propane and isobutene, which would propel the vapourised liquid solvent with active ingredient(s) from the container. Industrial and automotive aerosol products are easy-to-use, fast drying, and widely used as spray paints, cleaning sprays, lubricant sprays, etc.
- Adhesives are common binding materials while sealants can fill holes and seal off any gaps to block passage of fluids in various scenario such as building and home repairs and maintenances. Organic silicone adhesives are water-resistant and chemically and thermally stable. In addition to its excellent resistance to weathering and moisture, organic silicone adhesives are also flexible and durable for bonding of plastic, metal and/or glass.

Value chain analysis

Fine industrial chemical manufacturers generally (i) sell their products through distributors, resellers and retailers to downstream end users, and (ii) perform direct selling of their products to downstream end users who purchase the products in bulk.

Distributors, and retailers serve as a key point for sales and distribution of fine industrial chemical products. Established fine industrial chemical products manufacturers may grant exclusive distribution rights to qualified distributors. Such distributorship model is considered the norm in the industry as the distribution network (i) extends sales across different province and cities in the PRC, and allows for the penetration of branded products, (ii) partially shifts the credit risk from manufacturers to distributors and (iii) facilitates the formulation of sales and marketing strategy based on market trends and intelligence from different geographic and customer segments. On the other hand, business opportunities are also created for distributors to resell fine industrial chemical products under the established brands which are preferred by end-users. Reseller generally serves as a sales channels and offer a wider range of product while distributors typically focus on certain products or target industries. According to Frost & Sullivan, it is not uncommon for fine industrial chemical product manufacturers in the PRC to adopt third party payment, especially when demanded by customers. In third party payment, customers of fine industrial chemical product manufacturers may require a third party to settle the outstanding amounts due to fine industrial chemical product manufacturers on their behalf. Adoption of third party payment enable customers such as corporate customers and distributors to maintain their level of cash flow for business operation.



Source: Frost & Sullivan

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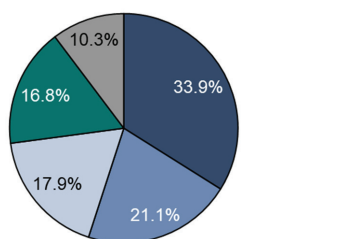
Size of the fine industrial chemical products market in the PRC

Aerosol products

Aerosol products has an extensive application in industrial and automotive industries, personal care and household products. With the rise in disposable income of Chinese residents, the sales value of aerosol products has seen a positive growth from approximately RMB55.7 billion in 2014 to approximately RMB84.3 billion in 2018, representing a CAGR of 10.9%. The continuous economic development and increase in consumption by Chinese residents are expected to drive the demand for aerosol products. Hence, the sales value of aerosol product in the PRC is expected to maintain a CAGR of 11.1% from 2019 to 2023. The volume of sales of aerosol products in the PRC had also increased from approximately 1,843 million cans in 2014 to approximately 2,324 million cans in 2018, representing a CAGR of 6.0%. It is forecasted that sales of aerosols will reach approximately 3,220 million cans by 2023.

The industrial and automotive sector is the biggest contributor to the application of aerosol products, accounting for 33.9% of total sales value of aerosol products by application in the PRC. In particular, spray paint, cleaning agents and lubricants are products commonly used in this sector.

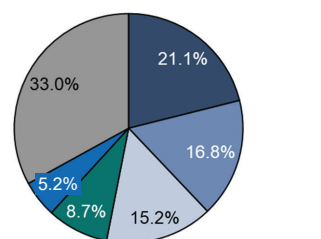
Breakdown of sales value of aerosol products by application, 2018 (%)



Legend: Industrial and automotive, Household, Others, Personal care, Pesticides

Note: Other applications of aerosol products include food products and pharmaceuticals and etc.

Breakdown of sales value of aerosol products by content, 2018 (%)



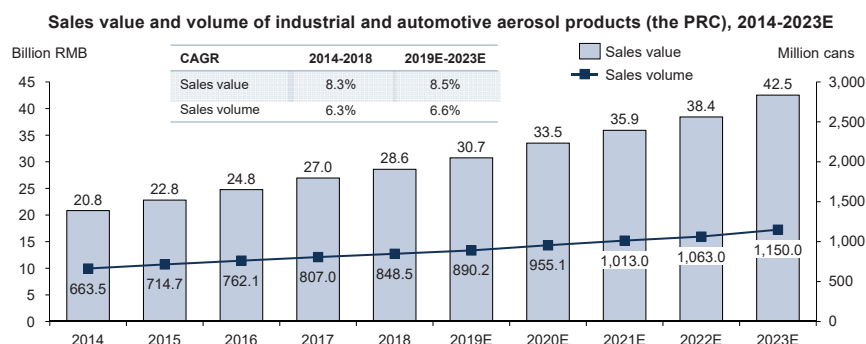
Legend: Personal care, Spray paint, Lubricant oil, Pesticides, Cleaning agent, Others

Note: Other content of aerosol products include pharmaceuticals, food products, spray wax, air fresheners and etc.

Source: Frost & Sullivan

Industrial and automotive aerosol products and spray paints

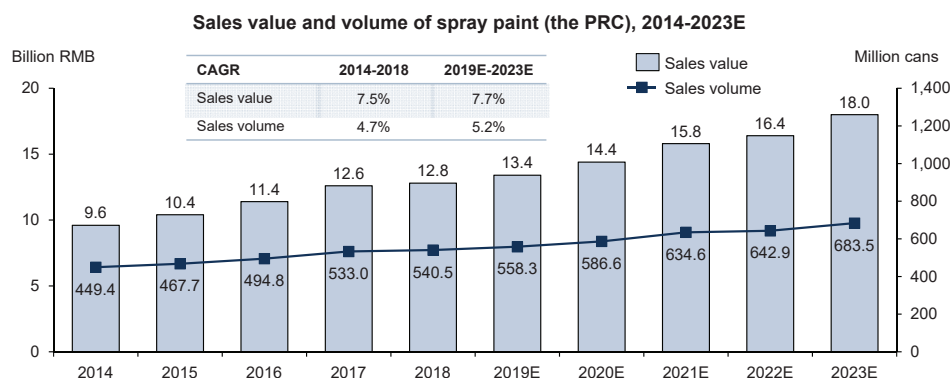
Strong performance in the industrial and automotive sector in the PRC has led to an increasing demand for aerosol products, such as lubricants, spray paints and spray wax. Sales value of industrial and automotive aerosol products increased from approximately RMB20.8 billion in 2014 to approximately RMB28.6 billion in 2018, representing a CAGR of 8.3%. With a number of automotive manufacturers beginning to establish their production line, and the growth of passenger vehicle population, the sales value of industrial and automotive aerosol product in the PRC is expected to increase at a CAGR of 8.5% during 2019 to 2023. The sales volume of industrial and automotive aerosol products increased from approximately 663.5 million cans in 2014 to approximately 848.5 million cans in 2018, representing a CAGR of 6.3%. The sales volume of industrial and automotive aerosol products is expected to grow at a CAGR of 6.6% during 2019 to 2023.



Source: Frost & Sullivan

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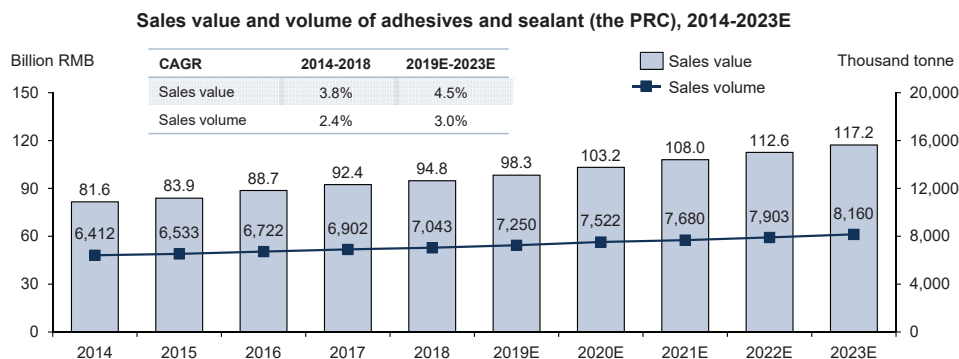
Spray paint is widely applied in our daily applications for applying a layer of paint to a surface, in particular in the industrial and automotive industry. The sales value of spray paint increased from approximately RMB9.6 billion in 2014 to approximately RMB12.8 billion in 2018, representing a CAGR of 7.5%. Growing along with the development of the industrial and manufacturing industry in the PRC, it is expected that the sales value will grow at a CAGR of 7.7% during 2019 to 2023. Similar to the sales value of spray paint, the sales volume of spray paint has recorded a steady growth from approximately 449.4 million cans in 2014 to approximately 540.5 million cans in 2018, representing a CAGR of 4.7%. The sales volume of spray paint is estimated to increase at a CAGR of 5.2% during 2019 to 2023.



Source: Frost & Sullivan

Adhesives and sealants

Adhesives and sealants are commonly used in building and home repair and maintenances. With the increase in industrial production and construction activities in the PRC, the sales value of adhesives and sealants witnessed a growth from approximately RMB81.6 billion in 2014 to approximately RMB94.8 billion in 2018, representing a CAGR of 3.8%. Under the supportive policies outlined in the “13th Five-Year Plan for Economic and Social Development of the People’s Republic of China” (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》) promulgated by the PRC Government towards construction and manufacturing industry in the PRC, demand for complementary adhesives and sealants is set to increase further. It is estimated that the value of sales will reach approximately RMB117.2 billion by the end of 2023, representing a CAGR of 4.5% from 2019 to 2023. The sales volume of adhesives and sealants in the PRC increased from approximately 6,412,000 tonnes in 2014 to 7,043,000 tonnes in 2018, representing a CAGR of 2.4% over that period. The sales volume of adhesives is expected to reach approximately 8,160,000 tonnes in 2023, growing at a CAGR of 3.0% from 2019 to 2023.



Source: Frost & Sullivan

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Key drivers and opportunities of fine industrial chemical product market in the PRC

Fine industrial chemical products, including industrial and automotive aerosol products, organic silicone and synthetic adhesives, are primarily used in various downstream industries, particularly in building construction, real estate and automotive industries, and in recent years, the aforesaid industries recorded significant growths, primarily due to the increase in demand for housing and passenger vehicles associated with the economic growth in the PRC.

Growth of construction industry and real estate market — According to National Bureau of Statistics of China, the total output value of construction works registered a significant growth from approximately RMB17.7 trillion in 2014 to approximately RMB23.5 trillion in 2018, representing a CAGR of 7.3%. Similarly, the floor space of real estate under construction increased from approximately 7.3 billion sq.m. in 2014 to approximately 8.2 billion sq.m. in 2018, representing a CAGR of 3.0%. As outlined in the “13th Five-Year Plan for Development of Construction Industry” (《建築業發展“十三五”規劃》) promulgated by the Ministry of Housing and Urban-Rural Development (住房城鄉建設部), the total output value of the construction industry is set to maintain an annual growth rate of 7% during 2016 to 2020. Meanwhile, the floor space of commercialised residential building sold recorded a growth from approximately 1.1 billion sq.m. in 2014 to approximately 1.5 billion sq.m. in 2018, representing a CAGR of 8.1%. Hence, as a common practice when carrying out fitting-out works and refurbishment of newly constructed properties or second-hand properties, the increase in residential building sold in the PRC may drive the consumption of paints and coatings for decoration purpose and therefore contribute to the growth of paint and coating market in the PRC.

Growth of automobile industry — According to China Association of Automobile Manufacturers and National Bureau of Statistics, the passenger vehicle population in China had increased from approximately 123.3 million units in 2014 to approximately 205.6 million units in 2018, representing a CAGR of 13.6%. The production of passenger vehicles also witnessed a growth from 23.7 million units in 2014 to 27.8 million units in 2018, representing a CAGR of 4.1%. The growing production and population of passenger vehicles may underpin the higher demand for aerosol products (e.g. spray paints, lubricant, refrigerant, ignition sealer and cleaner) used for passenger vehicle refurbishment, maintenance, and modification.

Policies supportive of the development of the chemical industry — To promote healthy development of chemical industry, the Ministry of Industry and Information Technology (工業和資訊化部) promulgated the “Petrochemical and Chemical Industry Development Plan (2016-2020)” (《石化和化學工業發展規劃(2016-2020年)》), setting out various key development targets and plans for the industry. For example, the annual growth rate of added value of petrochemical and chemical industry in the PRC is estimated to reach 8% from 2016 to 2020. The plan also outlined the development area and directions for the industry including (i) standardisation for the development of a new generation of environmentally-friendly chemicals (such as paint, coating and adhesives), (ii) strengthening the research and development of, as well as the promotion and application of environmentally-friendly paint and coating products, (iii) clean production to replace the use of organic solvent in paint, coating and adhesives, as well as (iv) optimisation of supply chain within the chemical industry through development of tracking system based on information technology such as Internet of Things, radio frequency identification and commodity coding system to enhance product traceability.

Urbanisation and upgrading consumption of Chinese population — Economic growth and rapid urbanisation in the PRC contributed to a higher income level and living standards for Chinese residents. According to the National Bureau of Statistics of China, the per capita annual disposable income of an urban household recorded a growth from RMB28,844 in 2014 to RMB39,251 in 2018, representing a CAGR of 8.0%. In addition, as outlined in the “The National Plan of New-type Urbanisation (2014-2020)” (《國家新型城鎮化規劃(2014 - 2020年)》), the percentage of urban population is expected to reach 60% by 2020, which reflects a growing adoption of industrialisation and modernisation. Correspondingly, the demand for safe, high quality, fine industrial chemical products, for diverse applications in different scenarios (e.g. from home decoration to automotive maintenance) is set to increase. Being convenient, user-friendly and having a wide scope of applications, aerosol products had seen rapid penetration in different aspects of daily life for Chinese residents, becoming an essential household good serving various purposes. In addition, rapid growth of electronic commerce could also contribute to the sales of aerosol products to the end user.

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Higher awareness towards application of protective chemicals — Automobile and industrial equipment requires regular maintenance and can be costly. The application of fine industrial chemicals, such as applying protective coating for anti-corrosion, waterproofing purposes have been increasingly adopted to extend the life of automotive and industrial equipment, to extend its useful life and lower maintenance cost.

Trend and outlook of the fine industrial chemical product market in the PRC

Developments of eco-friendly products — Fine industrial chemicals often consist of chlorofluorocarbons (“CFCs”), especially in aerosol sprays, as it is an ideal propellant with its non-flammable and chemically-stable properties. Over the past decades, a number of research had emphasized the use of CFCs will deplete the ozone layer, leading to disruptions in biological processes and significant environmental impact. Additionally, volatile organic compounds (“VOCs”) are also released from solvents in adhesives, paints and/or coatings. The United States Environmental Protection Agency has stated that emission of VOCs from household products is detrimental to human’s health, causing, for example, nausea and headaches. With better education and increase in information exchange among the public in the PRC, people have grown their awareness in environmental and health issues, and have increasingly required manufacturers to formulate their products to be eco-friendly and have low-VOCs. As a result, fine industrial chemical manufacturers in the PRC have increasingly followed this trend to (i) eliminate the use of CFCs and (ii) reduce the amount of VOCs in their products.

Higher investment in research and development — Demands for fine industrial chemical product development has been spurred by the technological breakthroughs in the electronic and automotive manufacturing industry in the PRC. In order to maintain high quality and safe products, instead of simply relying on technology used by other international manufacturers, leading domestic manufacturers have been increasing their investment in research and development in recent years. In addition, due to higher customer expectations and more complex manufacturing procedures among downstream players, increasingly advanced and high-end products, such as paints with enhanced water-proofing and durability features, have been launched in the market. Thus, the fine industrial chemical product market in the PRC is expected to shift towards structural development with a focus on enhancement in product functionality and improvement in product quality in the future.

Market consolidation — The more stringent environmental and safety requirements, changes in industry standards (such as the full implementation of “Globally Harmonized System (GHS) of Classification and Labelling of Chemicals”), and new regulations in relation to spray paint, tinplate for packaging of refrigerator and the revision of directory of hazardous chemicals, could impose additional pressure on small-scale fine industrial chemical manufacturers which may not be able to comply with these new requirements, resulting in accelerated consolidation, merger and acquisition in the market.

Key constraints and challenges of the fine industrial chemical product market in the PRC

Low concentration level of chemical industry — The overall fine industrial chemical market in the PRC is highly fragmented and scattered in terms of geographic distribution, with clustered development in the form of chemical industrial parks. However, chemical industrial parks in the PRC vary in respect of level of management, infrastructure, and facilities, and some chemicals manufacturers are situated in remote area outside the chemical industrial parks, leading to potential threats to the environment and residents nearby. Furthermore, the fine industrial chemical market has thousands of market participants, the majority of which are operating on a relatively small scale and competing in terms of pricing without a strong focus on research and development for their products, nor technological innovation, resulting in hindered development of the industry.

More stringent environmental regulation and control over hazardous chemical products — Some of the fine industrial chemicals are solvent-based with extensive use of VOCs that may lead to pollution of the environment. Furthermore, some chemicals such as paints and coatings are flammable and aerosol packaging could be explosive if not stored or handled properly, leading to potential hazards to the end-user. The Ministry of Environmental Protection had issued “13th Five-Year Work Plan for the Prevention and Control of Pollution Caused by Volatile Organic Compounds” (《“十三五”揮發性有機物污染防治工作方案》) which outlined the plan to control and establish emission standards of VOC in chemical industry, and specifically for paint and

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coating production, and automobile maintenance. Separately, in light of the occurrence of accidents in the chemical industry, the State Council had issued “Comprehensive Management Plan for the Safety of Dangerous Chemicals” (《危險化學品安全綜合治理方案》) in 2016 to enhance safety standards and risk management of chemical products. Specifically, rectification measures for aerosol manufacturers had also been implemented in Guangdong province in 2016 to ensure the compliance of regulation such as “Safety Production Procedure for Aerosol” (《氣霧劑安全生產規程》). Thus, the more stringent environmental and safety requirements may restrict the development of fine industrial chemical industry as a whole, particularly impacting manufacturers in the PRC who would fail to meet the standards and requirements despite this, these new requirements may translate into further business opportunity for qualified manufacturers.

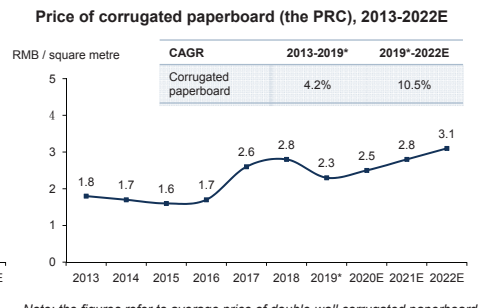
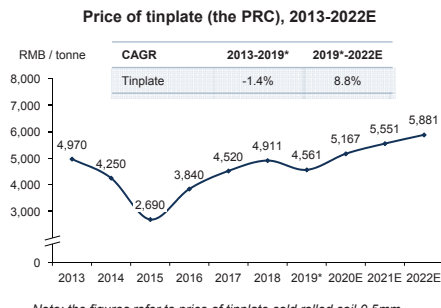
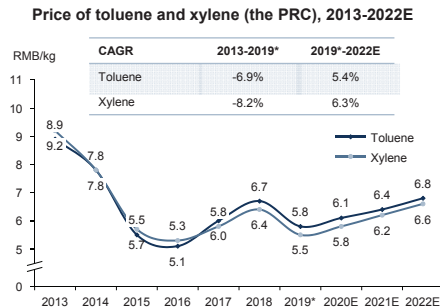
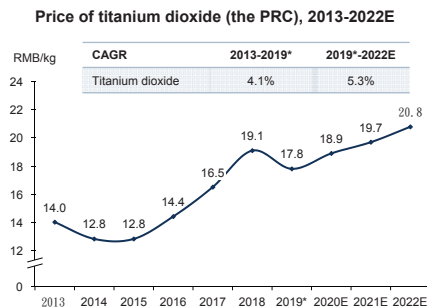
Volatility of raw material price — The raw materials of fine industrial chemical such as solvent and organic compounds (e.g. toluene, xylene) are mainly derived from crude oil. According to the World Bank, the average price of crude oil increased from US\$79.0 per barrel in 2010 to US\$104.1 per barrel in 2013, followed by a decline to US\$42.8 per barrel in 2016, then a moderate growth to US\$68.3 per barrel in 2018. The fluctuations of raw materials prices may affect the stability, and/or profitability of fine industrial chemical products manufacturers.

Price trend of key raw materials

Titanium dioxide has been widely used as white pigment in different products, such as paints and coatings, due to its high brightness and it being highly refractive. The price of titanium dioxide recorded a moderate decline during 2013 to 2014 due to over-supply in the market. With the tightened environmental regulation on titanium dioxide manufacturing and decrease in output capacity, the price of titanium dioxide recorded a recovery from 2015 to 2018. Xylene and toluene are commonly used as solvents in fine industrial chemical products. As naphtha is the major source of xylene and toluene production, the price for these two solvents are highly dependent on the price of petroleum. The decline of petroleum price in resulted in a decline of xylene and toluene price. With the recovery of oil price and increasing transportation cost, the price for toluene and xylene has recovered from 2016 onwards until 2018.

Tinplate is a key material for metallic packaging of fine industrial chemical products (such as aerosol cans). The price of tinplate recorded a decline from 2013 to 2015, primarily due to over-capacity of steel production in the PRC and decline in overall steel price. The price of tinplate witnessed a recovery from 2016 onwards until 2018.

Corrugated paperboard is a key paper-based packaging of fine industrial chemical products. The price of corrugated paperboard in the PRC was relatively stable during 2013 to 2016, followed by a significant growth in 2017 and 2018 due to the enforcement of measures towards environmental protection and the restriction of solid waste import by the PRC Government also contributed to the substantial increase in price of certain materials for corrugated paperboard production.



Note: the figures refer to price of tinplate cold rolled coil 0.5mm

Note: the figures refer to average price of double-wall corrugated paperboard, single-wall corrugated paperboard, single-face corrugated paperboard.

*Note: Data was recorded as in March 2019

Source: Frost & Sullivan

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The price of key raw materials used in fine industrial chemical products manufacturing recorded a general trend of decline during 2018 to first quarter of 2019, mainly due to the decrease in demand from downstream manufacturing and trading industries as a result of trade war between the United States and the PRC and high stock level of the materials. Going forward, with the expected recovery of demand for key raw materials from downstream manufacturing industries and increase in domestic consumption, as well as limited supply of raw materials, the price of key raw materials used in fine industrial chemical products manufacturing is expected to increase during 2019 to 2022.

Price trend of fine industrial chemical products

The price of fine industrial chemical products in the PRC recorded a moderate growth in the past few years. According to Frost & Sullivan, the price index of fine industrial chemical products in the PRC increased from approximately 100.0 in 2013 to approximately 112.1 in 2018, representing a CAGR of 2.3%. The growth was primarily attributable to the general increase in raw material price during 2016 to 2017 and demand from downstream industries.

Price index of fine industrial chemical products (the PRC), 2013-2018

Item	Unit	2013	2014	2015	2016	2017	2018	CAGR (2013-2018)
Price index	2013 = 100	100.0	102.7	105.2	108.5	110.7	111.5	2.3%

Note: the price index takes into account the price trend of aerosol products, architectural coating, adhesive and sealant and other miscellaneous fine industrial chemical products.

Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF FINE INDUSTRIAL CHEMICAL PRODUCT MARKET IN THE PRC

Overview of market competition

Attributable to the wide range and diverse types of products, the overall fine industrial chemical product market in the PRC is highly fragmented, comprising mainly a large number of small and medium-sized enterprises specialising in development, manufacture, distribution and sales of certain types of fine industrial chemical products. Furthermore, fine industrial chemical products also had a wide spectrum of product segments and sub-segments with distinctive product features and applications. For example, spray paint is a sub-category of aerosols for industrial and automotive applications, while organic silicone adhesives and synthetic adhesives are sub-category of adhesives and sealants. For example, our Group principally engages in development, manufacturing and distribution of industrial and automotive aerosol products with spray paint as primary product and the sales of spray paint, in addition to architectural paints and coatings, industrial oil products, adhesives and sealants. According to Frost & Sullivan, it is estimated that our Group had an aggregate market share of approximately 0.4% in terms of sales value of aerosol products and adhesives and sealants in the PRC in 2018, and had market shares of approximately 0.5%, 1.4% and 0.3% in terms of sales value of aerosol products, industrial and automotive aerosol products, and adhesives and sealants respectively in the PRC in 2018.

According to Frost & Sullivan, the key players in key manufacturers of industrial and automotive aerosol products in the PRC are Company A (a company listed on Hong Kong Stock Exchange, specialising in aerosol and related products such as diffusers and fresheners in the PRC), Company B (a subsidiary of a company listed on the Shenzhen Stock Exchange and principally engages in development and production of environmentally friendly functional

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coatings, green household items, automotive care products) and Company C (a subsidiary of company listed on Hong Kong Stock Exchange, specialising in automotive care products including aerosol products). On the other hand, the key manufacturers of adhesives and sealants in the PRC are Company D (a company established in 1988 and listed on the Shenzhen Stock Exchange, specialising in development and production of adhesives and sealants), Company E (a company established in 1999 and listed on the Shenzhen Stock Exchange, specialising in development and production of adhesives and sealants) and Company F (a company established in 1977 and listed on the Shenzhen Stock Exchange, specialising in development and production of polyurethane, structural and glass adhesives and sealants). However, according to Frost & Sullivan, given the fragmented nature of market, diversity of product lines of such key manufacturers and amongst the aforesaid products in respect of design, function and applications, the market ranking is therefore not available. It is estimated that Company D, Company E and Company F had a market share of approximately 0.7%, 0.7% and 1.3% respectively in terms of sales value of adhesives and sealants in the PRC in 2018.

Spray paint (being a sub-category product of aerosol for industrial and automotive application) is our Group's major product, which accounted for approximately 49.3%, 50.6% and 39.5% of our sales in 2016, 2017 and 2018 respectively. Spray paint market in the PRC is relatively fragmented, with approximately 150 established spray paint manufacturers while there were a significant number of small-scale manufacturers, distributors, resellers and retailers in the PRC in 2018. The table below sets forth the ranking and market share of leading spray paint manufacturers in the PRC in 2018. According to Frost & Sullivan, it is estimated that the top five spray paint manufacturers in the PRC accounted for an aggregate market share of approximately 11.2% in terms of sales value of spray paint in 2018. Our Group was the second largest spray paint manufacturers in the PRC with a market share of approximately 2.4% in terms of sales value of spray paint in 2018.

Leading spray paint manufacturers by sales value (the PRC), 2018

Rank	Market participant	Year of Listed	Year of establishment	Description	Approximate sales value of spray paint (RMB million)	Market share (%)
1	Company C	Yes	2000	A subsidiary of company listed on Hong Kong Stock Exchange, specialising in automotive care products including aerosol products	375.3	2.9%
2	Our Group	No	2000	A key fine industrial chemical (including aerosol and spray paint) manufacturer located in Guangdong province	304.0	2.4%
3	Company B	Yes	1995	A subsidiary of a company listed on the Shenzhen Stock Exchange and principally engages in development and production of environmentally friendly functional coatings, green household items, automotive care products	291.4	2.3%
4	Company G	No	2006	A national high-tech enterprise specialising in research, development, manufacture and sales of automotive care products, oil additives, aerosol products and maintenance products	271.1	2.1%
5	Company H	No	2005	An integrated fine industrial chemical enterprise with production bases in Guangdong, Henan and Hubei province	187.1	1.5%
				Subtotal	1,428.9	11.2%
				Other	11,371.1	88.8%
				Total	12,800.0	100.0%

Source: Frost & Sullivan

Factors relevant to competition in the market

Industry know-how and product performance — Fine industrial chemical products cover a wide range of product types and application segment. Product design, formulation, manufacturing, testing and packaging requires in-depth knowledge on research and development, selection of raw materials and quality control. For example, performance of aerosol products (such as spray paints) is associated with the quality of raw materials such as resin, additives, solvent, and tinplate, and the spray effect is evaluated in relation to the spray area, gloss level and transfer efficiency. Manufacturers with proven capability of, and the expertise required to, manufacture high quality and fine industrial chemical products with strong research and development capacity are more competitive compared to industry peers operating on a lesser scale.

Compliance of standard and regulatory requirement — In light of the more stringent environmental requirement towards the production and emission of chemicals in the PRC, compliance with regulations has become a key issue for small-scaled manufacturers without appropriate measures or resources to meet those requirement. In addition, industry standards such as “Packaging Industry Standard in the PRC — Aerosol Paint” (《中華人民共和國包裝行業標準 — 氣霧漆》) has been published and such standards are expected to become more stringent and to fall in line with international standards. Hence, strong capability in meeting the regulatory requirement and industry standards serves as a key competitive edge for fine industrial chemical manufacturers in the PRC.

Sales channels and promotion — Established fine industrial chemical manufacturers generally have developed multiple sales and distribution channels serving various downstream corporate and retail customers. Capitalising on their branding, large-scaled fine industrial chemical manufacturers may have an extensive and nation-wide sales network in the PRC through partnering with a number of distributors and resellers under an authorized distributorship model. Furthermore, promotion via advertisement also enables fine industrial chemical manufacturers to maintain strong presence in the market compared to other manufacturers.

INDUSTRY OVERVIEW

Entry barriers

Technical knowledge — Fine industrial chemical products manufacturers are required to demonstrate solid product knowledge and understand the chemical properties of products as well as regulatory standards in order to offer the best solution that can be applied in different scenarios. In addition, market participants are expected to conduct adequate research to continuously improve the formula of chemical products to enhance product performance and compliance with industry standards. Thus, product innovation experience and technical know-how serves as a key barrier for new entrants.

High initial capital investment — To manufacture fine industrial chemical products, substantial amount of capital is required for land acquisition, and setup of production facilities in compliance to industry standards. In addition, market participants are also required to allocate sufficient financial resources to support the on-going operation, such as labour cost for experienced specialists and chemical professionals with in-depth industry knowledge, and to support the continuous research and development process, product innovation and compliance with regulatory requirement. Therefore, new market entrants without sufficient capital reserves may find it difficult to compete with existing market participants.

Licensing requirement and industry standards — A more stringent regulatory requirement has been imposed on fine industrial chemical product manufacturers in respect to environmental pollution. The Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部), formerly the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部), promulgated the “Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation)” (《排污許可管理辦法(試行)》) in January 2018, requiring all pollutant discharging entities, especially industrial manufacturers, to hold pollutant discharge licenses and comply with the associated regulations when discharging pollutants. Established and competent market participants generally demonstrates strong capability to manage pollutant emissions and may obtain operating licenses to continue their business. In contrast, new entrants without industry experience or knowledge towards emission control may be restricted from operation.

Brand awareness and distribution channel — Established fine industrial chemical products manufacturers generally possess key products with strong brand recognition by customers and end-users. Furthermore, existing sizeable market participants generally maintain extensive distribution channels with distributors, resellers and retailers. Due to the preference of customers and end-users towards fine industrial chemical products developed and made by reputable manufacturers, brand recognition or distribution channels serve as a barrier for new market entrants.

COMPETITIVE ADVANTAGES OF OUR GROUP

Provision of wide range of fine industrial chemical products — Established in 2002, our Group has developed a comprehensive portfolio of fine industrial chemical products, including aerosol products, architectural coatings, oil products, organic silicone adhesives, synthetic adhesives and wood paints. The full spectrum of product portfolio enables our Group to capture the demand from different target customers with specific needs across various downstream industries, such as automotive maintenance, building hardware and materials.

Established brand position in spray paint — Our Group is considered as one of the leading manufacturers of spray paint which are sold under the brand name of “Sanvo 三和” and is renowned for its high product quality compared with the industry peers. Spray paint under the brand name “Sanvo 三和” has been selling through different retail shops and online retail platform in the PRC. Ownership of high-quality spray paints products under established brand names enables our Group to capture the growing business opportunity in the PRC market.

Extensive distribution network with strong presence in the PRC market — Our Group has established a strong sales channel across different major provinces and cities in the PRC through distributors. Our Group has been selling products to over 1,000 distributors across more than 370 cities in the PRC as in 2018. In addition, our Group also actively launch different promotion campaigns such as online social media platform and offline advertisements and hire spokesperson to strengthen market presence and brand awareness in the PRC.

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.

REGULATORY OVERVIEW

LAWS AND REGULATIONS IN THE PRC

Company establishment and foreign investment

Company Law

The establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law (《中華人民共和國公司法》), which was promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013, and 26 October 2018.

According to the PRC Company Law, companies established in the PRC are either limited liability companies or joint stock limited companies. A company may set up subsidiaries which enjoy the status of an enterprise legal person and shall be independently responsible for their own civil liabilities. The PRC Company Law applies to both PRC domestic companies and Foreign-invested Enterprises (the "FIEs"); nonetheless, where the PRC Company Law is silent on matters relating to FIEs, such matters may be addressed by other PRC laws and regulations.

Wholly Foreign-owned Enterprise Law and Foreign Investment Law

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of FIEs are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 by the National People's Congress (the "NPC") and last amended on 3 September 2016 by the SCNPC, and the Regulations for the Implementation of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 by the MOFCOM and amended by the State Council on 12 April 2001 and 19 February 2014.

On 15 March 2019, the NPC formally adopted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》, the "FIL"), which will become effective on 1 January 2020. The Foreign Investment Law is promulgated to further expand opening-up, promote foreign investment and protect the legitimate rights and interests of foreign investors. Pursuant to the FIL, foreign investments are entitled to pre-entry national treatment and are subject to the Negative List (as defined below). The pre-entry national treatment means that the treatment given to foreign investors and their investors at the stage of investment access is not less favourable than that of domestic investors and their investments.

According to the FIL, the investment, earnings and other legitimate rights and interests of foreign investors within the territory of the PRC shall be protected in accordance with the law, and all national policies on supporting the development of enterprises shall be equally applied to FIEs.

From 1 January 2020, the Wholly Foreign-owned Enterprise Law, the Sino-foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》) and the Sino-foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) shall be abolished. The organisation, management and activities of FIEs shall be governed by the PRC Company Law and the Partnership Enterprise Law of the PRC (《中華人民共和國合夥企業法》). FIEs established before the implementation of the FIL may retain their original business organisation until the five-year transition period expires under the FIL.

REGULATORY OVERVIEW

The provisions on Guiding Foreign Investment Direction and the Catalogue for the Guidance of Foreign Investment Industries

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was jointly issued by the National Development and Reform Commission (國家發展和改革委員會) and the MOFCOM in 1995, and amended in 1997, 2002, 2004, 2007, 2011, 2015, 2017 and 2019. The current effective Catalogue was issued on 30 June 2019, and came into force on 30 July 2019. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries.

The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (《外商投資准入特別管理措施(負面清單)》(2019年版)) (the “**Negative List**”) was approved by the Communist Party of China Central Committee and the State Council and was issued jointly by the National Development and Reform Commission and the Ministry of Commerce of the PRC (“**MOFCOM**”) on 30 June 2019, and came into effect on 30 July 2019. The Negative List specifies prohibitions or restrictions on foreign investment in some industries. According to the Negative List, the Special Administrative Measures for the Access of Foreign Investment (Negative List)(2018) (《外商投資准入特別管理措施(外商投資准入負面清單)(2018年版)》) is repealed and replaced by it.

Our PRC operating entities are currently engaging in manufacturing and selling of industrial chemical products which does not belong to the restricted or prohibited foreign-invested industries enumerated in the Negative List.

The Provisional Measures on Record-filing Administration over the Establishment and Change of FIEs

The establishment and alterations applied to FIEs that are not subject to special market entry administrative measures are regulated by the Provisional Measures on Record-filing Administration over the Establishment and Change of FIEs (《外商投資企業設立及變更備案管理暫行辦法》, the “**Measures**”), which was promulgated by the MOFCOM and first became effective on 8 October 2016 and was afterwards revised on 30 July 2017, and amended on 29 June 2018 and re-implemented on 30 June 2018. According to the Measures, where establishments and changes to a FIE do not fall within the scope of special administration measures for foreign investment admission as stipulated by the State, the FIE shall go through filling procedures instead of the procedures for approvals. However, where establishments and changes to a FIE fall within the scope of the special administration measures for foreign investment admission as stipulated by the State, the FIE shall go through procedures for approvals according to the relevant laws and regulations governing foreign investment.

Laws and regulations related to production safety

Enterprises engaged in the production of hazardous chemical products in the PRC are required to go through the following procedures and obtain the production safety licence in accordance with the following laws and regulations.

REGULATORY OVERVIEW

Work Safety Law of the PRC

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, any containers of hazardous substances, means of conveyance as well as special equipments concerning life safety or with significant dangers used by any enterprises, shall, according to the relevant provisions of the state, be manufactured by specialised manufacturing enterprises, and may only be utilised after they have passed the examinations and tests of institutions which have relevant professional qualifications and been awarded a certificate for safe use or a mark of safety. In addition, the production, operation, transportation, storage and use of any hazardous substances or the disposal of abandoned hazardous substances shall, according to the provisions of the relevant laws and regulations, national standards and industrial standards, be subject to the approval as well as the supervision and administration of relevant administrative departments.

The major person-in-charge of an enterprise shall undertake the overall responsibility for the safety in production. Enterprises shall provide education and training to employees on safety in production. They shall also provide employees with articles of labour protection which meet the national or industrial standards, and supervise and guide employees to use of these articles according to instructions.

Production safety licence

Pursuant to the Regulations on Production Safety Licences (《安全生產許可證條例》) which was promulgated on 13 January 2004, subsequently amended on 18 July 2013 and 29 July 2014, respectively, and last amended on 29 July 2014, and Measures for Implementation of the System of Production Safety Licences of Hazardous Chemicals Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) promulgated on 5 August 2011 and last amended on 6 March 2017, the PRC central government has implemented a licensing system for production safety of mining enterprises, construction companies and enterprises producing hazardous chemical products, fireworks and civil explosive materials. No enterprise producing hazardous chemical products may engage in production activities without holding a production safety licence. While the regulatory authorities for production safety of the State Council is responsible for the issuance and administration of production safety licences for hazardous chemical production enterprises (headquarters) under the administration of the central government or directly held by the central government, the regulatory authorities for production safety of the people's governments of provinces, autonomous regions and municipalities directly under the central government of the PRC will be responsible for the issuance and administration of production safety licences for other hazardous chemical production enterprises.

The period of validity of a production safety licence shall be three years. Where any enterprise needs to extend the period of validity of its production safety licence, the enterprise shall apply for extension three months prior to the expiration date.

Operation licence for hazardous chemicals

Pursuant to Administrative Measures on Operating Licence for Hazardous Chemicals (《危險化學品經營許可證管理辦法》), promulgated on 17 July 2012 and amended on 27 May 2015, enterprises that engage in operating (including storage) hazardous chemicals which are listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) shall obtain operating licence

REGULATORY OVERVIEW

for hazardous chemicals. However, production enterprises of hazardous chemicals which have obtained work safety licences for hazardous chemicals and sell hazardous chemicals within their factory area, or port operators which have obtained port operation licence and engage in storage of hazardous chemicals within their port area, are not required to obtain operating licences for hazardous chemicals.

Pursuant to applicable PRC laws and regulations, if an enterprise that engages in operation of hazardous chemicals fails to obtain the operating licence for hazardous chemicals, or continues its operation after the expiration date of its operating licence for hazardous chemicals, the enterprise may be subject to suspension of business operations, confiscation of related hazardous chemicals and illegal income and a fine from RMB100,000 to RMB200,000 imposed by work safety administrative department.

Registration of hazardous chemicals

Pursuant to the Regulations on the Administration of the Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》), promulgated on 26 January 2002 and last amended on 7 December 2013, the Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》), which became effective on 1 August 2012, any entities engaged in the production and import of hazardous chemicals listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) are required to register with the competent offices for chemicals in accordance with the laws of the PRC. The State Administration of Work Safety has established the National Registration Centre for Chemicals (國家化學品登記註冊中心) to take charge of activities and administrative matters of the national registration of hazardous chemicals, while the Administration Departments of Work Safety of provinces, autonomous regions and municipalities directly under the central government of the PRC have established hazardous chemical offices or registration centre to handle the local activities and administrative matters related to hazardous chemical registration.

Permission of construction projects with regard to safety issues

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》), Regulations on the Administration of the Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》) and Measures for the Administration of Safety Permission on Hazardous Chemicals Construction Projects (《危險化學品建設項目安全監督管理辦法》), when an entity has any plans of new construction, extension and reconstruction of production, storage devices and facilities for hazardous chemicals in the PRC, or has any plans of chemical construction projects in China involving the generation of hazardous chemicals, it shall engage a qualified safety assessment institution to evaluate the safety of such construction projects during the stage of the feasibility assessment, and request for the launching of a safety investigation from the competent department in charge of the safety permission on construction projects. After the primary design of all of the safety facilities for such construction project has been completed, prior to the commencement of the detailed design, the entity shall submit the design to the competent department for review of the safety facilities design of the construction project. Before a construction project is put into production or put to use, the construction entity shall arrange for personnel to conduct the as-built acceptance check of the safety facilities, and draw a conclusion of whether the safety facilities of the construction project pass the as-built acceptance check. After the as-built acceptance check of the safety facilities arranged by the construction entity is passed, it shall archive the documents and materials involved during the acceptance check, and apply for other safety permits

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for the relevant hazardous chemicals in accordance with the relevant laws and regulations and their supporting rules. The enterprises that manufacture or store hazardous chemicals shall entrust institutes, with qualifications in accordance with national requirements, to conduct safety evaluation on their own production safety conditions once every three years and provide safety evaluation report. The safety evaluation report shall include a proposal to make rectification and improvement against the safety problems existing in production safety conditions.

Provision of safety production expenses

Pursuant to the Circular of the Administrative Measures on the Provision and Use of Safety Production Expenses of Enterprises issued by the Ministry of Finance and State Administration of Work Safety Supervision (《財政部、安全監管總局關於印發〈企業安全生產費用提取和使用管理辦法〉的通知》) which was issued and has been effective from 14 February 2012, enterprises engaging in production and/or storage of hazardous goods shall provide work safety expenses monthly, which is calculated on the basis of their actual operation revenue by a regressive method. Hazardous Chemicals production enterprises that fail to make provisions in compliance with this Circular may be subject to orders of correction issued by the Ministry of Finance and State Administration of Work Safety Supervision or their respective local counterparts.

Laws and regulations related to transport of hazardous chemicals

According to the Regulations on the Administration of the Safety of Hazardous Chemicals (《危險化學品安全管理條例》), enterprises engaging in road or water transport of hazardous chemicals shall obtain a permit for such road or water transport and shall handle the registration formalities at the industry and commerce administration. Furthermore, for those enterprises that do not directly take charge of transporting hazardous chemicals themselves but engage third-party carriers instead, they shall only consign their hazardous chemical products to carriers having permits for road and/or water transport of hazardous goods.

Pursuant to the Provision on the Administration of Road Transport of Hazardous Goods (《道路危險貨物運輸管理規定》) which was promulgated on 23 January 2013 and revised on 11 April 2016, enterprises consigning hazardous goods shall entrust carriers qualified to transport hazardous goods by road, and such enterprises shall keep records of hazardous goods transport information for no less than one year. Enterprises which fail to entrust lawful holders of hazardous goods road transport licence to carry their hazardous chemical products may be, collectively or respectively, subject to an order of correction, a fine between RMB100,000 and RMB200,000 and/or confiscation of gains from such illegal transport of hazardous goods; if such enterprises refuse to make corrections according to orders issued by the Ministry of Transport or its local counterparts, such enterprises shall be ordered to suspend their business operation for rectification; and if any crime is constituted during the transport of hazardous goods, such enterprises or the person-in-charge may be subject to criminal liabilities pursuant to the PRC Criminal Law (《中華人民共和國刑法》).

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Laws and regulations related to product quality

Product Quality Law of the PRC

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated by the SCNPC on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

Responsibilities and obligations of producers for the products include: (i) being responsible for the quality of the products produced; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licences shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

Production licences for industrial products

Pursuant to the Regulations of the PRC for the Administration of Production Licences for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) effective on 1 September 2005 and the Measures for the Implementation of Regulations of the PRC for the Administration of Production Licences for Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》) which was promulgated on 21 April 2014 and effective on 1 August 2014, important industrial products in connection with public safety, human health and well-being, and the protection of property are subject to the system of production licences imposed by the PRC central government. The catalogue of industrial products subject to the production licensing regime implemented by the State is made by the competent department of the State Council in charge of the production licence for the industrial products together with the other relevant departments of the State Council, and promulgated to the public after the same has been approved by the State Council. Any enterprise that fails to obtain a production licence shall not produce the products listed in the said catalogue, and no entity or individual is allowed to sell or use during its operation any products listed in the said catalogue without the relevant production licence, otherwise an administrative sanction by the competent department of industrial product production licences will be imposed on such entity or individual. Moreover, criminal liability may also be imposed on such entity or individual.

REGULATORY OVERVIEW

Motor Vehicle Brake Fluid are listed in the Catalogue of Products Subject to the Production Licensing Regime (《實行生產許可證制度管理的產品目錄》) under the Announcement of the Catalogue of Products Subject to the Production Licensing Regime (《關於公佈實行生產許可證制度管理的產品目錄的公告》) promulgated by the former General Administration of Quality Supervision, Inspection and Quarantine of the PRC (原國家質量監督檢驗檢疫總局), which is currently known as the State Administration for Market Regulation (國家市場監督管理總局), on 9 October 2007, 25 August 2010, and 20 November 2012 respectively. According to the Detailed Rules of the Implementation of Production Licences for Motor Vehicle Brake Fluid Products (《機動車輛制動液產品生產許可證實施細則》), effective from 1 December 2018, enterprises engaging in the production of brake fluid comprised of alcohol ether and/or boric acid ester are required to complete the formalities to obtain the relevant National Production Licence for Industrial Product (《全國工業產品生產許可證》) in accordance with the laws of the PRC.

Laws and regulations related to fire prevention

The Fire Prevention Law of the PRC

The Fire Prevention Law of the PRC (《中華人民共和國消防法》), adopted on 29 April 1998 and amended on 28 October 2008 and 23 April 2019, respectively, specifies fire prevention safety responsibilities that should be abided by enterprises, including without limitations the following matters: (i) implement the fire prevention safety responsibility system; (ii) formulate the fire safety regulations, operating rules and fire fighting and emergency evacuation plans; (iii) deploy fire fighting facilities and equipments; (iv) set up fire safety signs and organise inspection and maintenance at regular intervals to ensure their proper functioning; (v) conduct a comprehensive inspection of fire fighting facilities at least once a year to ensure their proper functioning; (vi) the inspection records shall be complete and accurate and shall be archived for the supervision purpose; guarantee that evacuation passages, safety exits and fire truck passages are kept clear and fire and smoke compartmentation as well as fire separation distance meet the relevant fire protection technical standards; (vii) organise fire protection inspections in order to eliminate any potential fire risks in time; and (viii) organise target specific fire drills.

Pursuant to the Provisions on the Supervision and Administration of Fire Protection of Construction Projects (the “**Construction Projects Fire Protection Provisions**”) (《建設工程消防監督管理規定》) promulgated by the Ministry of Public Security on 30 April 2009 and last amended on 17 July 2012, for construction of: (i) production and processing workshop of a labour-intensive enterprise with total construction area of more than 2,500 square metres, (ii) staff collective dormitory of a labour-intensive enterprise with total construction area of more than 1,000 square metres, (iii) production plant, warehouse, or special depot or dock for the loading and unloading of inflammable and explosive hazardous materials, etc., the construction enterprise shall apply to the fire safety government authorities for fire protection design review, and apply to the same authorities for the as-built fire protection inspection after the completion of the construction project. For construction projects other than those required to apply for approvals of fire protection design review and as-built fire protection inspection under the Construction Projects Fire Protection Provisions, the construction enterprise shall, within seven days of obtaining the Construction Permit for Construction Projects (the “**Construction Permit**”) (《建設工程施工許可證》), file the fire protection design with the fire safety government authorities, and shall, within seven days of passing the as-built inspection of the construction project, file the as-built inspection of fire protection with the fire safety government authorities.

REGULATORY OVERVIEW

Regulations implemented following the Tianjin Explosion and Jianguo Explosion

After the “8.12” Massive Explosion in Port of Tianjin (“**Tianjin Explosion**”), the PRC Government has promulgated a series of notice with regard to the administration and supervision of enterprises engaging in production, operation and warehousing of hazardous chemicals. On 12 August 2015, the Work Safety Committee of State Council promulgated the Urgent Notice to Vigorously Carry Out the Special Program to Address Safety Problems regarding Hazardous Chemicals and Flammable and Explosive Materials (《國務院安全生產委員會關於深入開展危險化學品和易燃易爆物品安全專項整治的緊急通知》), which requested local competent authorities to immediately commence the comprehensive scrutiny against all enterprises engaging in production, operation, warehousing and transportation of hazardous chemicals and flammable and explosive materials nationwide, and to strictly implementing the safety responsibility system that holds the hazardous chemicals and inflammable and explosive materials production and operation enterprises to undertake main safety responsibilities.

On 19 April 2016, the State Council promulgated the Notice of Work Safety Committee on Learning a Hard Lesson From the “8.12” Massive Explosion in Port of Tianjin and Carrying out Special Program to Address Safety Problems of Dangerous Chemicals (《國務院安全生產委員會關於深刻吸取天津港“8.12”特別重大事故教訓集中開展危險化學品安全專項整治的通知》) (the “**Tianjin Notice**”). Pursuant to the Tianjin Notice, State Council decided to conduct the chemical safety improvement program from April to October 2016 nationwide. The program covers the improvement of (i) safety of ammonium nitrate, nitro-cotton and sodium cyanide; (ii) safety of ports, warehouse (heap) field and wharf related to hazardous chemicals; (iii) safety of hazardous chemicals production and operation activities; (iv) safety of hazardous chemicals use activities; and (v) safety of fire prevention in the sites related to inflammable and explosive materials and hazardous chemicals.

After the special programs carried out as a result of the Tianjin Explosions, on 29 November 2016, the General Office of the State Council issued Circular on the Comprehensive Improvement Plan of Dangerous Chemicals Safety (《國務院辦公廳關於印發危險化學品安全綜合治理方案的 通知 》), the “**Comprehensive Improvement Plan**”) to further improve the comprehensive management on dangerous chemicals safety. The Comprehensive Improvement Plan provides the working schedule of the plan, comprehensive management measures and system together with assignment of responsibility regarding dangerous chemicals safety.

On 21 March 2019, an especially serious explosion accident happened in Yancheng City, Jianguo Province, which results from the ignition and explosion of a chemical storage tank of a local chemical enterprise and leads to the death and serious injury of more than 64 people and 73 people respectively as at 23 March 2019 (the “**Jianguo Explosion**”). After the Jianguo Explosion, the PRC Government has made important indication and required the government and work safety department nationwide to strengthen their political awareness, safety awareness, sense of responsibility and being well prepared for unexpected events. In addition, the PRC Government also required the commencement of investigations so as to remove any hidden danger and ensure the safety and well-being of the people.

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Foreign trade

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was adopted by the SCNPC on 12 May 1994, and amended on 6 April 2004 and 7 November 2016, provides that foreign trade operators who engage in the import and export of goods or technologies shall file records with the administrative department of the foreign trade of the State Council or its authorised agency, unless provided otherwise by the laws, administrative regulations or the stipulations by the administrative department of foreign trade of the State Council. Foreign trade operators which have not filed for registration in accordance with the relevant laws, regulations or stipulations will be declined by the customs to carry out the customs clearance and inspection procedures for import and export of goods. More specifically, according to the Measures for the Record-Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》), which was promulgated by the MOFCOM on 25 June 2004 and amended on 18 August 2016, foreign trade operators who engage in the import and export of goods or technologies shall go through the formalities for record-filing and registration with the MOFCOM or an authority authorised by the MOFCOM. If foreign trade operators fail to go through the formalities for record-filing and registration in accordance with the provisions of these Measures, customs shall refuse to handle the declaration and clearance formalities of their imports and exports. Pursuant to the MOFCOM Notice of Further Optimising the Recordation and Registration of Foreign Trade Operators (《商務部關於進一步優化對外貿易經營者備案登記工作的通知》), which was promulgated on 18 February 2019 and became effective on 1 March 2019, the collection of paper application materials have been simplified and foreign trade operators may upload and scan in the application for the recordation and registration. When a foreign trade operator applies for or changes the recordation and registration, it may submit online a copy of its business license, a signed or sealed scanned copy of the original application form for recordation and registration of foreign trade operators and other application materials.

Customs

According to the Customs Laws of the PRC (《中華人民共和國海關法》), which was promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, unless otherwise stipulated, the declaration of import and export goods may be completed by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the customs. The declaration of import and export goods may be completed by the owners of such goods or their entrusted person. In addition, the consignors and consignees of the goods exported or imported and the customs brokers must register themselves for declaration activities with the customs office. Enterprises engaged in processing trade shall undergo recordation formalities at the customers office in accordance with the provisions of the General Administration of Customs (海關總署). The amount of raw materials consumed during the production of the finished products shall be decided by the customs office. The finished products of a processing trade shall be re-exported within the stipulated time limit.

Pursuant to the Administrative Provisions of the Customs of the PRC on the 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》) promulgated by the General Administration of Customs on 13 March 2014, amended on 20 December 2017 and 29 May 2018, and came into effect on 1 July 2018, and the Announcement on Including the Registration Certificate for a Customs Declaration Entity (for the Consignees or Consignors of Imported or Exported Goods) into the Reform of “Integrating Certificates into One” (《關於《報

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關單位註冊登記證書》(進出口貨物收發貨人)納入“多證合一”改革的公告》) issued by the State Administration for Market Regulation (國家市場監督管理總局) and General Administration of Customs (海關總署) on 9 January 2019 and became effective on 1 February 2019, the consignor or consignee of imported and exported goods shall apply for customs recordation or registration at the time when it applies for registration with the State Administration for Market Regulation or its local counterparts.

Intellectual property

Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”), which was amended on 26 February 2010 and with effect from 1 April 2010, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Works which can be protected under Copyright Law include: written works; oral works; musical works, theatrical works, quyi (folk art), choreographic works and acrobatic works; works of fine arts and architectural works; photographic works; cinematographic works and works created by a process analogous to cinematography; graphics works such as drawings of engineering designs, drawings of product designs, maps, schematic drawings, and three-dimensional model works; computer software; etc. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), which was promulgated on 23 August 1982 and with effect from 1 March 1983 and whose last amendment made on 23 April 2019, becoming effective on 1 November 2019. The right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”), which was revised on 27 December 2008 and with effect from 1 October 2009, enterprises can apply for intellectual property rights of inventions, utility models or appearance designs. The duration of a patent right for inventions is 20 years and the duration of a patent right for utility models and appearance designs is 10 years, all commencing from the application date. After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner,

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exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Domain Names

Pursuant to the Measures for Administration of Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology of the PRC (中國工業和信息化部) on 24 August 2017 and with effect from 1 November 2017, “domain name” shall refer 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. The principle of “first come, first serve” shall be followed for the domain name registration service. After completing the domain name registration, the applicant for the domain name registration becomes the holder of such domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

Our registered patents, trademarks and domain names have been listed in Appendix V to this prospectus. Such registered patents, trademarks and domain names are and will be protected by the PRC intellectual property laws and regulations during their respective validity periods.

Environmental protection

General laws

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”), which was promulgated by the SCNPC and became effective on 26 December 1989, (i) any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise vibration and electromagnetic radiation and other hazards it produces; (ii) any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and (iii) any entity that discharges pollutant in excess of the prescribed national or local standards must pay the requisite fee for excessive discharge and shall assume responsibility for controlling and eliminating the pollution. The Environmental Protection Law was further amended on 24 April 2014 and the revisions became effective on 1 January 2015.

The Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) or its local counterparts shall impose different penalties on persons or enterprises in violation of the Environmental Protection Law depending on the different circumstances. Such penalties include warnings, fines, orders to rectify and make treatment within prescribed period, orders to cease production, orders to re-install contamination prevention and treatment facilities which have been removed or left unused, imposition of administrative action against relevant responsible persons, or orders to shut down those enterprises.

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Prevention and control of various pollutions

The Law on Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》), as promulgated on 11 May 1984, amended on 15 May 1996, 28 February 2008 and 27 June 2017 and became effective on 1 January 2018, the Law on Prevention and Control of Atmospheric Pollution of the PRC (《中華人民共和國大氣污染防治法》), as promulgated on 5 September 1987, revised on 29 August 1995, 29 April 2000, 29 August 2015 and was last amended on 26 December 2018, as well as the Law on Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪聲污染防治法》), which was revised on 29 October 1996 and became effective on 1 March 1997, and was amended on 29 December 2018, as well as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by the SCNPC on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution respectively.

In addition, pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects that discharge pollutants to the atmosphere or water resources, and/or produce noise, the relevant entity shall make pollutant discharge declaration and discharge pollutants in accordance with relevant regulations.

According to the Guangdong Province Work Programme on the Comprehensive Treatment and Emission Reduction on Volatile Organic Compounds (“VOCs”) (2018-2020) (《廣東省揮發性有機物(VOCs)整治與減排工作方案(2018-2020年)》) (“VOCs Emission Scheme”), published on 10 April 2018, Guangdong Province encourages enterprises to use water-based, VOCs-low environmentally friendly paint and coating products to replace those solvent-based paint or coating products used for vehicles maintenance and repair industry. By 2020, no less than 38.75 tons of VOCs emission shall be reduced compared to the total amount of emission in 2015. Pursuant to the VOCs Emission Scheme, the PRC Government may strengthen its guidance on the VOCs emission of enterprises and conduct regular investigation or supervision at the premises of such enterprises. For those enterprises that violate relevant national industrial policies, fail to obtain industry-related governmental approvals required by PRC laws, or are unable to maintain environmental protection facilities, reach national or regional discharge standards continuously and cannot be rectified, the PRC government will order them to cease operation and shut down their production sites. We have been observing the laws and regulations in relation to environmental protection and implemented environmental protection measures for our production activities and waste disposal in all of our production sites. However, we may spend more expenses on the upgrade of our production lines so as to manufacture more environmentally friendly water-based, VOC-low paint and coating products and the sales of solvent-based paint and coating products in Guangdong Province could be adversely affected due to the VOCs Emission Scheme. In accordance with the Measures on the Prevention and Control of Atmospheric Pollution in Pearl River Delta of Guangdong Province (《廣東省珠江三角洲大氣污染防治辦法》), which was promulgated by the Government of Guangdong Province on 30 March 2009 and took effect on 1 May 2009, the paint and coating products with high content of VOCs shall be eliminated in the region of Pearl River Delta for the purpose of protecting and improving the atmosphere environment of the region. In order to reduce emission of VOCs, the Department of Environment Protection of Guangdong Province adopted the Opinions on Strictly Control Discharge of VOCs of Industrial Enterprises in Pearl River Delta (《廣東省環境保護廳關於珠江三角洲地區嚴格控制工業企業揮發性有機物(VOCs)排放的意見》) which requires on 23 March

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2012, that provides newly-built paint and coating manufacturing enterprises to submit project description of source of emission reduction of VOCs along with the application documents of the environmental impact assessment of the newly-built projects, confirm the source of the total emission index of VOCs of the newly-built projects, and guarantee the total emission control of VOCs of the industrial enterprises.

Construction project environmental protection

According to the Regulations on Environmental Protection Management for Construction Projects (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and became effective on 1 October 2017, the Law on Appraisal of Environment Impacts of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002, amended on 2 July 2016 and 29 December 2018, the Administration Regulations on Record-filing of the Registration Forms of Construction Projects (《建設項目環境影響登記表備案管理辦法》), which was promulgated on 16 November 2016 and became effective on 1 January 2017 and the Administration Regulations on Environmental Protection Acceptance of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration on 27 December 2001, amended on 22 December 2010 and 11 October 2015, the PRC has implemented a system for the evaluation of the environmental impacts of construction projects. On the basis of the extent of effects exerted on the environment by a construction project, the construction entity shall prepare an environmental impact report, or an environmental impact report form, or an environmental impact registration form regarding the environmental impacts of the construction project. The report and the report form shall be approved by the competent environmental protection administrative department prior to the commencement of construction, while the registration form is regulated by way of record-filing. Furthermore, the construction entity shall, upon completion of a construction project for which an environmental impact report or an environmental impact report form is prepared, according to standards and procedures prescribed by the environmental protection administrative department of the State Council, conduct acceptance check of the constructed supporting environmental protection facilities and prepare the acceptance check report, such supporting environmental protection facilities shall be simultaneously put into operation or use with the main body project.

According to the Administrative Measures on Concurrent and Subsequent Supervisions upon Construction Projects (Trial) (《建設項目竣工環境保護事中事後監督管理辦法》(試行)) promulgated on 10 December 2015, construction units should make a comprehensive disclosure on environmental information including but not limited to the environmental impact assessment documents.

Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation)

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》) (the “**Administrative Measures**”) promulgated by the Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) on 10 January 2018, the pollutant discharging entities shall legally hold the pollutant discharge licenses, and discharge pollutants in accordance with the regulations of the licenses. According to relevant regulations and provisions, competent environmental protection authorities shall exercise comprehensive license administration on the discharge of water pollution, air pollution, and other various pollution emitted unit. For the pollutant discharging units which obtained approval opinions on environmental impact assessment of construction projects on 1 January

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2015 and thereafter, the main part related to pollutants discharge in the environmental impact assessments and approval opinions shall be included in the pollutant discharge licenses. For the pollutant discharge units which has been established and actually discharged pollutants before the time limit as provided in the Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2017) (《固定污染源排污許可分類管理名錄》(2017年版)), the pollutant discharge licenses shall be applied for and obtained within the time limit. The pollutant discharge units established after the time limit shall apply for and obtain the pollutant discharge licenses before starting production facilities or actual pollutants discharge.

Development of real estate projects

Planning of real estate projects

Pursuant to the Regulation on Planning Administration regarding Granting and Transferring Use Right of Urban State-owned Lands (《城市國有土地使用權出讓轉讓規劃管理辦法》), promulgated by the Ministry of Construction on 4 December 1992 and revised on 26 January 2011, an enterprise which has been granted land use rights and obtained the land use right granting contract shall apply for a construction land planning permit (建設用地規劃許可證) with competent planning authorities, and afterwards, such an enterprise can further register its land use rights with the land administration authorities.

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the SCNPC on 28 October 2007 and further amended on 24 April 2015 and 23 April 2019, any construction entity or individual contemplating to build any structure, fixture, road, pipeline or other construction projects shall apply to competent urban and rural planning departments for a planning permit on construction project (建設工程規劃許可證).

Land grants

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) which was promulgated by the SCNPC on 25 June 1986, implemented on 1 January 1987 and further amended on 29 December 1988, 29 August 1998, 28 August 2004 and 26 August 2019, and the Provisional Regulations of the PRC concerning the Assignment and Transfer of the Right to the Use of State-owned Lands in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), a system of assignment and transfer of the right to use State-owned land is adopted. Under this system, the land users shall enter into an assignment contract with the land administration authorities at the municipal or county level. The former shall pay land premium as prescribed in the assignment contract and register with the land administration authorities and apply for a land use rights certificate which is the evidence of acquiring land use rights of a State-owned land.

Construction permits

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the SCNPC on 1 November 1997, implemented on 1 March 1998 and revised on 22 April 2011 and 23 April 2019, and the Administrative Measures on the Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development on 25 June 2014 and implemented on 25 October 2014 and revised on 28 September 2018, after obtaining a planning permit on construction project (建設工程規劃許可證), the construction entity shall apply for the Construction Permit before commencing the construction, provided that the investment amount of the construction project is above RMB300,000 and the construction area of the construction project is above 300 square metres.

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Construction completion filing

In accordance with the Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the Ministry of Housing and Urban-rural Development on 4 April 2000 and amended on 19 October 2009, and the Rules for the Confirmation of the Completion of Building Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by the Ministry of Housing and Urban-rural Development on 2 December 2013, after completion of construction of a project, the construction entity shall undergo inspection and receive approvals from relevant local authorities including planning bureaus, fires authorities and environmental protection authorities.

Labour protection

Labour contract

The PRC Labour Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007 and amended on 28 December 2012, and the Implementation Rule 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 was promulgated on 18 September 2008 by the State Council, set out the regulations on the conclusion, fulfillment, modifications and termination of a labour contract between the employer and the employee. A written labour contract shall be concluded for the establishment of a labour relationship between the employer and the employee. A labour contract shall contain clauses in relation to basic information of the employee and the employer, term of the labour contract, job responsibilities, workplace, working hours, remuneration, social insurance, labour protection, working conditions and any other issue that shall be listed in the labour contract in accordance with the laws. The employer failing to comply with these laws and regulations may be subject to rectification or compensation.

Social insurance

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated by the SCNPC on 28 October 2010 and was amended on 29 December 2018, Interim Regulations on Levying Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated and implemented by the State Council on 22 January 1999 and revised on 24 March 2019, Regulations for Labour Injury Insurance (《工傷保險條例》) issued by the State Council on 27 April 2003 and amended on 20 December 2010, Regulations for Unemployment Insurance (《失業保險條例》) promulgated and implemented by the State Council on 22 January 1999 and Provisional Measures for Maternity of Employees Insurance (《企業職工生育保險試行辦法》) promulgated on 14 December 1994 by the former Ministry of Labour and Social Security (now known as Ministry of Human Resources and Social Security) and implemented on 1 January 1995, any employer shall, within 30 days after its establishment, register with the local social insurance agency. Within 30 days after the date of hiring, any employer shall register for the employee with the local social insurance agency. Employers are required to pay social insurance premiums for their employees on time and in full, including premiums for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity insurance. Under the circumstance where an employer fails to pay social insurance premiums on time and in full, it might be subject to a rectification order by competent authorities and an overdue fine at the rate of 0.05% of the outstanding amount on a daily basis may be imposed from the due date. In addition, if an employer still fails to make such payment in full amount within the prescribed time limit, a fine in the amount of one to three times of the outstanding payment might be imposed by the competent authorities.

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Housing provident fund

According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), which became effective on 3 April 1999 and was amended on 24 March 2002 and 24 March 2019, enterprises in the PRC must register with the housing provident fund management centre within 30 days after establishment, maintain housing provident fund accounts with designated banks for their employees within 30 days after establishment, and deposit into the fund an amount not less than 5% of each employee's average monthly salary in the previous year. If an enterprise fails to file the housing provident fund, the housing provident fund administration centre shall order such an enterprise to pay up the outstanding amount within a prescribed time limit, and if the enterprise still fails to pay up within the foregoing time limit, the housing provident fund administration centre may apply for court enforcement order to execute the outstanding amount.

Prevention and control of occupational diseases

According to the PRC Law on Occupational Disease Prevention (《中華人民共和國職業病防治法》) which came into effect on 1 May 2002 and revised on 31 December 2011, 2 July 2016, 4 November 2017 and 29 December 2018, employers in the PRC must provide workplaces and conditions which conform with the State occupational-health standards and requirements, take appropriate measures to ensure occupational health, formulate well-structured responsibility systems for occupational disease prevention, strengthen the management on the occupational disease prevention, enhance occupational disease prevention standards and take responsibility to deal with the loss resulted from occupational diseases.

Employers engaged in businesses that are likely to cause occupational diseases included in the state catalogue of occupational diseases should register with the competent departments of public health and accept their supervision. For any new construction, extension, reconstruction projects, technical modification projects and technology introduction projects which may give rise to occupational diseases, the entities which are responsible for such projects should submit reports for pre-assessment to the competent department of public health, which, within thirty days after the receipt of the said reports, shall notify its decisions to the said entities in written notices. The expense of the occupational disease prevention facilities for any construction project shall be included in the engineering budget of the construction project, and the occupational disease prevention facilities should be designed, engineered and put into operation concurrently with the main parts of the project. Construction projects with very high occupational disease exposure may not commence until the competent department of public health has certified that the construction project conforms to the state standards and requirements on occupational health. The entity which takes charge of the project should carry out the assessment of the occupational disease prevention measures before the final acceptance of the construction project. No construction project shall be put into operation without having its occupational disease prevention facilities accepted by the competent department of public health upon the acceptance of the construction project.

Taxation

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (the “**EIT Law**”) (《中華人民共和國企業所得稅法》) enacted by the NPC on 16 March 2007, amended by the SCNPC and took into effect on 29 December 2018, a uniform income tax rate of 25% is applied to PRC enterprises, FIEs and foreign enterprises which have set up production and operation facilities in the PRC. The EIT Law provide that the enterprise income tax should be levied at the reduced rate of 15% for “High and New Technology Enterprises” in need of special support by the PRC.

Under the implementation rules of the EIT Law (《中華人民共和國企業所得稅法實施條例》), effective from 1 January 2008 and amended on 23 April 2019, a withholding tax of 10% will be applicable to dividends paid by FIEs to foreign investors, unless otherwise stipulated in tax treaties concluded between Chinese government and other jurisdictions. However, due to the Arrangement between the PRC and 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》) on 21 August 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends received from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. In addition, according to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatment under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》), effective from 1 November 2015 and was partially amended on 15 June 2018, to enjoy the preferential tax treatment under relevant tax treaties, a non-resident enterprise (as defined under the PRC tax laws) shall scrutinise by itself the eligibility to enjoy the preferential tax treatment and apply for approval or file with the competent tax authorities. Without such approval or filing record, the non-resident enterprise shall not enjoy any tax preferential treatment under tax treaties.

In addition, pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the implementation of Dividend Clauses in Tax Treaty (《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》) issued by the State Administration of Taxation (the “**SAT**”) on 20 February 2009, all of the following requirements must be satisfied where a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (i) such a tax resident who obtains dividends should be a company as provided in the tax treaty; (ii) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; and (iii) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

Value-Added Tax

Pursuant to the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) (the “**VAT Interim Regulations**”) which was promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, 26 February 2016 and 19 November 2017, its Implementation Regulations (《中華人民共和國增值稅暫行條例實施細則》) which was last amended on 28 October 2011, and the Notice of the Ministry of Finance and the SAT on Adjusting Value-added Tax Rates (《財務部、稅務總局關於調整增值稅稅率的通知》) which was

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issued on 4 April 2018 and became effective from 1 May 2018, the Value-added Tax (the “VAT”) rate of 16% shall be applicable to taxpayers engaging in the sale or import of goods, provision of labour services, tangible movable property leasing services shall generally be 16%; the VAT rate of 10% shall be applicable to taxpayers providing transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovable, transferring the rights to use lands, or selling or importing goods specified by the VAT Interim Regulations; and the VAT rate of 6% shall be applicable to other modern service industries. Our business shall be subject to VAT with reference to the above rules. Pursuant to the Announcement of the Ministry of Finance, SAT and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) which was issued on 20 March 2019 and became effective on 1 April 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%; and the tax rate of 10% applicable to such taxpayer shall be adjusted to 9%.

VAT export refund

According to the Administrative Measures for Tax Rebate (Exemption) of Exported Goods (Trial Implementation) (《出口貨物退(免)稅管理辦法(試行)》), which was promulgated by the SAT on 16 March 2005 and became effective on 1 May 2005 and was partially amended on 15 June 2018, unless otherwise prescribed, upon declaration of export and financial accounting for sale, the VAT in relation to the goods exported by export agents can be rebated or exempted upon approval by competent tax authorities.

Urban Maintenance and Construction Tax

Pursuant to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) which was issued on 18 October 2010 and effective on 1 December 2010, the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》), came into effect on 1 January 1985 and amended on 8 January 2011, and the Interim Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》), amended on 8 January 2011, the collection of urban maintenance and construction tax and educational surcharges shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

According to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax, any enterprise or individual who is liable to pay consumption tax, value-added tax and business tax shall also pay urban maintenance and construction tax. The amount of consumption tax, value-added tax and business tax actually paid by a taxpayer shall be the taxation basis of urban maintenance construction tax. The urban maintenance construction tax shall be paid simultaneously when consumption tax, VAT and business tax are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7% for a taxpayer domiciles in a city, 5% for a taxpayer domiciles in a county or a town, and 1% in other places.

REGULATORY OVERVIEW

Educational Surcharges

According to The Interim Provisions on the Collection of Educational Surcharges promulgated in 1986 and revised in 1990, 2005 and 2011, any enterprise or individual who is liable to pay consumption tax, VAT and business tax shall also pay educational surcharges. The amount of consumption tax, VAT and business tax actually paid by a taxpayer shall be the taxation basis of educational surcharges, the tax rate of which is 3%. Educational surcharges shall be paid simultaneously when consumption tax, VAT and business tax are paid. The collection of education surcharges shall follow relevant regulations concerning consumption tax, VAT and business tax.

Transfer Pricing

According to the EIT Law, the Implementation Rules on the Enterprise Income Tax of the PRC (《中華人民共和國企業所得稅法實施條例》) and the Implementing Measures for Special Tax Adjustment (Trial) (《特別納稅調整實施辦法(試行)》) which was promulgated on 8 January 2009 retroactively with effect from 1 January 2008 and was last amended on 15 June 2018 and the Measures for the Administration of Adjustment under Special Tax Investigation and Mutual Consultation Procedures (《特別納稅調查調整及相互協商程序管理辦法》) which was promulgated on 17 March 2017 and was last amended on 15 June 2018, business transactions between an enterprise and its related parties, shall follow the arm's length principle. In case of a failure to follow such principle which results in a reduction of taxable income, the PRC tax authorities will have the right to make reasonable adjustments. Business transactions between related parties may be subject to tax adjustments by the PRC tax authorities within ten years after the taxable year when the business transactions are conducted. If the relevant PRC tax authorities determine to adjust the taxable income, where an enterprise pays taxes before or after the delivery of the special tax investigation and adjustment notice, the related interest accrued shall be calculated from 1 June of the year subsequent to the applicable tax year to the date of payment of the additional taxes. If an enterprise fails to pay the tax payment within the time limit specified in the special tax investigation and adjustment notice, it shall, from the next day following the expiration of the time limit for making up the tax payment, be imposed a fine for delaying payment in accordance with the relevant provisions of the tax administration law and its implementing rules. No interest will be charged during the collection of the fine for delaying payment. The interest shall be computed at the RMB loan benchmark interest rate announced by the People's Bank of China in the tax year in respect of the additional tax amount for the same period as the tax recovery period, plus five percentage points. The five percentage points could be waived if the taxpayer submits relevant materials (including the applicable contemporaneous documents) to the relevant PRC tax authorities.

Pursuant to the Announcement of the State Administration of Taxation on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation (《國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告》) issued and became effective on 29 June 2016, the reporting obligation of related-party transaction is further enhanced. Resident enterprises implementing tax assessment based on examination of accounts shall declare related party transactions with their related parties when submitting annual EIT tax returns to the tax authorities. An enterprise shall, pursuant to the provisions of Article 114 of the Implementation Regulations for the EIT Law, prepare the relevant information in connection with its related party transactions according to the tax year and provide the relevant information of the related transactions as required by the tax authorities. The relevant information of the related transactions includes subject document, local document and special matter document.

REGULATORY OVERVIEW

Foreign currency exchange

Foreign exchange administration

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996 and was last amended on 5 August 2008. Under these rules, RMB is generally freely convertible into other currencies for payments of current account items, such as trade and service-related payments and payment of interests and dividends, but it is not freely convertible for payments of capital account items, such as direct equity investment, loan, and investment in derivative products or securities outside the PRC, unless prior approval from State Administration of Foreign Exchange (“SAFE”) or its local offices has been obtained.

Foreign exchange registration for round-trip investments by domestic residents

On 4 July 2014, SAFE issued the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Roundtrip Investments conducted by Domestic Residents through Overseas 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》) (the “SAFE Circular No. 37”) which became effective on 4 July 2014.

Under SAFE Circular No. 37, both domestic institutions and individual residents of the PRC are required to register with SAFE for their overseas investments prior to their establishment or control of an offshore entity for the purpose of offshore investment and financing involving onshore/offshore assets or equity interests legally held by them. Additionally, they shall make registration with SAFE when changes with regard to their capital structure occur, and such changes encapsulate alterations in basic information of the offshore entity, capital increase or reduction by domestic residents, equity transfer or swap, merger or division, etc.

Pursuant to SAFE Circular No. 37, without completing such prerequisite registration procedures, domestic residents cannot acquire other approval or registration documents required for their cross-border capital flow, such as making direct investments, releasing or repaying shareholder loans, distributing dividends, or receiving equity sale proceeds, or otherwise, warnings, fines, orders to rectify or even criminal punishments may be imposed upon the them.

Rules on simplifying and improving foreign exchange administration policies

On 13 February 2015, SAFE published the Circular on Simplifying and Improving the Foreign Currency Management Policy on 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》) (the “SAFE Circular No. 13”) which became effective on 1 June 2015. Pursuant to the SAFE Circular No. 13, SAFE’s administrative approvals with respect to foreign exchange registration of domestic direct investments and overseas direct investments are not required. Instead, PRC banks assume the responsibility of foreign exchange registration in accordance with the Operating Guidelines for Foreign Exchange Business in Direct Investment (《直接投資外匯業務操作指引》) annexed to the SAFE Circular No. 13.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

Our Company was incorporated on 12 April 2018 in the Cayman Islands and, as part of our Reorganisation, became the holding company of our Group with our business being conducted through our subsidiaries. Over the course of our business history, our shareholding structure has remained stable with the control under Mr. Ernest Chen, our chief executive officer, Executive Director and the chairman of the Board, over our operating subsidiaries.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued under the Share Option Scheme), our Company will be owned as to 73.45% by Sanvo Fine Chemicals. Sanvo Fine Chemicals is wholly-owned by Mr. Ernest Chen and Mr. Ernest Chen is therefore deemed to be interested in the Shares held by Sanvo Fine Chemicals. Mr. Ernest Chen and Sanvo Fine Chemicals are therefore regarded as our Controlling Shareholders under the Listing Rules.

OUR HISTORY AND MAJOR BUSINESS MILESTONES

The history of our Group can be traced back to 2002 when our founder, Mr. Ernest Chen, our Controlling Shareholder, chief executive officer, Executive Director and the chairman of the Board, established one of our major operating subsidiaries, Guangdong Sanvo, which focused on the manufacturing and sale of, among other things, acrylic varnish, acrylic paint thinner, multipurpose adhesive, and water-based paint.

Since then, under the leadership of Mr. Ernest Chen together with his brother, Mr. Leo Chen, an Executive Director, our Group has undergone business development and has become an established industrial chemical products manufacturer based in the PRC. We focus principally on the manufacture, research and development, and sale of a wide portfolio of fine industrial chemical products that can be applied in a range of situations, including as hardware and building materials and towards automotive maintenance. Our products can be broadly categorised into the following segments: (i) aerosols; (ii) organic silicone adhesives; (iii) synthetic adhesives; and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints.

We have two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under our brands of “SANVO 三和” and “FullTeam 芙田” (of which the sales of our “SANVO 三和” branded products accounted for over 98% of our non-OEM sales throughout the Track Record Period); and (ii) on an OEM basis. During the Track Record Period, the revenue derived from the sale of our OEM products accounted for approximately 5.8%, 7.7%, 6.9% and 4.1% of our total revenue, respectively.

Mr. Ernest Chen provided the initial funds for establishment of our business using his own financial resources.

Set out below are the major milestones of our business development:

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Business development milestones
2002	The business of our Group was established in the PRC through Guangdong Sanvo.
2002	We commenced the manufacture and sale of fine industrial chemical products.
2003	We created our proprietary brand, namely “SANVO 三和”, and engaged in the manufacture and sale of fine industrial chemical products under such brand. Shunde Sanvo was acquired by our Group.
2012	Our Executive Directors, Mr. Ernest Chen and Mr. Leo Chen, acquired Guangdong Fuvo and the brand of “FullTeam 芙田” and thereafter commenced to market our fine industrial chemical products under the brand of “FullTeam 芙田”
2013	We were granted the National Industrial Product Manufacturing Licence by the Bureau of Quality and Technology Supervision of Guangdong Province. Zhongshan Minhe was established in the PRC.
2014	We were first granted the Operating Licence for Dangerous Chemicals by the Zhongshan City Administration Bureau of Production Safety. Guangdong Fullteam was established in the PRC.
2015	We were accredited with ISO9001:2008 and ISO14001:2004 qualifications for our quality and environmental management system by NSF International Strategic Registrations.
2016	We were granted the Dangerous Chemicals Registration Certificate by the Dangerous Chemicals Registration Office of Guangdong Province.
2016	We were granted Guangdong Province Hi-tech Product Certificates for various types of our fine industrial chemical products by the Guangdong Hi-tech Enterprise Association.
2017	According to Frost & Sullivan, we ranked second amongst spray paint (sub-category product of aerosols) manufacturers in the PRC with an approximate market share of 2.7% in terms of sales value of spray paint in 2017.
2018	In line with our business needs and to increase our production capacity, Sanvo Holdings was acquired by us from LKD HK, an independent third party.
2019	We substantially completed the construction works relating to phase one of the construction plans with respect to the MV Production Site.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR CORPORATE HISTORY

1. Our Company

On 12 April 2018, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of par value of HK\$0.01 each. On the same date, the one issued Share in the capital of our Company was transferred to Sanvo Fine Chemicals at par value. Further, on the same date, 95 Shares in the share capital of our Company were subscribed for and allotted to Sanvo Fine Chemicals at par value and four Shares in the share capital of our Company were subscribed for and allotted to Mr. Victor Heng, our Pre-IPO Investor, at a consideration of RMB12,560,000. Upon such transfer and allotment, our Company was owned as to 96% and 4%, respectively, by Sanvo Fine Chemicals and Mr. Victor Heng.

For details of further changes in the shareholding structure of our Company since its incorporation, please refer to the subsection headed “Reorganisation” in this section of the prospectus.

2. The Operating Subsidiaries

Set out below are the information of our operating subsidiaries:

Guangdong Sanvo

Guangdong Sanvo has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 9 April 2002 by Mr. Ernest Chen and Mr. Chen Ludan, an independent third party. It had a registered capital of RMB800,000, in which 90.0% was contributed by Mr. Ernest Chen and 10.0% was contributed by Mr. Chen Ludan. On 26 September 2008, Mr. Ernest Chen made a capital contribution of RMB580,000 pursuant to which the registered share capital of Guangdong Sanvo increased to RMB1.38 million. Mr. Ernest Chen and Mr. Chen Ludan held approximately 94.2% and 5.8% equity interest, respectively, in Guangdong Sanvo following such capital contribution.

On 21 April 2011, Mr. Chen Ludan transferred his entire interest in Guangdong Sanvo to Ms. Liang Yinqi at a consideration of RMB80,000, which was the same amount contributed by Mr. Chen Ludan towards the registered capital of Guangdong Sanvo, due to commercial consideration and the financial needs of Mr. Chen Ludan at the relevant time. Ms. Liang Yinqi is the sister-in-law of Mr. Ernest Chen. As part of the Reorganisation, on 15 May 2018, Mr. Ernest Chen and Ms. Liang Yinqi transferred 93.2% and 5.8% equity interest in Guangdong Sanvo to Guangdong Fuvo, respectively. The relevant consideration was settled on 22 October 2018. Subsequent to such transfer, Guangdong Sanvo was owned as to 99.0% by Guangdong Fuvo and 1.0% by Mr. Ernest Chen respectively. On 31 August 2018, Mr. Ernest Chen transferred the remaining 1% interest in Guangdong Sanvo to Guangdong Fuvo at a consideration of RMB68,800 which was determined based on the then unaudited net asset value of Guangdong Sanvo as at 31 December 2017 and the deduction of a dividend payment value of approximately RMB6,880,000. The relevant consideration was settled on 28 October 2018. Subsequent to such transfer, Guangdong Sanvo was wholly-owned by Guangdong Fuvo.

The principal business activities of Guangdong Sanvo include the manufacturing and sale of, among other things, acrylic varnish, acrylic paint thinner, multipurpose adhesive, and water-based paint.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Shunde Sanvo

Shunde Sanvo has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 20 March 2003. Mr. Ernest Chen acquired Shunde Sanvo from its then shareholders on 12 April 2007 and Mr. Leo Chen acquired Shunde Sanvo from its then shareholders on 24 April 2007, at a consideration of RMB450,000 and RMB50,000, respectively, which were the same amount contributed towards the registered capital of Shunde Sanvo by its original shareholders. After the said transfers, Shunde Sanvo was owned as to 90.0% by Mr. Ernest Chen and 10.0% by Mr. Leo Chen, respectively. As part of the Reorganisation, on 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their entire equity interest in Shunde Sanvo to Guangdong Sanvo at a respective consideration of RMB745,400 and RMB82,800, which was determined based on the then unaudited net asset value of Shunde Sanvo of RMB828,208 as at 31 December 2017. The relevant consideration was fully settled on 15 October 2018. Subsequent to such transfer, Shunde Sanvo became wholly-owned by Guangdong Sanvo. Shunde Sanvo has a registered capital of RMB500,000.

The principal business activities of Shunde Sanvo include the manufacturing and sale of, among other things, lubricants, aerosol, and water-based paint.

Guangdong Fuvo

Guangdong Fuvo has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 28 December 2001. Mr. Ernest Chen and Mr. Leo Chen acquired Guangdong Fuvo from its then shareholders on 19 January 2012 at a consideration of RMB720,000 and RMB80,000, respectively. After the said transfers, Guangdong Fuvo was owned as to 90.0% by Mr. Ernest Chen and 10.0% by Mr. Leo Chen. On 19 March 2015, the registered capital of Guangdong Fuvo was subsequently changed to RMB1.38 million in which approximately 52.2% and approximately 5.8% was contributed by Mr. Ernest Chen and Mr. Leo Chen, respectively, and they agreed for the remainder to be contributed on or before 31 December 2015. On 26 March 2015, Mr. Leo Chen transferred his entire equity interest in Guangdong Fuvo to Mr. Ernest Chen at a consideration of RMB138,000. Subsequent to such transfer, Guangdong Fuvo was wholly-owned by Mr. Ernest Chen. On 27 March 2015, Mr. Ernest Chen contributed the remainder of the registered capital of Guangdong Fuvo in full. Upon completion of the Reorganisation, Guangdong Fuvo was owned as to 10% by OWHK and 90% by American Sanvo.

The principal business activities of Guangdong Fuvo includes the manufacturing, sale and research of, among other things, water-based paint, polyester resin varnish, adhesives, aerosol, and lubricants.

Zhongshan Minhe

Zhongshan Minhe has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 24 January 2013 by Mr. Ernest Chen and Mr. Leo Chen with a registered capital of RMB1.03 million, in which 90.0% was contributed by Mr. Ernest Chen and 10.0% was contributed by Mr. Leo Chen, respectively. As part of the Reorganisation, on 5 July 2018, Mr. Leo Chen transferred his entire equity interest in Zhongshan Minhe to OWHK at a consideration of RMB390,200, which was determined based on the valuation report of Zhongshan Minhe as at 30 April 2018. The relevant consideration was settled on 19 July 2018. Subsequent to such transfer, Zhongshan Minhe was owned as to 90.0% by Mr. Ernest Chen and 10.0% by OWHK, respectively. Upon completion of the Reorganisation, Zhongshan Minhe was owned as to 10% by OWHK and 90% by American Sanvo.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The principal business activities of Zhongshan Minhe include the manufacturing and sale of, among other things, silicone glue, water-based paint, lubricant, and sealing material.

Guangdong Fullteam

Guangdong Fullteam has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 8 December 2014 by Mr. Ernest Chen and Mr. Leo Chen. It had a registered capital of RMB1.03 million, in which 90% is to be contributed by Mr. Ernest Chen and 10% is to be contributed by Mr. Leo Chen on or before 20 November 2024. On 25 November 2016, the registered capital of Guangdong Fullteam was increased to RMB10.0 million and the unpaid capital shall be settled on or before 30 December 2035. As part of the Reorganisation, on 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred 89.0% and 10.0% equity interest in Guangdong Fullteam to Guangdong Fuvo at a consideration of approximately RMB1.0 million and RMB113,000, which was determined based on the then unaudited net asset value of Guangdong Fullteam as at 31 December 2017, respectively. The relevant consideration was settled on 15 October 2018. Subsequent to such transfer, Guangdong Fullteam was owned as to 99.0% by Guangdong Fuvo and 1.0% by Mr. Ernest Chen, respectively. Further, on 16 July 2018, Mr. Ernest Chen transferred his remaining 1% equity interest in Guangdong Fullteam to Guangdong Fuvo at a consideration of RMB11,300, which was determined based on the then unaudited net asset value of Guangdong Fullteam of RMB1,130,000 as at 31 December 2017. The relevant consideration was settled on 17 October 2018. After the said transfer, Guangdong Fullteam was wholly-owned by Guangdong Fuvo.

The principal business activities of Guangdong Fullteam include the manufacturing and sale of, among other things, water-based paint, lubricants, silicone glue, and brake fluid.

Sanvo Holdings

Sanvo Holdings has been an indirect wholly-owned subsidiary of our Company since the completion of the Reorganisation. It was established as a company with limited liability in the PRC on 2 June 2000. Immediately prior to our acquisition of Sanvo Holdings, it was wholly-owned by LKD HK, an independent third party, and had a registered capital of approximately HK\$23.5 million. With a view to develop and enter into the organic silicone adhesives market and expand our production capacity, on 27 April 2018, Guangdong Sanvo acquired the entire equity interest in Sanvo Holdings from LKD HK at a total consideration of approximately RMB51.3 million, which was determined based on arms-length negotiation. The relevant consideration was settled on 7 November 2018. Subsequent to such transfer, Sanvo Holdings was wholly-owned by Guangdong Sanvo.

The principal business activities of Sanvo Holdings include the research and manufacturing of, among other things, water-based paint, lubricants, rust remover, and instant adhesive.

For further details of the commercial reasons and consideration for our acquisition of Sanvo Holdings, please refer to the subsection headed “Business — Our sales network — Direct sales” in this prospectus.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Deregistration of Zhongshan Fullteam Chemical Co., Ltd.

Zhongshan Fullteam Chemical Co., Ltd. was incorporated as a company with limited liability in the PRC on 6 February 2018 by Mr. Ernest Chen and Mr. Leo Chen with a registered capital of RMB5.04 million, in which 90.0% was agreed to be contributed by Mr. Ernest Chen and 10.0% was agreed to be contributed by Mr. Leo Chen, respectively before 28 January 2018. On 11 May 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their entire equity interest in Zhongshan Fullteam Chemical Co., Ltd. to Guangdong Fullteam at a nominal consideration of RMB1.0. Subsequent to such transfer, Zhongshan Fullteam Chemical Co., Ltd. became wholly owned by Guangdong Fullteam. The registered business scope of Zhongshan Fullteam Chemical Co., Ltd. includes production, sales and research of among other things, water based paint and water based high performance resin.

From the date of its incorporation and up to the date of deregistration, Zhongshan Fullteam Chemical Co., Ltd. did not commence any business operation and remained dormant at all material times. Zhongshan Fullteam Chemical Co., Ltd. was subsequently deregistered in accordance with the PRC Laws in March 2019. Mr. Ernest Chen and Mr. Leo Chen confirmed that there was no wrongful act on their part leading to the deregistration and such deregistration did not result in any liability or obligation being imposed against them whereas Zhongshan Fullteam Chemical Co., Ltd. was solvent at the time of deregistration.

PRE-IPO INVESTMENT

Investment by Mr. Victor Heng

On 12 April 2018, pursuant to an agreement relating to the Pre-IPO Investment of even date, our Company allotted and issued 4 Shares to Mr. Victor Heng at a consideration of RMB12,560,000, which was fully settled by Mr. Victor Heng on 20 July 2018. Such consideration was settled by Mr. Victor Heng with his own financial resources previously generated from his business. The consideration was determined after arm's length negotiations between the parties with reference to the market comparable valuation and the net asset value of our Group.

On 6 June 2018, OWHK, a company incorporated in Hong Kong and indirectly wholly-owned by Mr. Victor Heng, entered into an equity transfer agreement with Mr. Ernest Chen, pursuant to which, Mr. Ernest Chen agreed to transfer 10% of his equity interest in Guangdong Fuvo to OWHK at a consideration of RMB277,000. The consideration was determined after arm's length negotiations between the parties with reference to the valuation report of Guangdong Fuvo as at 30 April 2018. Such consideration was settled on 18 July 2018. As advised by our PRC Legal Adviser, the aforesaid equity transfer was approved by the competent PRC Government authority on 26 June 2018 and registered by the competent PRC Government authority on 26 June 2018. Following the completion of the aforesaid equity transfer, Guangdong Fuvo became a sino-foreign joint venture and was owned as to 90% by Mr. Ernest Chen and 10% by OWHK.

On 6 June 2018, OWHK, a company incorporated in Hong Kong and indirectly wholly-owned by Mr. Victor Heng, entered into an equity transfer agreement with Mr. Leo Chen, pursuant to which, Mr. Leo Chen agreed to transfer 10% of his equity interest in Zhongshan Minhe to OWHK at a consideration of RMB390,200. The consideration was determined after arm's length negotiations between the parties with reference to the valuation report of Zhongshan Minhe as at 30 April 2018. Such consideration was settled on 19 July 2018. As advised by our PRC Legal Adviser, the aforesaid equity transfer was approved by the competent PRC Government authority on 5 July 2018 and registered by the competent PRC Government authority on 5 July 2018. Following the completion of the aforesaid equity transfer, Zhongshan Minhe became a sino-foreign joint venture and was owned as to 90% by Mr. Ernest Chen and 10% by OWHK.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 23 July 2018, as part of the Reorganisation, our Company agreed to acquire the entire equity interest in Olive Woods from Mr. Victor Heng at the consideration of RMB1,227,200 and the consideration was settled on 23 July 2018.

After taking into account of the aforementioned transactions pursuant to the Reorganisation, the actual amount of consideration paid by Mr. Victor Heng for the Pre-IPO Investment equals to RMB12,000,000.

Details of the Pre-IPO Investment are summarised below:

Name of investor	Mr. Victor Heng
Date of the agreement in relation to the Pre-IPO Investment	12 April 2018
Amount of consideration paid	RMB12,000,000 (equivalent to approximately HK\$14,004,458.1)
Payment date of the consideration	20 July 2018
Effective cost per Share paid	approximately HK\$1.04
Discount to the Offer Price	approximately 20.2% (<i>note</i>)
Number of Shares held upon completion of Reorganisation	13,500,000 Shares upon Listing (<i>note</i>)
Use of net proceeds and its utilisation by our Company	The proceeds from the Pre-IPO Investment have been applied by us for general working purposes and payment of consideration to Mr. Ernest Chen for acquisition of 90% of the equity interest in each of Guangdong Fuvo and Zhongshan Minhe as set out in the subsection headed “Reorganisation” in this section. As at the Latest Practicable Date, the proceeds from the Pre-IPO Investment have been fully utilized.
Shareholding in our Company upon Listing (taking into no account any option which may be granted under the Share Option Scheme)	approximately 3.16%
Lock-up period	Nil
Any special rights enjoyed	Nil

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Strategic benefits of the Pre-IPO
Investor brought to our Company

Strengthened capital; utilising Mr. Victor Heng's experience in the corporate field to enhance and monitor corporate governance from the perspective of a minority shareholder through communication with our Company and our Directors via attending general meetings of shareholders; introduction of knowledge and experience in management, operations and development of business strategy.

Note: For illustration purpose only, the calculation is based on mid-point of our indicative price range for the Share Offer and assuming completion of the Capitalisation Issue and the Share Offer but taking no account any option to be granted under the Share Option Scheme.

Information of Mr. Victor Heng

Mr. Victor Heng is an individual investor. He is currently the director of Morison Heng CPA Limited. He holds a Bachelor of Engineering degree in Electronic Engineering from University of Warwick in the United Kingdom and a Master of Science degree in Computer Science from University of London – Imperial College of Science, Technology and Medicine. He is a fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Mr. Victor Heng currently serves as an independent non-executive director of CIMC-TianDa Holdings Company Limited (stock code: 445), Lee & Man Chemical Company Limited (stock code: 746), Matrix Holdings Limited (stock code: 1005), Best Food Holding Company Limited (stock code: 1488) and SCUD Group Limited (stock code: 1399) which are listed on the Main Board of the Stock Exchange. He also currently serves as the company secretary of China Life Insurance Company Limited (stock code: 2628) which is listed on the Main Board of the Stock Exchange.

We acquainted with Mr. Victor Heng through a friend of Mr. Ernest Chen. To the best knowledge and belief of our Directors and having made all reasonable enquiries, Mr. Victor Heng decided to invest in our Group in view of the prospects of our business growth and did not have any past or present relationships (including, without limitation, family, trust, business, employment relationships) or any agreements, arrangements or understanding with our Company, our subsidiaries, Shareholders, Directors or senior management and any of their respective close associates.

Other than his shareholding interest in our Company as disclosed in this prospectus, Mr. Victor Heng was an independent third party as at the Latest Practicable Date.

Public Float

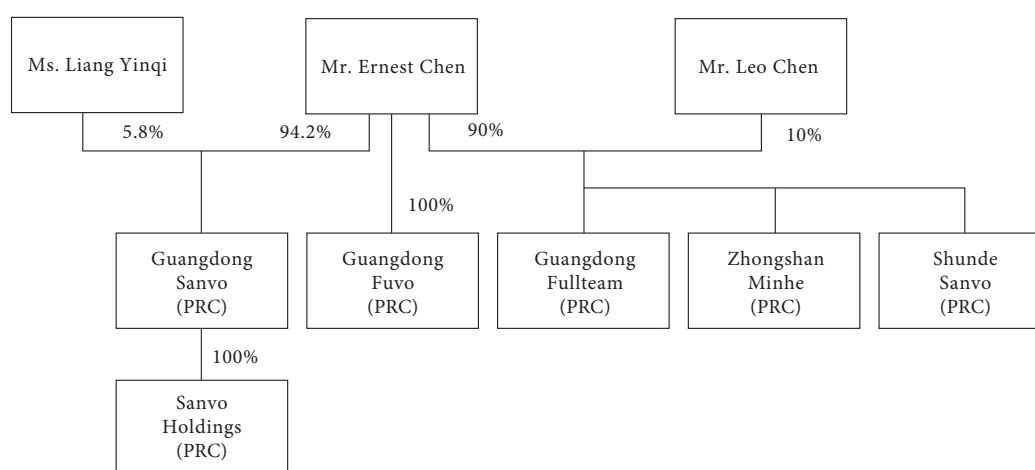
As Mr. Victor Heng will hold less than 10% of the total issued share capital of our Company immediately following completion of the Capitalisation Issue and the Share Offer, Mr. Victor Heng will not be considered as a substantial shareholder of our Company upon completion of the Capitalisation Issue and the Share Offer. Accordingly, the Shares held by Mr. Victor Heng shall be considered as part of the public float for the purpose of Rule 8.08 of the Listing Rules.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Guidance Letters HKEx-GL29-12 and HKEx-GL43-12 issued by the Stock Exchange as (i) the consideration payable by Mr. Victor Heng under the Pre-IPO Investment was fully settled on 20 July 2018, which was more than 28 clear days prior to the date of the first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) no special rights were granted to the Pre-IPO Investor that will survive after the Listing in respect of the Pre-IPO Investment. The “Guidance on Pre-IPO Investment in Convertible Instruments” (HKEx-GL44-12) is not applicable to the Pre-IPO Investment as no convertible instrument was issued.

REORGANISATION

Set out below is the shareholding and corporate structure of our Group immediately prior to the implementation of the Reorganisation.



In order to prepare for the Listing, our Company underwent the Reorganisation which involved the following steps:

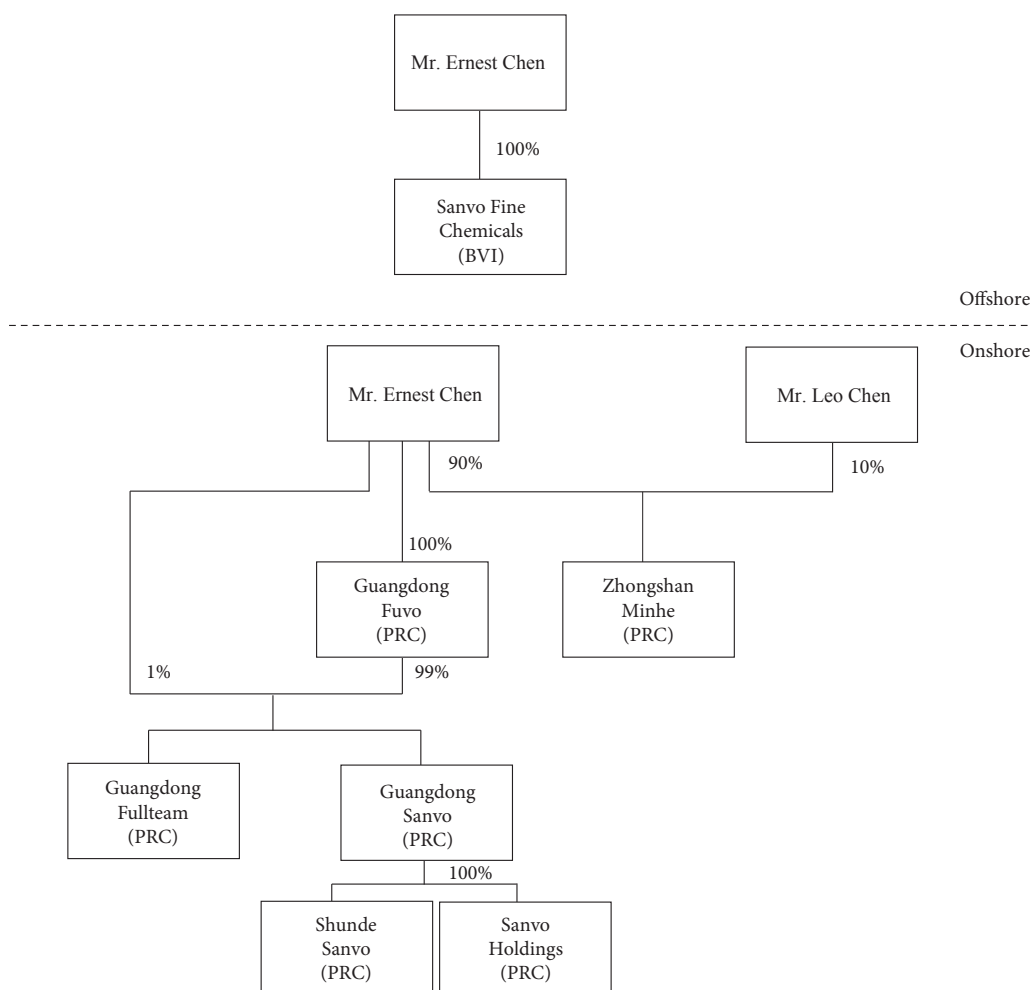
1. On 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their 89% and 10% equity interest in Guangdong Fullteam to Guangdong Fuvo, respectively, at a consideration of RMB1,005,700 and RMB113,000, which was determined based on the then unaudited net asset value of Guangdong Fullteam of RMB1,130,000 as at 31 December 2017. The relevant consideration was settled on 15 October 2018. Subsequent to such transfer, Guangdong Fullteam was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.
2. On 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their 90% and 10% equity interest in Shunde Sanvo to Guangdong Sanvo, respectively, at a consideration of RMB745,400 and RMB82,800, which was determined based on the then unaudited net asset value of Shunde Sanvo of RMB828,208 as at 31 December 2017. The relevant consideration was settled on 15 October 2018. Subsequent to such transfer, Shunde Sanvo was wholly-owned by Guangdong Sanvo.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

3. On 15 May 2018, Mr. Ernest Chen and Ms. Liang Yinqi transferred their 93.2% and 5.8% equity interest in Guangdong Sanvo to Guangdong Fuvo, respectively, at a consideration of approximately RMB6.42 million and RMB399,300, which was determined based on the then unaudited net asset value of Guangdong Sanvo as at 31 December 2017 and the deduction of a dividend payment value of approximately RMB6,880,000. The relevant consideration was settled on 22 October 2018. Subsequent to such transfer, Guangdong Sanvo was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.

4. On 16 April 2015, Sanvo Fine Chemicals was incorporated as a company with limited liability under the laws of BVI and is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1.00 each. The principal business activity of Sanvo Fine Chemicals is investment holding. On 16 April 2015, one share in Sanvo Fine Chemicals was allotted and issued to Mr. Ernest Chen at par value. After such allotment, Sanvo Fine Chemicals was wholly-owned by Mr. Ernest Chen.

Our corporate structure after the completion of the steps above is as follows:

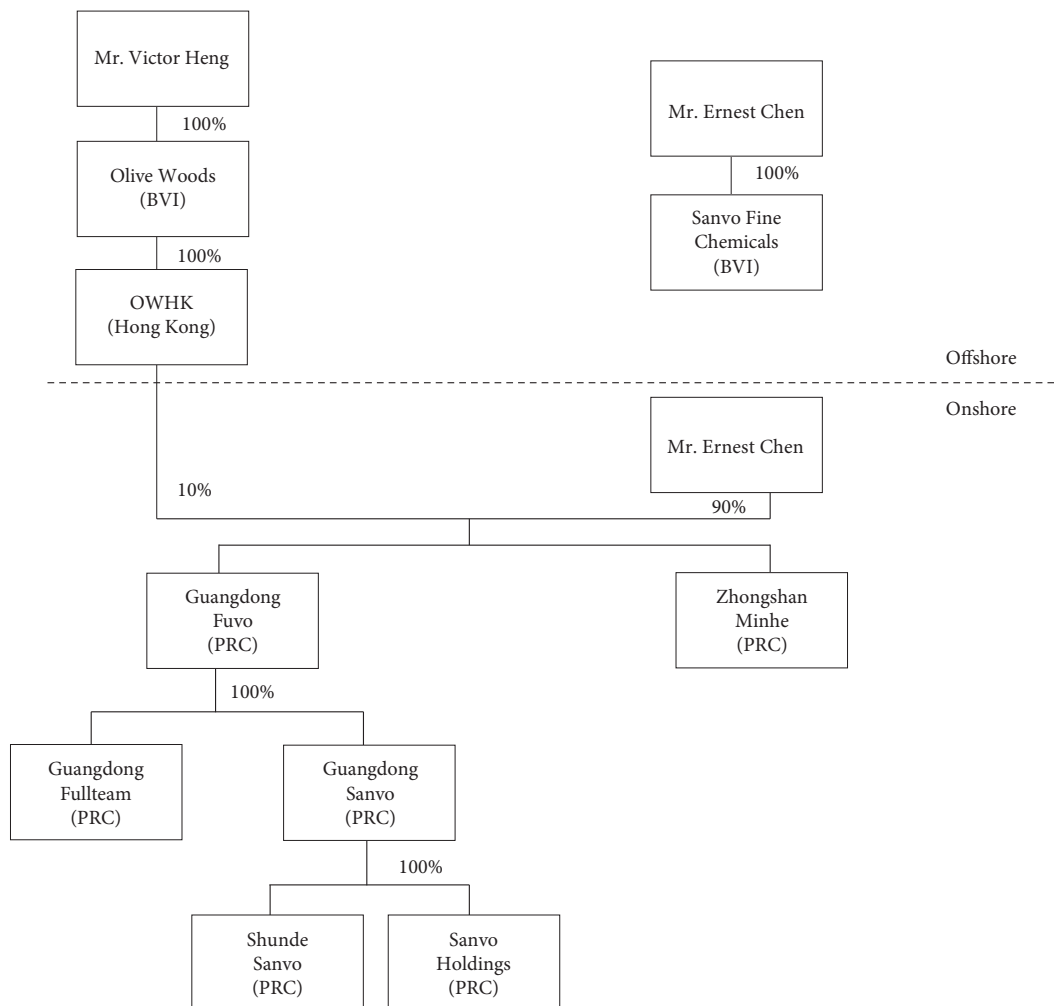


HISTORY, REORGANISATION AND CORPORATE STRUCTURE

5. On 12 December 2017, Olive Woods was incorporated as a company with limited liability under the laws of BVI and is authorised to issue a maximum of 50,000 shares of a single class each with par value of US\$1.00. The principal business activity of Olive Woods is investment holding. On 20 December 2017, one share in Olive Woods was allotted and issued to Mr. Victor Heng at par value. After such allotment, Olive Woods was wholly-owned by Mr. Victor Heng.
6. On 29 December 2017, OWHK was incorporated as a limited liability company under the laws of Hong Kong. The principal business activity of OWHK is investment holding. On 29 December 2017, one share in OWHK was allotted and issued to Olive Woods. After such allotment, OWHK was wholly-owned by Olive Woods.
7. On 26 June 2018, Mr. Ernest Chen transferred his 10% equity interest in Guangdong Fuvo to OWHK at a consideration of RMB277,000, which was determined based on the valuation of Guangdong Fuvo as at 30 April 2018. The relevant consideration was settled on 18 July 2018. Subsequent to such transfer, Guangdong Fuvo was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Guangdong Fuvo became a sino-foreign joint venture enterprise.
8. On 5 July 2018, Mr. Leo Chen transferred his 10% equity interest in Zhongshan Minhe to OWHK at a consideration of RMB390,200, which was determined based on the valuation report of Zhongshan Minhe as at 30 April 2018. The relevant consideration was settled on 19 July 2018. Subsequent to such transfer, Zhongshan Minhe was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Zhongshan Minhe became a sino-foreign joint venture enterprise.
9. On 16 July 2018, Mr. Ernest Chen transferred his remaining 1% equity interest in Guangdong Fullteam to Guangdong Fuvo at a consideration of RMB11,300, which was determined based on the then unaudited net asset value of Guangdong Fullteam of RMB1,113,000 as at 31 December 2017. The relevant consideration was settled on 17 October 2018. After the said transfer, Guangdong Fullteam was wholly-owned by Guangdong Fuvo.
10. On 31 August 2018, Mr. Ernest Chen transferred the remaining 1% equity interest in Guangdong Sanvo to Guangdong Fuvo at a consideration of RMB68,800 which was determined based on the then unaudited net asset value of Guangdong Sanvo as at 31 December 2017 and the deduction of a dividend payment value of approximately RMB6,880,000. The relevant consideration was settled on 22 October 2018. Subsequent to such transfer, Guangdong Sanvo was wholly-owned by Guangdong Fuvo.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our corporate structure after the completion of the steps above are as follows:



11. On 12 April 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares of par value of HK\$0.01 each. At the time of the incorporation, Reid Services Limited subscribed for one Share in the capital of our Company. On the same date, the said issued one Share in the capital of our Company was transferred to Sanvo Fine Chemicals at par value. Further, on the same date, 95 Shares and four Shares in the share capital of our Company were subscribed for and allotted to Sanvo Fine Chemicals and Mr. Victor Heng at par value and at a consideration of RMB12,560,000, respectively. Upon such transfer and allotment, our Company was owned as to 96% and 4% respectively by Sanvo Fine Chemicals and Mr. Victor Heng.
12. On 25 April 2018, Integrity Knights was incorporated as a company with limited liability under the laws of BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 par value each of a single class. The principal business activity of Integrity Knights is investment holding. On 25 April 2018, 100 shares in Integrity Knights were allotted and issued to our Company at par value. After such allotment, Integrity Knights was wholly-owned by our Company.

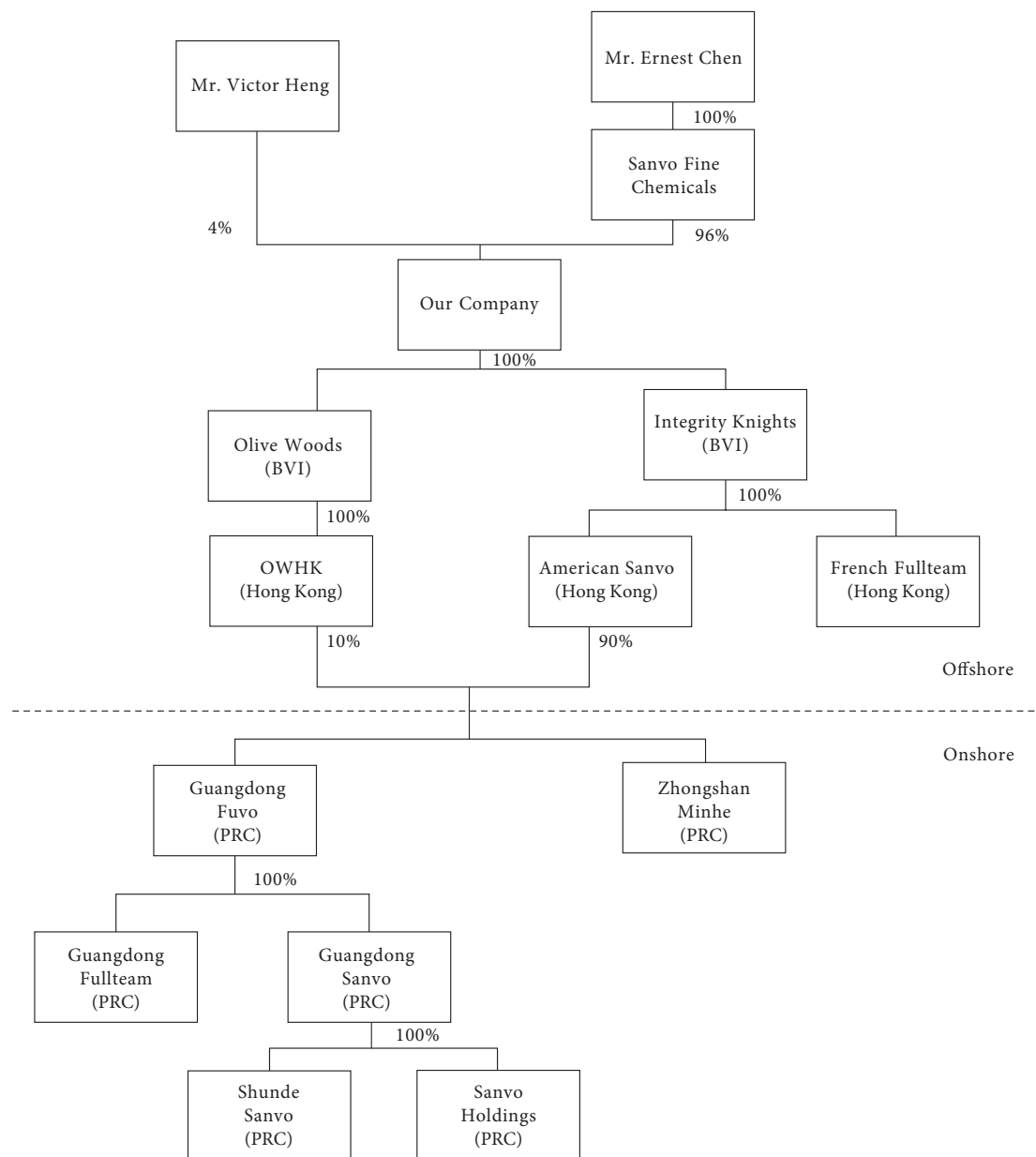
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

13. On 15 May 2018, American Sanvo was incorporated as a limited liability company under the laws of Hong Kong. The principal business activity of American Sanvo covers the trading business regarding the sale of fine industrial chemical products on an OEM basis. For further details, please refer to the subsection headed “Business — Trading company and OEM sales” in this prospectus. On the same day, one share in American Sanvo was allotted and issued to Integrity Knights. After such allotment, American Sanvo was wholly-owned by Integrity Knights.
14. On 25 May 2018, French Fullteam was incorporated as a limited liability company under the laws of Hong Kong. The principal business activity of French Fullteam is investment holding. On the same day, one share in French Fullteam was allotted and issued to Integrity Knights. After such allotment, French Fullteam was wholly-owned by Integrity Knights.
15. On 23 July 2018, Mr. Victor Heng transferred his entire interest in Olive Woods to our Company at a consideration of RMB1,277,200, which was determined after arm’s length negotiation between the parties and as part of the arrangement under the Pre-IPO Investment by Mr. Victor Heng. The relevant consideration was settled on 23 July 2018. Subsequent to such transfer, Olive Woods was wholly-owned by our Company.
16. On 10 August 2018 and 7 August 2018 respectively, as part of the Reorganisation, Mr. Ernest Chen transferred his 90% equity interest in each of Guangdong Fuvo and Zhongshan Minhe to American Sanvo at an aggregate consideration of RMB11.3 million, which was determined with reference to the valuation reports of Guangdong Fuvo and Zhongshan Minhe as at 30 April 2018. The relevant consideration was settled on 26 September 2018. Subsequent to such transfers, Guangdong Fuvo and Zhongshan Minhe were each owned as to 90% by American Sanvo.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE IMMEDIATELY PRIOR TO THE SHARE OFFER AND CAPITALISATION ISSUE

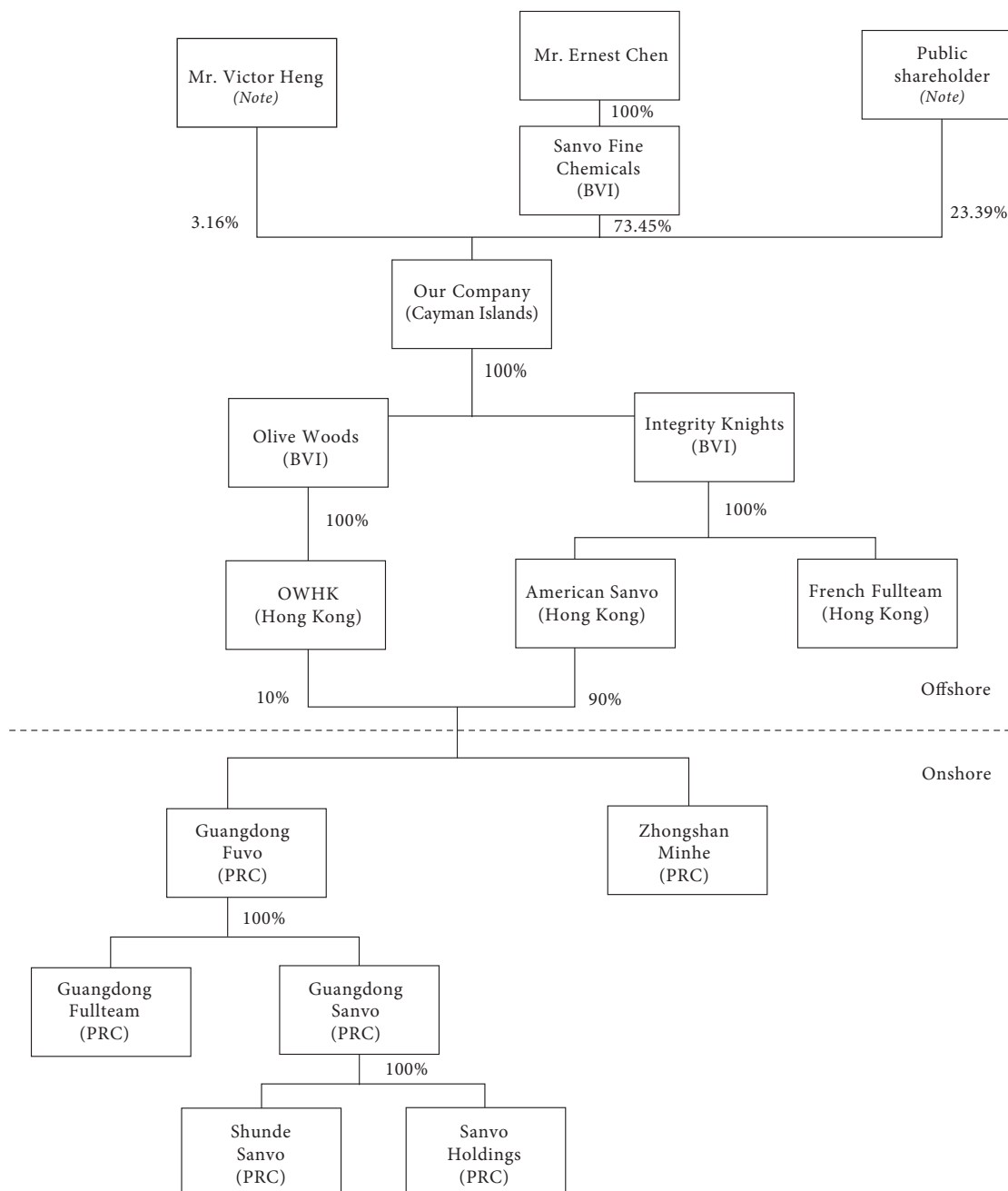
Our corporate and shareholding structure after completion of the Reorganisation but before Share Offer and the Capitalisation Issue (without taking into account of the Shares that may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme) will be as follows:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE UPON COMPLETION OF THE SHARE OFFER AND CAPITALISATION ISSUE

Our corporate and shareholding structure upon completion of the Reorganisation, Share Offer and the Capitalisation Issue (taking into no account of the Shares that may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme) will be as follows:



Note: As Mr. Victor Heng will hold less than 10% of our Shares upon Listing, the shareholding of Mr. Victor Heng together with that of the public shareholders in our Company i.e. 26.55% of our Shares will be considered as part of the public float for the purpose of Rule 8.08 of the Listing Rules.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

COMPLIANCE WITH PRC LAWS

Our PRC Legal Adviser has confirmed that all relevant approvals and permits in respect of the equity transfers of our PRC operating subsidiaries as described above have been obtained and the procedures and steps involved are in compliance with relevant laws and regulations in the PRC.

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投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), (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 branches 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 SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《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**”), which was promulgated on 13 February 2015 and implemented on 1 June 2015, the initial foreign exchange registration for establishing or taking control of an Overseas SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau, and Circular 13 also simplifies some procedures relating to foreign exchange for direct investments.

As advised by our PRC Legal Adviser, all necessary SAFE registration under the SAFE Circular No. 37 (and in accordance with SAFE Circular No.13) and all required procedures for amendment to such registration were completed on 11 September 2018.

THE M&A RULES

On 8 August 2006, 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 (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.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As Guangdong Fuvo and Zhongshan Minhe were sino-foreign joint venture enterprises prior to American Sanvo's acquisitions of the remaining 90% equity interest in each of Guangdong Fuvo and Zhongshan Minhe, and our Company, as advised by our PRC Legal Adviser, American Sanvo's acquisitions of the remaining 90% equity interest in each of Guangdong Fuvo and Zhongshan Minhe are not subject to the M&A Rules, and the Listing does not require approvals from CSRC and MOFCOM under the M&A Rules.

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OVERVIEW

We are an established fine industrial chemical products manufacturer based in the PRC. We focus principally on the manufacture, research and development, and sale of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and building materials and towards automotive maintenance. Our products can be broadly categorised into the following segments: (i) aerosols, (ii) organic silicone adhesives, (iii) synthetic adhesives, and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints.

We have two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under our brands of “SANVO 三和” and “FullTeam 芙田” (of which the sales of our “SANVO 三和” branded products accounted for over 98% of our non-OEM sales throughout the Track Record Period), and (ii) on an OEM basis. During the Track Record Period, the revenue derived from sale of our OEM products accounted for approximately 5.8%, 7.7%, 6.9% and 4.1% of our total revenue, respectively.

With respect to our “SANVO 三和” and “FullTeam 芙田” branded products, we primarily sell these on a wholesale basis to our distributors based in the PRC, the majority of which have exclusive rights to distribute our products within their designated areas. Our distributors distribute our products via different channels, including through (i) on-selling to downstream resellers and/or end users, or (ii) in the case of certain distributors, their self-operated points of sales. For further details on our distribution network, please refer to the subsection headed “Business — Our sales network — Distribution network for our products” in this prospectus.

During the Track Record Period, we also sold certain of our products on an OEM basis, and since 2016, have also started selling our products via certain e-commerce platform in the PRC. For details of the breakdown of our revenue attributable to each of our principal sales channels during the Track Record Period, please refer to the subsection headed “Business — Our sales network” in this prospectus.

As at the Latest Practicable Date, we operated four production sites with a total site area of approximately 126,319.4 sq.m., all of which are located in Guangdong Province, the PRC. In order to expand our production capacity and capabilities, we have acquired a plot of land in November 2014 with a site area of approximately 63,825.3 sq.m. in Zhongshan City, Guangdong Province, the PRC for the construction of our new production plant, being the MV Production Site. As at the Latest Practicable Date, construction works relating to the first phase of our construction plans have been substantially completed and we will target to commence trial production in mid-2020. The MV Production Site is intended to focus on the production of aerosols and will house 22 new aerosol production lines and related machinery and equipment, with a designed production capacity of approximately 30,000 tonnes per year (equivalent to approximately 150 million cans).

BUSINESS

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

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	Revenue RMB'000 (unaudited)	% of total revenue	Revenue RMB'000	% of total revenue
Aerosols	321,558	62.8	426,820	63.8	387,562	50.4	153,249	48.1	199,486	53.7
Organic silicone adhesives	69,124	13.5	80,514	12.0	186,245	24.2	88,107	27.7	85,590	23.0
Synthetic adhesives	54,919	10.7	78,612	11.7	65,909	8.6	27,827	8.7	31,535	8.5
Other miscellaneous products ^(Note)	66,618	13.0	83,328	12.5	129,455	16.8	49,425	15.5	54,743	14.8
Total	512,219	100.0	669,274	100.0	769,171	100.0	318,608	100.0	371,354	100.0

Note: Other miscellaneous products include product types such as architectural coatings, oil products and wood paints, which do not fall into other product categories. There are further key product series under each product type.

OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths, which have allowed us to establish our market position and contributed to our success, include:

Extensive nationwide distribution network for our products

During each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we have sold approximately 80.6%, 76.9%, 90.0% and 94.5%, respectively, of our products through our own network of distributors located in the PRC. As at the Latest Practicable Date, our distribution network comprised over 937 distributors across 290 cities (covering 22 provinces, four municipalities and five autonomous regions) in the PRC. To the best of our Directors' belief and understanding, our distributors comprise mainly distributors of various industrial chemical products and materials in the PRC, which distribute our products via different channels, including through (i) on-selling to downstream resellers and/or end users (such as hardware stores, automotive parts shops and car repair shops), or (ii) in the case of certain distributors, their self-operated points of sales.

Our Directors believe that the extensive coverage of our distribution network in the PRC enables us to reach out to a broader customer base, and thereby effectively establishes our market presence and brand awareness in the PRC. According to Frost & Sullivan, our Group has established a strong sales channel across different major provinces and cities in the PRC through distributors.

BUSINESS

In order to strengthen our relationship with our distributors, we have our dedicated sales and marketing team (comprising 135 members as at the Latest Practicable Date) who visit our network of distributors on a regular basis for feedback on our products and also to monitor, among others, their sales, sale prices, marketing activities and staff quality. We also have a three-tier management structure with respect to our network of distributors. This consists of our headquarters, our sales regions and points of sales operated by our distributors or their downstream resellers, which we believe ensures a clear division of responsibilities within our Group and the efficient implementation of decisions made at the headquarters level. For further details, please refer to the subsection headed “Business — Our sales network — Management of our distribution network — Our management structure” in this prospectus.

We offer a comprehensive and a diversified product portfolio

We manufacture and sell a total of 207 different fine industrial chemical products as at the Latest Practicable Date, comprising the following for each of our product segments:

Product segment	Number of products
Aerosols	31
Organics silicone adhesives	11
Synthetic adhesives	33
Other miscellaneous products	132
Total	207

We believe the number of products offered by us represents a comprehensive and full spectrum portfolio of products. We also offer multiple product series under each of the above product categories. For further details regarding the composition of our product portfolio, please refer to the subsection headed “Business — Our products” in this prospectus.

Furthermore, we believe that by strategically focusing on specific product sub-segments within the fine industrial chemical products market, that is, on hardware and building materials and automotive maintenance industrial chemical products, we are able to maximize our revenue generating potential by focusing our technical expertise and tailor our sales and marketing strategies. By leveraging on our diversified product portfolio, we are well-positioned to take advantage of and capture the demand from different target customers with specific needs across various downstream industries, such as automotive maintenance, building hardware and materials. According to Frost & Sullivan, downstream industries and building construction, real estate and automotive industries have recorded significant growth, primarily due to increase in demand for housing and passenger vehicles associated with the economic growth in the PRC during recent years. Leveraging on our experience in providing a comprehensive and full spectrum portfolio of products, we believe that we are able to maintain the flexibility to cope with market changes, thereby reducing our reliance on a single product type and broadening our customer base and source of revenue. We also plan on further expanding our product portfolio for certain market sub-segments — for further details, please refer to the subsection headed “Business — Our business strategies” in this prospectus.

BUSINESS

Experienced and dedicated management team and workforce

We have a management team which we believe has an entrepreneurial spirit, extensive operational expertise and in-depth understanding of our industry. Two of our Executive Directors, Mr. Ernest Chen and Mr. Leo Chen, have over 17 and 16 years of experience in the chemical industry in the PRC, respectively. Mr. Ernest Chen, an Executive Director and the chairman of our Board, oversees the overall management, operations and sales and marketing of our Group, whereas Mr. Leo Chen, our chief technical engineer, oversees the research and development of our products. Under the guidance, management and leadership of these two Executive Directors, we were able to expand our sales and distribution network to its current scale.

In addition to our management team, we also have a dedicated workforce who work on all levels of our operations, ranging from regional sales managers, a marketing team which creates our advertisements, to general administrative and supporting staff. By providing adequate on-the-job training to our staff on selling strategies and the individual product specifications, our staff are trained to cater for our customers' specific needs and provide value-added services to better service their demands.

We believe that our Directors and senior management's substantial industry insight, dedication and corporate management experience have helped facilitate the development of our Group's fine industrial chemical products business. Our Directors believe that our team's technical knowledge, commercial experience and business acumen have enabled us to build our current customer base and distribution network, and further develop our technical expertise, and we believe that we are well-positioned to achieve further growth and to take advantage of the various market opportunities in the future. For the experience and qualifications of our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

Long-term well-established relationships with major customers and suppliers

We have long-term and well-established relationships with the majority of our major customers. In particular, as at the Latest Practicable Date, we had established relationships with our five largest customers who have been conducting business with us for an average of more than seven years. We believe that being able to maintain long-term customer relationships demonstrates our Group's ability to provide high-quality products on time and enables us to maintain our extensive distribution channels and network.

On the other hand, we believe that our industry reputation and on-time settlement help us in building a stable network of suppliers which cover all aspects of our Group's raw materials needs. Establishing a good relationship with major suppliers enables our Group to have more flexibility in resources allocation compared with our competitors. In particular, as at the Latest Practicable Date, we had established relationships with our five largest suppliers who have been conducting business with us for an average of over eight years. We believe our established relationships also enables us to procure the necessary supplies when we require them, reducing the risk of shortage or delay in delivery of materials or services causing material disruption to our works. The Directors consider that partnering with these suppliers is one of the key success factors for us to deliver high quality products in a timely manner to our customers.

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Commitment to deliver quality products with stringent quality control measures

We are committed to providing high quality products to our customers. We believe that the quality and reliability of our products are crucial in upholding the reputation of our Group. We have established comprehensive quality control measures including, among others, inspection of raw materials, close monitoring of the production process, testing the quality of finished products and granting of aftersales support services to customers. For further details, please refer to the subsection headed “Business — Our operations — Quality control” in this prospectus. The Directors confirm that, during the Track Record Period, there had been no material complaints or claims from our customers regarding the quality of our products that would materially and adversely affect our financial position. We have also obtained various certifications, including ISO9001:2015 and ISO14001:2015 for our quality and environmental management systems.

Furthermore, we believe that the quality and reliability of our products have allowed us to enjoy a low incidence of product return. The total value of products returned by our customers due to product defects for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 was approximately RMB1.6 million, RMB2.6 million, RMB0.8 million and RMB0.1 million, respectively, representing approximately 0.3%, 0.4%, 0.1% and 0.0% of our total revenue.

We are a recognised manufacturer of various types of fine industrial chemical products in the PRC, including in particular aerosols, organic silicone adhesives and synthetic adhesives, with strong brand recognition

We believe that we are a recognised manufacturer of various types of fine industrial chemical products in the PRC, including in particular aerosols, organic silicone adhesives and synthetic adhesives and in particular, our brand of “SANVO三和” is a renowned brand of such types of fine industrial chemical products in the PRC. The revenue generated from the sale of our spray paint (being a sub-category product of aerosols for industrial and automotive application) represented approximately 49.3%, 50.6%, 40.0% and 46.6% of our total revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. According to the Frost & Sullivan Report, we were the second largest spray paint manufacturer in the PRC with an approximate market share of 2.4% in terms of sales value of spray paint in 2018. We believe that our operating history of more than 15 years, our ability to produce quality fine industrial chemical products, and our extensive sales and marketing efforts (in view of our advertising and promotion expenses having represented approximately 7.7%, 13.1%, 18.5% and 21.1%, respectively of our total operating expenses for each of the three years ended 31 December 2018 and the six months ended 30 June 2019) contributed to our brand image, which sets us apart from our competitors.

OUR BUSINESS STRATEGIES

We aim to further strengthen our market position by implementing the following business strategies:

Expand and enhance our production capacity

According to the Frost & Sullivan Report, during 2014 to 2018, the total sales volume of aerosol products in the PRC had increased by a CAGR of 6.0% and it is estimated that the sales volume of aerosols in the PRC will continue its growth trend in the near future and grow at a CAGR of 6.7% from 2019 to 2023, whereas the sales volume of adhesives is also expected to grow at a CAGR of 3.0% from 2019 to 2023. We therefore believe that it is crucial for us to enhance our production capacity in order to fully capture the business opportunities in a growing market. To this end, we intend to increase the number of shifts per day from one shift of eight hours per day to two shifts (operating at 16 hours in aggregate per day) in the short-term to increase our production

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capacity if necessary. Our expansion plans and the planned increase in production capacity have been formulated after taking into consideration the growth potential in selected markets and various factors affecting the demand for these products, such as the implementation of recent PRC regulations and the increasingly stringent requirements imposed by the PRC regulatory authorities for the sale, delivery and storage of different types of fine industrial chemical products.

In addition to the above measures, we intend to allocate a portion of the proceeds from the Share Offer towards the investment in and development of our new manufacturing facility, namely the MV Production Site, which is intended to focus on the production of aerosols and will house 22 new aerosol production lines and related machinery and equipment. Further information on such plans is set forth in the section headed “Future Plans and Use of Proceeds” in this prospectus.

As at the Latest Practicable Date, we had already expended approximately RMB92.2 million towards the development of the MV Production Site. Our planned capital expenditure for each of the two years ending 31 December 2019 and 2020 are RMB58.2 million and RMB92.1 million, respectively, which will be used towards, amongst others, investment in production machinery and equipment in the MV Production Site. As at the Latest Practicable Date, the construction works relating to phase one of the construction plans with respect to the MV Production Site have been substantially completed and we will target to commence trial production in 2020. Such capital expenditure will be partially funded from the Share Offer as to approximately RMB60.2 million for the year ending 31 December 2020, whilst the remaining will be funded by bank borrowings and our internally generated funds and resources.

Our Directors believe that the expansion plans for our manufacturing facilities could bring us the following benefits: (i) the expanded production capacity will be used for satisfying the currently increasing demand and position us to capture the long-term demand growth in the fine industrial chemical products industry, (ii) our Production Sites will operate under quality standards with advanced and more automated production machinery and equipment, and together with upgrades to our existing manufacturing facilities, will result in cost savings through maximising production efficiency, and (iii) the increase in our operational scale could also bring us additional benefits from economies of scale.

Deepen our penetration of and strengthen our market position in the PRC fine industrial chemical products industry

The PRC market is our foundation for further growth of our business. According to the Frost & Sullivan Report, the sales value of aerosol products in the PRC is expected to grow at a CAGR of 11.1% from 2019 to 2023, whereas the sales value of adhesives and sealant in the PRC is expected to grow at a CAGR of 4.5% from 2019 to 2023, and the sales value of spray paint in the PRC is estimated to grow at a CAGR of 7.7% from 2019 to 2023. We will continue to focus on strengthening our brand recognition and solidifying our current market position by deepening our penetration of the PRC’s growing fine industrial chemical products industry, through the selling of a more diversified range of products to our customers to serve their different demands.

We believe our brands position us well to deepen our penetration of this market. We also plan to increase our market share in the industrial and architectural paint and coating products in the PRC market by managing our product offerings to align with the latest industry trends and better service our customers’ demands. For example, it is one of the policy goals of the PRC Government to encourage manufactures in the paint and coating market in the PRC to be more environmentally-friendly. We expect that, as set out in the Frost & Sullivan Report, there will be a growing trend that more fine industrial chemical manufacturers in the PRC will eliminate the use of chlorofluorocarbons and reduce the amount of volatile organic compounds in their products, to adhere to the prevailing and more stringent industry environmental standards, and will aim to

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align our product offering accordingly to take advantage of our maturing relationships with our major customers by offering them an even more diversified range of products, some of which they may have sourced from other suppliers previously.

We also plan to expand our product portfolio for selected market sub-segments, in particular in relation to synthetics, and offer new products such as alkyd resins, acrylics and hardeners, as we expect that the market demand for such type of products will continue to grow. We believe that by expanding our product offerings will increase our customer base and hence deepen our penetration of the fine industrial chemical products industry, which will strengthen our competitive position.

We intend to further deepen our penetration of the market in Eastern China and Southern China, as we believe that we are able to capture the economic growth and increasing affluence in these regions by further expanding our distribution network. Further penetration of the market in the PRC will be a key direction for our future growth, and we intend to focus our efforts and implement strategies on increasing our market share in such regions in the future through partnerships with local distributors who are established in their respective markets with long operating history and, in our opinion, have demonstrated strong marketing, direct sales and logistic management capabilities.

Strengthen our brand image through marketing and advertising initiatives

With a view to expand our distribution network and to enhance awareness of our Group's brand name within the fine industrial chemical products industry, we plan to further reinforce our sales and marketing efforts in promoting our brand names, especially in relation to the "SANVO 三和" brand, as well as our corporate image. As at the Latest Practicable Date, our sales and marketing team consists of 135 members in the PRC. They are responsible for establishing our sales and marketing efforts and being the primary contact points with our distributors. Our sales and marketing team has been maintaining contacts with customers as well as client relationships through on-going interactions, such as meeting at customer events and summits. We target to continue to advertise our products through, for example, social media platforms, placing advertisements on billboards and paper media (e.g. magazines and newspapers). We plan to devote more resources towards our marketing and advertising initiatives and expect that our marketing and advertising expenses for the year ending 31 December 2019 will amount to approximately RMB35.0 million. Through our sales and marketing team, and our renewed focus on marketing and advertisement initiatives, we aim to establish and maintain our goodwill amongst both new and existing customers and increase customer loyalty.

Further enhance our research and development ability

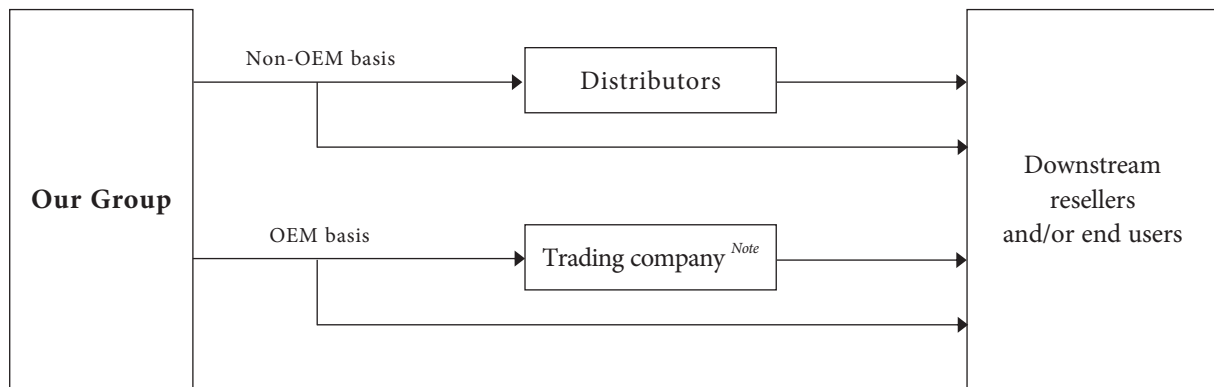
Our research and development team is responsible for (i) increasing our production efficiency and effectiveness, and improving the quality of our existing products and services and (ii) advising on and improving product design for our customers in order to better achieve our OEM customers' objectives and/or improve the performance of our products. We are also committed to developing new technologies and to providing a broader, more diversified range of products, which we believe could increase revenue streams and sales, and help us expand our market share in key target markets locally.

During the Track Record Period, our expenditure on research and development amounted to approximately RMB10.5 million, RMB17.6 million, RMB27.9 million and RMB16.5 million respectively. As at the Latest Practicable Date, our own research and development team has registered 50 patents and also have 35 pending patent applications in the PRC.

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OUR BUSINESS MODEL

We have two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under our brands of “SANVO 三和” and “FullTeam 芙田”; and (ii) on an OEM basis. During the Track Record Period, we sold the majority of our “SANVO 三和” and “FullTeam 芙田” branded products to our distributors based in the PRC, which generally have exclusive rights to distribute our products within their designated areas. We also granted non-exclusive distribution rights to certain distributors with whom we have entered into non-exclusive distribution agreements. Our distributors distribute our products via different channels, including through (i) on-selling to downstream resellers and/or end users (such as hardware stores, automotive part shops and car repair shops), or (ii) in the case of certain distributors, their self-operated points of sales. As at the Latest Practicable Date, we had entered into distribution agreements with over 937 distributors. As at the Latest Practicable Date, our Group had 787 distributors with exclusive rights and 150 distributors with non-exclusive rights across 290 cities, covering 22 provinces, four municipalities and five autonomous regions. During the Track Record Period, we also (i) sold our products on an OEM basis, mainly to a PRC trading company; and (ii) have started to sell our products via certain e-commerce platforms in the PRC since 2016. For details of the breakdown of our revenue attributable to each of our principal sales channels during the Track Record Period, please refer to the subsection headed “Business — Our sales network” in this prospectus. The diagram below provides an overview of our business model as at the Latest Practicable Date:



Note: Products sold to our PRC trading company customer on an OEM basis are exported and sold to offshore resellers and/or end users.

OUR BRANDS

During the Track Record Period, we primarily offered our products under our brands of “SANVO 三和” and “FullTeam 芙田” (of which the sales of our “SANVO 三和” branded products accounted for over 98% of our non-OEM sales throughout the Track Record Period). We believe that maintaining our own brands allows us to create a distinct brand culture that appeals to our target customer groups. Both our “SANVO 三和” and “FullTeam 芙田” branded products focus on fine industrial chemical products which can be applied as hardware and building materials and towards automotive maintenance, and primarily target customers in the construction, automotive or manufacturing industries. In order to diversify our Group’s brand portfolio, our Executive Directors, Mr. Ernest Chen and Mr. Leo Chen, acquired Guangdong Fuvo and hence the “FullTeam 芙田” brand in January 2012. While our products under both brands have similar application and end-users, we believe that the diversification of our brand portfolio with the acquisition of the “FullTeam 芙田” brand helps us to increase our penetration and share of the fine industrial chemical products market.

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OUR SALES NETWORK

The table below sets out the breakdown of our sales by revenue channels during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	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
Distributors in the PRC	412,545	80.6	515,007	76.9	692,421	90.0	276,410	86.8	350,946	94.5
Trading company/ OEM sales	29,883	5.8	51,475	7.7	52,724	6.9	24,145	7.6	15,365	4.1
Direct sales	69,153	13.5	94,159	14.1	15,968	2.1	12,595	3.9	3,683	1.0
E-commerce platforms	638	0.1	8,633	1.3	8,058	1.0	5,458	1.7	1,360	0.4
Total	512,219	100.0	669,274	100.0	769,171	100.0	318,608	100.0	371,354	100.0

During the Track Record Period, the majority of our revenue was derived from sales to our distributors in the PRC, which accounted for approximately 80.6%, 76.9%, 90.0% and 94.5%, respectively, of our total revenue. Our customers mainly comprised distributors of various industrial chemical products or materials in the PRC, who sell the products to downstream resellers and/or end users, or in the case of certain distributors, their self-operated points of sales in the PRC. To the best of our knowledge and understanding, such downstream resellers and/or end users are engaged in manufacturing, construction and/or renovation automotive business and industries (such as hardware stores, automotive parts shops and car repair shops).

Distribution network for our products

During the Track Record Period, our “SANVO 三和” branded products were distributed primarily via our network of distributors and in the case of certain distributors, their self-operated points of sales in the PRC. We generally grant to our distributors exclusive rights to distribute our products in the PRC within a designated geographical region or area. We also grant non-exclusive distribution rights to certain distributors with whom we have entered into non-exclusive distribution agreements. Depending on the historic sales achievement of such distributors, we may grant exclusive distribution rights to such non-exclusive distributors and enter into exclusive distribution agreements with them. Our sales to our distributors are recognised as revenue when delivery is complete or control is transferred. For further details on the timing of our revenue recognition, please refer to Note 4.9 in the Accountant’s Report. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our Group had 297, 351, 373 and 437 individual distributors, respectively, which contributed towards 6.6%, 14.3%, 9.8% and 12.9% of our Group’s revenue, respectively, for the relevant year or period.

During the Track Record Period and as at the Latest Practicable Date, we did not open, operate or control any shops or retail outlets on our own for sale of our products. In view of the geographical size of the PRC market, our Directors believe that cooperating with distributors is a more cost-effective means to reach and manage the diverse customer base nation-wide in the PRC. Hence, we sold our products through our distribution network located in the PRC. Our distributors either (i) on-sold our products to downstream resellers and/or end users, or (ii) in the

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case of certain distributors, through their self-operated points of sales. Our distribution network comprised more than 937 distributors as at the Latest Practicable Date. The length of business relationship with our distributors ranged from one year to 14 years. None of our distributors contributed, on its own, more than 3% of our total revenue in any financial year during the Track Record Period. According to the Frost & Sullivan Report, our existing distribution model is in line with the industry practice within the fine industrial chemical products industry.

We actively manage our distribution network and regularly review the performance of each of our distributors, and none of our distributors have terminated their distributorships with us due to financial or other major disputes during the Track Record Period. The term of our distribution agreements is typically one year, which may be renewed upon expiry.

The following table sets out the movements in the total number of distributors of our products for each of the three years ended 31 December 2018 and the six months ended 30 June 2019:

	For the year ended 31 December			For the six months ended 30 June	Up to the Latest Practicable Date
	2016	2017	2018	2019	
Opening balance as at the beginning of the year/period	286	823	924	1,022	954
Number of new additions	588 ^(Note)	174	240	105	87
Expiration and/or non-renewal	(51)	(73)	(142)	(173)	(104)
Closing balance as at the end of the year/period	<u>823</u>	<u>924</u>	<u>1,022</u>	<u>954</u>	<u>937</u>

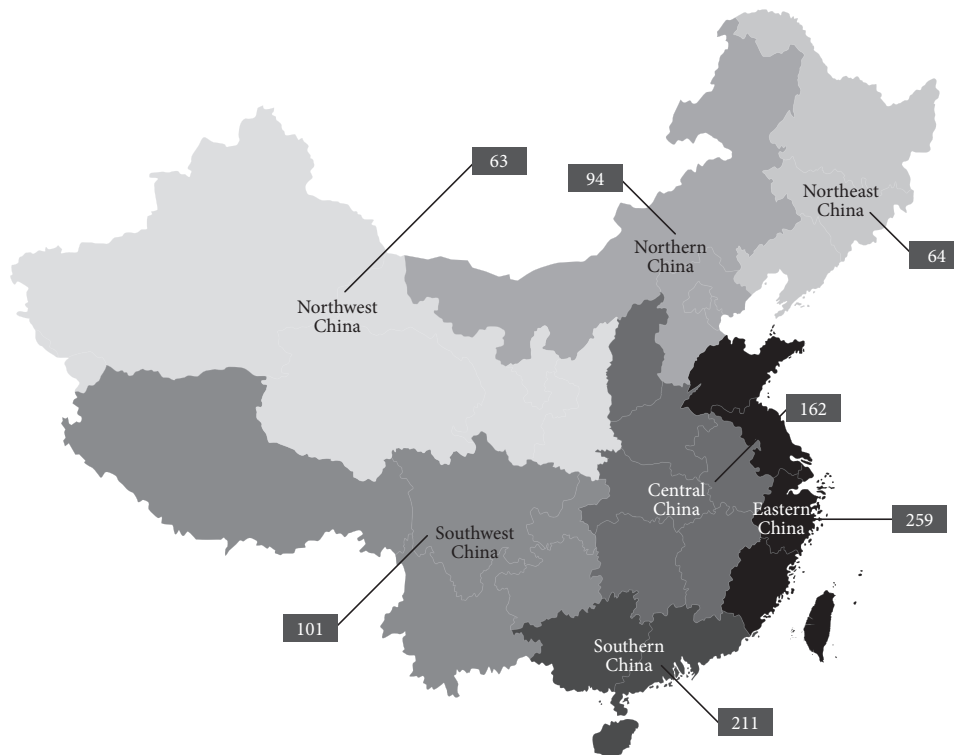
Note: Out of the 588 newly added distributors for the year ended 31 December 2016, 153 new additions were due to the adoption of our policy on entering into distribution agreements in February 2016 (as further described below).

Changes in our number of distributors during the Track Record Period were mainly due to the addition of new distributors as we expanded our distribution channels, and the non-renewal of distribution agreements upon expiry with respect to under-performing distributors as we actively managed our existing distribution channels. The number of distributors with which we did not renew our distribution agreements increased throughout the Track Record Period, as we closely monitored their sales performance and eliminated under-performing distributors to improve the efficiency and effectiveness of our distribution network. In considering whether to renew our relationships with our distributors, we usually take into consideration performance of the third party distributors (based on qualitative assessments such as level of management involvement, sufficiency of manpower, sales achievement and absence of competing products). We continued to tighten our controls and place greater emphasis on the monitoring of our distributors throughout the Track Record Period, which resulted in the continual increase in the number of distributors whose distribution agreements expired and/or were not renewed between the years ended 31 December 2017 and 2018, and the six months ended 30 June 2019, respectively. During the Track Record Period and up until the Latest Practicable Date, none of our distribution agreements expired and/or were not renewed due to quality of products sold. During the Track Record Period and up to the Latest Practicable Date, we did not renew our distribution agreements with 51, 73, 142, 173 and 104 distributors, respectively, due to unsatisfactory performance in the relevant year or our intention to replace such distributors with new and better performing distributors. With respect to the aforementioned 51 distributors with whom we did not renew our

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distribution agreements during the year ended 31 December 2016, such distributors accounted for approximately RMB10.9 million of our Group's revenue for the year ended 31 December 2016 (representing approximately 2.1% of our total revenue). With respect to the aforementioned 73 distributors with whom we did not renew our distribution agreements during the year ended 31 December 2017, such distributors accounted for approximately RMB3.7 million and RMB2.2 million of our Group's revenue for each of the two years ended 31 December 2017, respectively (representing approximately 0.7% and 0.3% of our total revenue, respectively). With respect to the aforementioned 142 distributors with whom we did not renew our distribution agreements during the year ended 31 December 2018, such distributors accounted for approximately RMB8.4 million, RMB7.6 million and RMB0.04 million of our Group's revenue for each of the three years ended 31 December 2018, respectively (representing approximately 1.6%, 1.1% and 0.006% of our total revenue, respectively). With respect to the aforementioned 173 distributors with whom we did not renew our distribution agreements during the six months ended 30 June 2019, such distributors accounted for approximately RMB20.0 million, RMB27.7 million, RMB13.1 million and RMB0.1 million of our Group's revenue for each of the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively (representing approximately 3.9%, 4.1%, 1.7% and 0.03% of our total revenue, respectively). We continued to select new distributors to replace the distributors with which we did not renew our distribution agreements throughout the Track Record Period based on our internal guidelines (taking into consideration, among others, their availability of funds and resources, experience in distribution of similar types of products and retail and brand management experience), with the intention of continually ameliorating the performance of our distributors and hence our Group. Further, in February 2016, we also adopted a policy pursuant to which any parties with which we conducted business or transactions in the aggregate amount of RMB120,000 or above per annum would be required to enter into a distribution agreement with us, which also resulted in a high number of new additions to our distributors for the relevant year.

As at the Latest Practicable Date, our distribution network had attained an extensive coverage across 290 cities, covering 22 provinces, four municipalities and five autonomous regions in the PRC. The map below illustrates the geographical coverage of our sales and distribution network in the PRC as at 30 June 2019:



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The following table sets forth the number of our distributors in the PRC by geographical regions as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
Eastern China	172	182	206	259
Southern China	158	193	230	211
Central China	204	229	248	162
Southwest China	102	112	110	101
Northern China	65	72	80	94
Northeast China	69	69	77	64
Northwest China	53	67	71	63
Total	823	924	1,022	954

Our Directors confirmed that, to the best of their knowledge and belief, as at the Latest Practicable Date, all of our distributors were independent third parties, and that none of our distributors are our employees (or wholly-owned or majority controlled by such employees) or operated under our brands or trade names during the Track Record Period.

Management of our distribution network

Our management structure

We have a three-tier management structure with respect to our distribution network, which consists of our headquarters, our sales regions and points of sales operated by our distributors or their downstream resellers. We have implemented a comprehensive system to manage our distribution network, from the selection of new distributors, to ongoing monitoring and assessment of the performance of our existing distributors.

Headquarters

Our headquarters is located in Zhongshan City, Guangdong, the PRC. It is primarily responsible for strategic business development, nationwide marketing and brand management, financial management, senior personnel recruitment and training, internal control, setting performance targets and budget and supervising the performance of our Group. Our headquarters monitors the performance of each sales region. Each month, a meeting is convened at our headquarters to assess the overall sales performance of our Group, including our performance in each sales region. The purpose of the meeting is to promote transparency across our Group and to allow the regional sales managers to share industry information and experiences, as well as identify any management or operational deficiencies within their region. We also discuss and review our price levels from time to time with the assistance of, amongst others, our sales and marketing, finance and research and development departments.

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Sales regions

We divide the management of our distribution network into seven sales regions in the PRC, namely Eastern China, Southern China, Central China, Southwest China, Northern China, Northeast China and Northwest China. We have a designated manager for each sales region, and also designated managers for smaller sub-regions who report to our regional sales managers. Our regional sales managers are principally responsible for the management and supervision of our distributors, including any flagship stores operated by them, as well as the development of new points of sales within their designated regions.

Points of sales

Our distribution network also comprises points of sales which are operated by our distributors or their downstream resellers, for the sale of our products. There are different types of points of sales operated by our distributors or their downstream resellers, all of which are expected to follow our guidelines on design and appearance to set a distinct and consistent brand image. For further details, please refer to the subsection headed “Points of sales operated by our distributors or their downstream resellers” in this section.

We believe that this three-tier management structure ensures a clear division of responsibilities within our Group and the efficient implementation of decisions made at the headquarters level.

Selection of new distributors

When selecting new distributors, we adopt strict guidelines to select, assess and monitor our distributors. We obtain and examine copies of the business licenses of our potential distributors. We also take into consideration their:

- (i) availability of funds and resources;
- (ii) experience in the distribution of similar types of products;
- (iii) retail and brand management experience;
- (iv) background, reputation and business performance in the past;
- (v) distribution network coverage and connection in the local market;
- (vi) other strategic strengths; and
- (vii) customer base.

Management of our existing distributors

We normally enter into annual distribution agreements with our distributors in the PRC and manage our distributors through such annual distribution agreements. The annual distribution agreements are generally for a term of one year, and we will renew the annual distribution agreements following discussion with each of the distributors taking into consideration its (i) level of management involvement, (ii) sufficiency of manpower, (iii) logistics and distribution capabilities, (iv) coverage of their distribution network and connection in the local market, (v) sales achievement and (vi) the absence of other products in the market which are in competition with those of our Group in the region relevant to that distributor. We assess our individual and corporate distributors

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alike on the same basis, as despite (i) entering into distribution agreements with our Group and (ii) operating their business in their personal and/or individual capacity, we also expect the business of our individual distributors and the management and operation thereof to be satisfactory in terms of the assessment criteria we apply towards all of our distributors. Our regional sales managers will also liaise with and monitor our existing distributors to manage their sales performance throughout the relevant year.

Points of sales operated by our distributors or their downstream resellers

During the Track Record Period, we required our distributors to adopt standardised sales strategies implemented by our headquarters. We believe such measures have better aligned the interests of us and our distributors and reduced inefficient use of their financial or manpower resources.

We encourage and assist our distributors, and also their downstream resellers, to set up flagship stores, direct-sale shops and designated sales areas as points of sales for the sale and/or display of our products. Under our policy for the management of such points of sales, (i) flagship stores are operated by our distributors, whereas (ii) the majority of direct-sale shops and designated sales areas as points of sales are operated by local downstream resellers with which our distributors have established good business relationships (but with which we have no contractual relationship). Flagship stores will generally only sell products of our Group, whereas direct-sale shops and designated sales areas act as points of sales which will bear our logo on their store fronts but sell a combination of our products and those of other brands in the market, or form part of a shop or sales area which displays our products for sale. We believe this provides an asset-light and cost-effective means of establishing and expanding our distribution. We do not have any direct contractual relationships with or control over the downstream resellers of our distributors. Our distributors are responsible for overseeing and managing the direct-sale shops or designated sales areas operated by the downstream resellers in accordance with their own contractual relationships. Our Group does not have any requirement on the number of points of sales which are approved by our Group to be operated by each distributor. However, it is our Group's strategy to avoid the operation of a point of sales in the close proximity of another in order to avoid cannibalisation. If a distributor breaches the restriction regarding its distribution territory, we will issue a warning to the relevant distributor and depending on the circumstances, we may impose monetary penalties, or in certain cases, terminate the distribution agreement. Depending on the historic sales achievements of the relevant distributor, we may occasionally revoke the exclusive rights granted to such distributor, whereby they will continue to have non-exclusive rights to distribute our products within the same distribution territory. Our distributors should make an application and obtain our Group's prior approval before opening any new points of sales which are approved by our Group (including for themselves or on behalf of their downstream resellers).

The points of sales operated by our distributors or their downstream resellers which are approved by our Group are characterised by a distinctive and consistent image. The design, color and/or layout of such points of sales which are approved by our Group follow guidelines set by our Group to ensure consistent brand presentation, which we believe enhances our brand awareness in the PRC. Under the guidelines, all such points of sales which are approved by our Group must present a consistent visual image, particularly through the design, size and/or color of the shop fronts, product displays and/or information displays for promotion.

The following table sets forth the number of flagship stores in operation as at 31 December 2016, 2017 and 2018, 30 June 2019 and as at the Latest Practicable Date, respectively:

	As at 31 December			As at 30 June	As at the Latest Practicable Date
	2016	2017	2018	2019	
Number of flagship stores	<u>3</u>	<u>25</u>	<u>63</u>	<u>85</u>	<u>100</u>

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We closely monitor the performance of our distributors and their compliance with the terms of their distribution agreements as well as their creditworthiness, expansion of distribution channels, improvement of sales performance and management of customer relationship. We conduct regular visits and inspections (of an average of five times per year during the Track Record Period) of our major distributors and flagship stores operated by them to monitor their sales volume, sales prices, marketing activities, storage conditions, logistics facilities, sufficiency of manpower and whether they sell any products of our competitors. We also provide in-store sales and marketing support and provide information and guidance to our distributors, including information on our product specifications and sales and marketing strategies. Our relationship with our distributors is a seller/buyer relationship and not that of principal/agent relationship. Nonetheless, we assess the reasonableness of the amount of sales to distributors during such visits or inspections taking into consideration the previous business history, the amount of our sales in the region as well as the payment history of the distributors to ensure our distributors are not stockpiling inventory and to prevent channel stuffing. Subsequent to every visit and/or inspection conducted by our regional or sub-regional managers, a site visit report is produced by such managers to report on and summarise their observations and findings. Our regional and sub-regional managers also convene meetings twice a year to report on, identify and discuss any management or operational deficiencies within their respective sales regions. We inform distributors of any deviations from distribution agreements or non-conforming flagship stores, direct-sale shops or designated sales areas (including those operated by their downstream resellers) (which identify or are informed about through our reporting mechanism and procedures), and direct them to rectify the problem within a certain period of time. During the Track Record Period, our sales managers did not observe or detect any unusual distributor sales levels based on their regular visits and inspections. Further, we believe that our policy of not accepting product returns from our distributors save for defects in quality of products, together with our management measures and the measures adopted by our distributors, help reduce the chances of conflicts of interest between us and our distributors, and would tend to ensure our sales reflect the genuine market demand of our products.

We rely on our distributors in managing their downstream resellers and to ensure that they comply with our Group's distribution policies. We do not have access to the sales and inventory levels of such downstream resellers. Our Group will only offer marketing assistance to our distributors to develop their downstream reseller network. Our distributors will make application to our Group prior to the opening of any new direct-sale shops or establishment of designated sales areas. In considering such applications, we will take into account among other factors (i) the numbers of other flagship stores, direct-sale shops or designated sales areas operated by our distributors or downstream resellers in the area, (ii) the location of the direct-sale shop or designated sales area (including, for example, amount of foot traffic in the area and proximity to downstream businesses). Our Group will bear limited costs as approved by our Group during the approval process in relation to setting up the logos on relevant store fronts and other related fitting costs (e.g. posters and stickers). Given we do not have any contractual relationship with the downstream resellers of our distributors, as such, we do not require our distributors to notify or make application in relation to the closing of any direct-sale shop under their own downstream distribution network.

Our Directors consider that the above constitute sufficient measures to monitor the activities of our distributors, and as at the Latest Practicable Date, we were not aware of any abuse or breach committed by our distributors which had a material impact on our business or operations.

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Customer events

There are regular customer events such as annual summits, training camps and appreciation gatherings, where we meet our distributors, and exchange and share ideas with them about current and future trends in the fine industrial chemical products industry and how these trends will affect the products intended to be sold in the upcoming season or year. We believe that by hosting regular customer events each year, we can respond to the ever-changing trends and demands of the fine industrial chemical products industry in the PRC. We determine the locations of the customer events based on our sales and marketing strategies, taking into account factors such as the performance of our distributors in the proposed region. We also provide extensive training and guidance to our distributors on, amongst others, technical know-how and updates in relation to our products, and our business strategies on product sales for the coming year, at such customer events.

Key terms of our distribution agreements

Our distributors are required to comply with our standard distribution agreement and individual sales agreements they entered into with us. The general terms of the agreements with our distributors are as follows:

Duration: The term of our distribution agreements is typically one year, which may be renewed upon expiry.

Geographic or other exclusivity: Each distributor with exclusive rights is permitted to sell or distribute our products only within the designated areas in a particular distribution territory in the PRC as stipulated in the relevant distribution agreement (a “**distribution territory**”). Depending on the size, development, local economy and policies of or in relation to the relevant geographic location, a distribution territory may refer to a prefecture-level city, or a county or district within such city. For certain more developed prefecture-level cities, a distribution territory would typically refer to a county or district within such city, resulting in there being more than one distributor per city.

We generally do not appoint multiple distributors for the same types of our products in a particular territory, as we believe that appointing multiple distributors in a single territory would cause cannibalisation of sales among the distributors or otherwise adversely affect the sale of our products in the local market. During the Track Record Period, we were not aware of any material cannibalisation of sales among distributors. If a distributor breaches the restriction regarding its distribution territory, we will issue a warning to the relevant distributor and depending on the circumstances, we may impose monetary penalties, or in certain cases, terminate the distribution agreement. Depending on the historic sales achievements of the relevant distributor, we may occasionally revoke the exclusive rights granted to such distributor, whereby they will continue to have non-exclusive rights to distribute our products within the same distribution territory.

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The rights and obligations of parties involved:	<p>We are obligated to provide our products that meet the standard and quantity specified in the distribution agreement, having obtained all the qualifications and certificates to produce the products. We generally deliver our products to the location specified by the distributors, and title to our products would typically pass to the distributors when products are delivered to the designated premises as specified by the distributor.</p> <p>The distributors are obligated to act in compliance with our distribution agreements and sales strategies, and any breach of our sales strategies will constitute a breach of the distribution agreement.</p>
Prices:	<p>The prices of each purchase order shall be subject to the detailed terms and conditions to be agreed. For further details on our pricing policy, please refer to the paragraph headed “Pricing policy” in this subsection.</p>
Obsolete stock arrangements:	<p>Save for defective goods, distributors generally cannot return goods delivered, including obsolete stock.</p>
Goods return arrangements:	<p>We generally do not offer warranty for our products, but will offer a replacement if there was a quality issue or defect. We do not accept return of products other than due to product quality problems. Where defective goods are returned, we will re-deliver the same goods to the relevant distributor at our own cost. We will not refund nor repurchase the goods returned. Our Directors believe that our arrangement regarding product returns set out above is in line with industry practice. During the Track Record Period, we did not experience any material product returns from our customers, and we have not recalled any products due to quality or other issues. The total value of products returned by our distributors due to product defects for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 was approximately RMB1.6 million, RMB2.6 million, RMB0.8 million and RMB0.1 million, respectively, representing approximately 0.3%, 0.4%, 0.1% and 0.0% of our total revenue.</p>
Sales and expansion targets:	<p>Each distribution agreement provides a monthly sales target for the relevant distributor. Depending on the specific provisions in each distribution agreement, it is typically mandatory for the distributors to achieve the sales targets. Where a distributor fails to achieve the aforesaid target, depending on the circumstances, we may increase the price levels at which our products are sold to such distributor, deprive certain of our aftersales support services, render the distributorship to be non-exclusive, decrease the coverage of the relevant distribution territory, or, in certain cases, not renew our business relationship with the distributor. Save for the aforementioned, our Directors confirmed that there are no other pecuniary penalties in place in relation to distributors, failure to achieve their sales targets.</p>

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Under certain circumstances, we may continue our business relationship with our distributors despite their having failed to achieve the sales targets (or the relevant percentages of such targets). Our Directors confirmed that we did not terminate our distribution agreements with these distributors mainly because of two reasons: (i) for some distributors, the markets they are responsible for are relatively undeveloped and are located in isolated and/or remote areas in the PRC, and it was difficult for us to find better candidates to replace these distributors who had failed to achieve their sales targets (or the relevant percentages thereof); and (ii) for other distributors who had failed to achieve their sales targets (or the relevant percentages thereof), we believe their sales performance will improve based upon their growth potential, local distribution channels and market resources.

Minimum purchase amounts:

We generally enter into distribution agreements with our distributors with monthly sales targets instead of minimum purchase amounts.

Our distributors have contractual entitlement to incremental level of sales discounts based on their sales performance. If a distributor achieves or exceeds its predetermined sales target set forth in its distribution agreement, such distributor can apply such sales discounts towards purchases in the following financial year. Such sales discounts are recognised and deducted from our revenue for each of the relevant periods (being the year in which the distributors earned the sales discounts through achieving or exceeding sales targets). During the Track Record Period, the discount is normally in the range of 1% to 4% of the price of the relevant products. Sales discounts recognised amounted to approximately RMB6.7 million, RMB3.5 million, RMB5.9 million and RMB2.7 million for each of the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively.

Payment and credit terms:

Our distributors are generally required to pay the purchase price in full before we deliver our products. Under special circumstances, we may occasionally grant to our distributors upon their application, a credit term, to incentivise our distributors, to remain competitive and to demonstrate to our distributors that we are committed to the industry and are prepared to share part of their financial burden. The credit period to be granted will depend on the specific circumstances, but according to our internal credit policy, any distributors which are granted a credit term are generally required to settle the outstanding balance of the purchase price owed to us by December of the same financial year.

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Conditions for terminating and renewing the agreements:

We generally renew our distribution agreements on an annual basis. Our distribution agreements typically contain a provision to the effect that within one month prior to the expiry of the agreement, the distributor and our Group may negotiate for the terms of a new distribution agreement if both parties are willing to continue the distributorship relationship. We monitor our distributors on an ongoing basis in respect of their compliance with the terms of the distribution agreement, in particular, our pricing policy and the restriction on sale of our products within the designated distribution territories, etc. It is our Company's policy that our sales staff should visit the distributors regularly to conduct inspections so as to ensure, among other things, that our distributors comply with our pricing policy and geographical exclusivity. Our Directors confirm that we have maintained frequent contact with our distributors by face-to-face meetings, telephone calls and/or other electronic means.

We may terminate a distribution agreement if our distributor fails to fulfil certain obligations or breaches the distribution agreement. Distributors generally cannot terminate their distribution agreements before expiration unless our failure to perform our obligations amounts to a fundamental non-performance.

Third Party Payments

During the Track Record Period, certain of our customers (the "**Relevant Customers**") settled their outstanding payments to us through third parties in the PRC (the "**Third Party Payors**") by way of bank remittance or deposit (the "**Third Party Payments**"). For each of the three years ended 31 December 2018, there were 131, 165 and 177 Relevant Customers, respectively, and Third Party Payments amounted to approximately RMB26.3 million, RMB39.6 million and RMB32.5 million, respectively, representing approximately 5.1%, 5.9% and 4.2% of our total revenue for the corresponding period. As confirmed by our Directors, since mid-October 2018, our Group has ceased all Third Party Payments.

Third Party Payors

To the best knowledge and belief of our Directors, the occurrence of Third Party Payments was mainly due to the preference of the Relevant Customers to require the Third Party Payors to settle their payments to our Company on their behalf, for their convenience and ease of arrangements. According to the Frost & Sullivan Report, the view of which our Directors concur, it is not uncommon for fine industrial chemical products manufacturers in the PRC to adopt Third Party Payments arrangements, especially when demanded by customers, and such adoption enables customers to maintain their levels of cash flows for business operations. To the best knowledge of our Directors after making reasonable enquiries, the Third Party Payors include spouses or relatives, shareholders, directors or employees of the Relevant Customers at the time of payment. To the best knowledge of our Directors after making reasonable enquiries, our Directors confirm that all Third Party Payors are independent of our Group, and that such Third Party Payors do not have any past or present relationship, business or otherwise, with our Group, our Shareholders, Directors, members of senior management or their respective associates. No discount or benefits were provided to Third Party Payors when Third Party Payments were undertaken. Further, we have not been involved in any arrangement between the Relevant Customers and their respective Third Party Payors pursuant to which the Third Party Payments were made, nor have we been involved in any payment process or settlement procedure between them.

Legal implications relating to the Third Party Payments

According to Article 191 of the Criminal Law of the PRC (中華人民共和國刑法), the crime of money laundering is committed only if our Company (i) clearly knows that the Third Party Payments represent proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organisations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud; and (ii) commits certain acts as referred to under Article 191 of the Criminal Law of the PRC for the purpose of covering up or concealing the source and nature of the above proceeds or gains. To the best knowledge of our Directors after making reasonable enquiries, the Third Party Payments were only made by the Relevant Customers through the Third Party Payers to settle trade payments owed to our Group. Our Directors have no grounds to believe that the Third Party Payments were proceeds or gains from the above crimes and confirm that they have not committed any acts for the purpose of covering up or concealing any source and nature of any proceeds or gains from any crimes. As advised by our PRC Legal Adviser, the Third Party Payments do not contravene or circumvent any PRC laws or regulations from a civil perspective. Based on the view of our Directors set out above, our PRC Legal Adviser is also of the view that risks of money laundering in relation to the Third Party Payments under the Criminal Law of the PRC is remote.

Given the immaterial revenue contribution from the Relevant Customers and the payments received through Third Party Payments during the Track Record Period, our Directors are of the view that our Company does not rely on Third Party Payments for settlement of payments from our customers and the cessation of Third Party Payments will not have any material impact on our business, results of operations and financial performance. Our Directors also confirm that, as at the Latest Practicable Date, we were not involved in any disputes or proceedings, either threatened or pending, initiated by or against us in relation to the Third Party Payments.

Based on, amongst others, the advice of our PRC Legal Adviser and the due diligence work performed by the Sole Sponsor on the Third Party Payments, the Sole Sponsor is not aware of any material adverse findings in respect of the Third Party Payments which ought to be brought to the attention of the Stock Exchange.

Cessation of Third Party Payments and internal control measures

As confirmed by our Directors, since mid-October 2018, our Group has ceased all Third Party Payments, and has implemented enhanced internal control measures to ensure that our customers will not settle their payments through third parties and we will not accept any Third Party Payments. We have also issued an official memorandum and policy in October 2018, which states that payment must be made by our customers (being parties to our distribution agreements) and any requests for payment through third parties are prohibited under any circumstances. Going forward, our accounting and finance department will monitor and ensure that all sales invoices are addressed to our customers and that payment is settled by the relevant party.

Based on the internal control measures which have been fully adopted by our Company and the fact that no Third Party Payments have been identified since the cessation of the Third Party Payments and up to the Latest Practicable Date, our Directors are of the view, which the Sole Sponsor concurs, that the above additional internal control measures are effective and adequate in preventing Third Party Payments.

BUSINESS

Trading company and OEM sales

We sold certain of our products (comprising aerosols) on an OEM basis, to Shenzhen GNG Co., Ltd* (深圳市新金鑫實業有限公司) (“GNG”), a limited liability company established under the laws of the PRC with the relevant sales amounting to approximately RMB29.9 million, RMB51.5 million, RMB52.7 million^(Note) and RMB5.6 million^(Note) for each of the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. Of these, sales in the amount of approximately HK\$20.8 million, HK\$27.9 million and HK\$14.5 million (equivalent to approximately RMB17.8 million, RMB23.9 million and RMB12.4 million) were further on-sold to Mayvo (with further details on the relevant sales arrangement set out below) for each of the three years ended 31 December 2018 and up until August 2018. To the best of our Directors’ knowledge and belief, the remaining sales were on-sold by GNG to its other overseas customers. GNG is an independent third party, engaged in trading business for the overseas market. To the best knowledge of our Directors having making reasonable enquiries, (i) GNG’s sales orders are on an order-by-order basis according to their overseas customers’ design and specifications, and (ii) overseas customers of GNG are manufacturers or corporates engaged in the fine industrial chemical products industry in Australia, South America, North America, Africa, Eastern Europe and Southeast Asia. During the Track Record Period, we have sold products on an OEM basis under 19 different brand names (with these products bearing the corporate logos or brands of the overseas customers of GNG), covering the product types of aerosols and organic silicone adhesives.

We have established a business relationship with GNG since 2013, and we generally allow GNG a credit period of 90 days from issuance of our invoice. Save as in relation to the Australian Customer (defined below), the arrangements of which are further described below, we are not involved in any sales and marketing of our products on-sold by GNG to their customers, nor do we have any policy to monitor sales of our products by these customers through their own sales channels. To the best of our Directors’ knowledge and belief, the products sold by us to GNG are further on-sold to its overseas customers. Our Directors confirmed that during the Track Record Period, we did not experience any product return from GNG, and also were not involved in any disputes with GNG or relating to our products sold.

In 2013, through Asia Product Brokers Pty Limited (“APB”) (a company registered as an Australian proprietary company limited by shares, which is an independent third party engaged in product sourcing business), a customer based in Australia was referred to our Group for the sale of fine industrial chemical products on an OEM basis (“**Australian Customer**”). The management of our Group was initially unable to ascertain the (i) volume of future orders to be placed by the Australian Customer, (ii) long-term business value and (iii) costs arising from engaging directly in export business, and as such decided to carry out sales to the Australian Customer through GNG. An arrangement was put in place pursuant to which GNG on-sold our products to Mayvo Chemicals Limited (formerly known as American Sanvo (Hong Kong) Chemical Technology Holdings Limited) (“**Mayvo**”) (a private limited liability company in Hong Kong which was wholly-owned by Mr. Ernest Chen at the time and a then related company of our Group), which then further on-sold our products to the Australian Customer. GNG had marked up the pricing of the products it purchased from our Group when they were sold to Mayvo, with the mark up representing approximately 22.9%, 17.9% and 16.6% of the sales amount by our Group’s PRC subsidiaries to GNG for each of the two years ended 31 December 2017 and the eight months ended 31 August 2018, respectively. In terms of the logistics arrangement between our Group, GNG and Mayvo, goods were delivered to GNG (at GNG’s cost) in the PRC, and GNG in turn directly exported such goods to the Australian Customer. As such, Mayvo was not required to deal with re-export of the goods from Hong Kong to Australia. The relevant sales from Mayvo to the Australian Customer amounted to approximately HK\$23.0 million, HK\$31.1 million and HK\$16.1 million (equivalent to approximately RMB19.7 million, RMB26.6 million and RMB13.8 million) for the years ended 31 December 2016 and 2017, and the eight months ended 31 August 2018, respectively. The arrangement with Mayvo has been terminated since September 2018, when Mr. Ernest Chen’s equity interest in Mayvo was disposed to an independent third party, and such arrangement was taken up by/continued with American Sanvo.

Note: The sales amounts to GNG for the year ended 31 December 2018 and the six months ended 30 June 2019 have excluded relevant sales from GNG which were further on-sold to American Sanvo of approximately RMB3.8 million and RMB6.5 million, respectively, during the corresponding periods.

BUSINESS

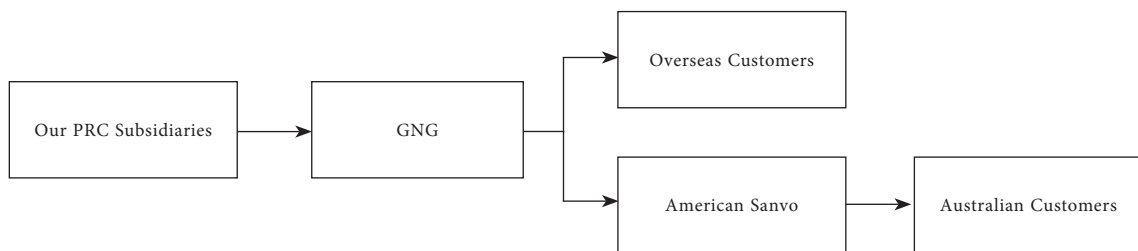
Although our Group has possessed relevant qualifications under PRC laws to potentially undertake an exporter role since December 2006, we have never directly engaged in the business of exporting our products overseas from the PRC. Our Company believes that the above arrangement had, at the time, minimised the financial and operational risks to our Group arising from an exporter role but allowed us to maintain a business relationship with the Australian Customer for future development. With the passage of time since the commencement of the above arrangements regarding the Australian Customer, the management of our Group had previously considered engaging in direct export sales, but has maintained the position that the current arrangements were more beneficial to our Group. Based on the current arrangements, the financial and operational risks arising from direct export from the PRC rests with GNG, which is engaged in trading business for the overseas market and has more experience and would be more efficient in handling export-related business operations. Our Directors also believe that the arrangement of on-selling our products to Mayvo by GNG helps to reduce our Group's business risk. Through this arrangement, our Group is able to exercise more control over the ultimate sale to the Australian Customer and maintain a long-term business relationship with it, which may not be achieved if GNG exported goods directly to the Australian Customer.

In particular, in order to efficiently manage any export business operations, our Group would have to set up a dedicated export team or department to handle, among others, relevant logistics, operations and compliance-related matters (such as obtainment of safety approvals, registrations or other documentation) arising from the direct export of our products overseas. The estimated amount of additional expenses arising directly from the establishment of an export team or department would amount to approximately RMB0.3 million. Based on the cost and benefits analysis conducted by our Group and for illustrative purposes only, if our Group had engaged in direct export sales to the Australian Customer without the involvement of GNG, we would expect to have generated approximately RMB1.0 million gross profit (in relation to sales to the Australian Customer) for the six months ended 30 June 2019. However, in addition to the expenses arising from the setting-up and maintenance of an export team (which would have amounted to approximately RMB0.2 million for the six months ended 30 June 2019), it is expected that our Group would have incurred additional logistics-related expenses of approximately RMB0.3 million for the six months ended 30 June 2019. As such, the profit (after income tax) expected to be recorded by our Group (in relation to sales to the Australian Customer) would amount to approximately RMB0.4 million for the six months ended 30 June 2019. Further, there are inherent risks and additional specific requirements (in relation to among others packaging and transportation) arising from the direct export of dangerous goods (such as aerosols) overseas from the PRC. If we fail to satisfy all the requirements or standards imposed by the PRC Government for export of products, our products may be detained and we may also face regulatory actions, and there may be a material adverse effect on our business, operating results and financial position. Therefore, taking into account the business risks arising from a direct exporter role (relating to the export of dangerous goods, such as aerosols), our Directors are of the view that (i) the amount of additional net profit expected to be earned by our Group (if we had engaged in direct export sales without the involvement of GNG) does not justify the time, effort, risks and costs devoted towards or arising from export-related business operations, and (ii) our current arrangements involving GNG are more beneficial to our Group, particularly from an operational perspective.

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Our Directors have confirmed that our sales made to GNG with respect to the Australian Customer were priced on the same level as our sales to other customers in the PRC. Mayvo would take into account the agency fees to be paid to APB and administrative fees in the price charged to the Australian Customer. For each of the two years ended 31 December 2017 and the eight months ended 31 August 2018, the amount of agency fees paid to APB by Mayvo amounted to approximately HK\$1.6 million, HK\$2.2 million and HK\$1.1 million, respectively. The amount of agency fees paid by Mayvo to APB was determined based on arm's length negotiations between Mayvo and APB, representing approximately 6% to 8% of the sales amount (depending on the product type). Mayvo remained dormant from incorporation until March 2013. Mayvo was excluded in the Reorganisation in view of (i) its business activities (which include wine trading) not being consistent with that of our Group, and (ii) Mr. Ernest Chen's equity interest in Mayvo having subsequently been disposed in September 2018 to an independent third party.

Since September 2018, our Directors confirmed that for the purpose of continuing and maintaining our business with the Australian Customer, we have continued the above arrangement where our PRC subsidiaries would sell our products to GNG, which would then on-sell such products to American Sanvo (being an indirect wholly-owned subsidiary of our Company). Similarly, the products sold to the Australian Customer on an OEM basis are delivered to GNG (at GNG's cost) in the PRC, which in turn directly exports such products to the Australian Customer. Accordingly, American Sanvo is not required to deal with re-export of the products from Hong Kong to Australia.



For the four months ended 31 December 2018 and the six months ended 30 June 2019, the amount of sales from our PRC subsidiaries to GNG in respect of the Australian Customer amounted to approximately RMB3.8 million and RMB6.5 million (equivalent to approximately HK\$4.5 million and HK\$7.5 million), respectively, whereas the purchase from GNG by American Sanvo amounted to HK\$5.1 million and HK\$8.6 million (equivalent to approximately RMB4.3 million and RMB7.5 million), respectively, for the corresponding periods.

In relation to the payment arrangements for sale of products from our PRC subsidiaries to GNG, GNG will make payment directly to our PRC subsidiaries, whereas American Sanvo will make payment directly to GNG in relation to the on-sale of products by GNG to American Sanvo. GNG had marked up the pricing of the products it purchased from our PRC subsidiaries when they were sold to American Sanvo, with the mark up representing approximately 12.7% and 15.3% of the sales amount by our Group's PRC subsidiaries to GNG for the four months ended 31 December 2018 and six months ended 30 June 2019, respectively. As two sets of identical sales transaction were reflected in our Group's consolidated financial statements, these onshore sales by our PRC subsidiaries to GNG are eliminated against American Sanvo's purchases from GNG and the mark up by GNG of approximately RMB0.5 million and RMB1.0 million was recognised as handling fee included in cost of sales for the four months ended 31 December 2018 and the six months ended 30 June 2019.

These sales generated by American Sanvo as sales to overseas customer(s) on an OEM basis of approximately HK\$5.7 million (equivalent to approximately RMB4.8 million) and HK\$9.5 million (equivalent to approximately RMB8.3 million) for the four months ended 31 December 2018 and the six months ended 30 June 2019, respectively, were recognised as sales.

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For the four months ended 31 December 2018 and the six months ended 30 June 2019, the amount of agency fees paid by American Sanvo to APB amounted to approximately HK\$0.4 million and HK\$0.6 million, respectively. Similarly, the amount of agency fees paid by American Sanvo to APB was determined based on arm's length negotiations between American Sanvo and APB, representing approximately 6% to 8% of the sales amount (depending on the product type).

Direct sales

In addition to our sales to (i) distributors and (ii) a trading company on an OEM basis, we also sell our fine industrial chemical products directly to, among others, renovation contractors, other manufacturers, hardware stores, car repair shops and other end users in the PRC. During the Track Record Period, direct sales accounted for approximately 13.5%, 14.1%, 2.1% and 1.0%, respectively, of our revenue. Our sales to Sanvo Holdings accounted for approximately 95.9%, 98.8% and 69.7%, respectively of our direct sales for each of the three years ended 31 December 2018.

With a view to develop and enter the organic silicone adhesives market and expand our production capacity, we identified Sanvo Holdings as an acquisition target in 2015. We took into consideration, amongst others, the proximity of the location of its production site to our other production sites, the number and types of machinery it operated and the technical expertise of its production staff in considering Sanvo Holdings as one of our acquisition targets. In 2015, we first commenced our relationship with Sanvo Holdings by entering into a co-operation arrangement with Sanvo Holdings, whereby we would provide it with semi-finished fine industrial chemical products, which would further undergo processing and other procedures at its production site. The finished products would be further on-sold to the third party customers of Sanvo Holdings, the customer base of which was developed based on our own distribution network. Under this co-operation arrangement, we provided, amongst others, technical assistance and guidance on production operations and our sales and marketing policies and practices (which is consistent with aftersales support services we typically offer to our distributors), and allowed Sanvo Holdings to use our brand name of “SANVO 三和” on their products for sale to our distribution network. Save for the value-added services as described above, the production operations, sales and management of Sanvo Holdings remained independent from our Group up until our acquisition thereof in April 2018. We considered that the use of our brand name on Sanvo Holdings's products would help us to further promote our brand and increase our brand recognition, which is in line with our business strategy as set out in the subsection headed “Business — Our business strategies — Strengthen our brand image through marketing and advertising initiatives” in this prospectus. In addition, we believed that the sale of such products bearing our brand to our own network of distributors by Sanvo Holdings would allow our brand to further tap and penetrate into the organic silicone adhesives sub-segment of the PRC fine industrial chemicals product market.

Our Directors were of the view that Sanvo Holdings had over the years successfully transformed itself into a promising fine industrial chemicals manufacturer in the field of organic silicone adhesives, and as a result of good faith commercial negotiations with the then shareholders of Sanvo Holdings, in April 2018, our Group acquired Sanvo Holdings, which is currently one of our wholly-owned operating subsidiaries and operates our SK Production Site. For further details on the acquisition of Sanvo Holdings, please refer to the subsection headed “History, Reorganisation and Corporate Structure — Our corporate history — 2. The Operating Subsidiaries — Sanvo Holdings” and the Accountant's Report as set out in Appendix I to this prospectus.

E-commerce platforms

Since 2016, we have also started selling certain of our products via certain e-commerce platform in the PRC, which we believe provides us with access to a broad online customer base. Our products are listed for sale on such third party online e-commerce platforms directly to end users, and we will receive payment for the purchase of such products through third party electronic payment channels. During each of the three years ended 31 December 2018 and the six months ended 30 June 2019, the revenue generated from our sales through e-commerce platforms represented approximately 0.1%, 1.3%, 1.0% and 0.4% of our total revenue, respectively.

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Our customers

During the Track Record Period, the majority of our customers were our distributors. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, sales to our five largest customers accounted for approximately 24.1%, 26.8%, 13.5% and 9.2% of our revenue, respectively, and sales to our single largest customer accounted for 12.9%, 13.9%, 6.9% and 2.2% of our revenue for the corresponding periods. Save for Sanvo Holdings, previously a direct sales customer, which we acquired in April 2018, all of our five largest customers for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 are independent third parties and not suppliers of our Group.

The table below sets out information on our top five customers for the periods indicated:

Customers	Total sales during the period (RMB million)	% of our total revenue	Business activities	Products supplied	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the six months ended 30 June 2019								
Australian Customer	8.3	2.2%	Industrial paint manufacturing	OEM products according to individual orders	Australia	6	90 days	Bank transfer
Nanning Huitianfeng Decoration Material Co., Ltd* (南寧滙添豐裝飾材料有限公司)	7.2	1.9%	Wholesale and retail of building and decorating materials	Spray paint, sealant products and all-purpose lubricant	PRC	5	None (Note 2)	Bank transfer
Shanghai Yukun Industrial Co., Ltd* (上海瑜琨實業有限公司)	6.8	1.8%	Design and construction, wholesale and retail of chemical products	Spray paint and sealant products	PRC	9	None (Note 2)	Bank transfer
Anhui Weikefu Building Materials Trading Co., Ltd* (安徽省為客福建材商貿有限公司)	6.8	1.8%	Design and decoration, wholesale and retail of related products	Spray paint, sealant products and all-purpose adhesives	PRC	3	None (Note 2)	Bank transfer
Shenzhen GNG Co., Ltd* (深圳市新金鑫實業有限公司)	5.6	1.5%	Export trading	OEM products according to individual orders	PRC	6	90 days	Bank transfer
Total	34.7	9.2%						

Note:

The Australian Customer is a proprietary limited company founded in Australia in 2000.

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Customers	Total sales during the year (RMB 'million)	% of our total revenue	Business activities	Products supplied	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2018								
Shenzhen GNG Co., Ltd* (深圳市新金鑫實業 有限公司)	52.7	6.9%	Export trading	OEM products according to individual orders	PRC	6	90 days	Bank transfer
Shanghai Yukun Industrial Co., Ltd* (上海瑜琨實業有限 公司)	16.8	2.2%	Design and construction, wholesale and retail of chemical products	Spray paint and sealant products	PRC	9	None ^(Note 2)	Bank transfer
Nanning Huitianfeng Decoration Material Co., Ltd* (南寧滙添豐裝飾材 料有限責任公司)	12.1	1.6%	Wholesale and retail of building and decorating materials	Spray paint, sealant products and all-purpose lubricant	PRC	5	None ^(Note 2)	Bank transfer
Anhui Weikefu Building Materials Trading Co., Ltd* (安徽省為客福建材 商貿有限公司)	11.8	1.5%	Design and decoration, wholesale and retail of related products	Spray paint, sealant products and all-purpose adhesives	PRC	3	None ^(Note 2)	Bank transfer
Chongqin Xiyuan Zhengxin Trading Co., Ltd* (重慶喜源正鑫商貿 有限公司)	9.7	1.3%	Wholesale and retail of chemical and electrical products	Spray paint and all-purpose lubricant	PRC	3	None ^(Note 2)	Bank transfer
Total	103.1	13.5%						

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Customers	Total sales during the year (RMB 'million)	% of our total revenue	Business activities/ Background	Products supplied	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2017								
Sanvo Holdings ^(Note 1)	93.0	13.9%	Development and production of chemical products	Semi-finished organic silicone adhesive products	PRC	4	90 days	Bank transfer
Shenzhen GNG Co., Ltd* (深圳市新金鑫實業有限公司)	51.5	7.7%	Export trading	OEM products according to individual orders	PRC	6	90 days	Bank transfer
Shanghai Yukun Industrial Co., Ltd* (上海瑜琨實業有限公司)	15.0	2.2%	Design and construction, wholesale and retail of chemical products	Spray paint and sealant products	PRC	9	None ^(Note 2)	Bank transfer
Nanning Huitianfeng Decoration Material Co., Ltd* (南寧滙添豐裝飾材料有限公司)	11.1	1.7%	Wholesale and retail of building and decorating materials	Spray paint, sealant products and all-purpose lubricant	PRC	5	None ^(Note 2)	Bank transfer
Mr. Wang Shengtian (王盛田先生)	8.8	1.3%	Merchant	Spray paint, all-purpose adhesive, floor wax and AB glue	PRC	14	None ^(Note 2)	Bank transfer
Total	179.4	26.8%						

BUSINESS

Customers	Total sales during the year (RMB 'million)	% of our total revenue	Business activities / Background	Products supplied	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2016								
Sanvo Holdings ^(Note 1)	66.3	12.9%	Development and production of chemical products	Semi-finished organic silicone adhesive products	PRC	4	90 days	Bank transfer
Shenzhen GNG Co., Ltd* (深圳市新金鑫實業 有限公司)	29.9	5.8%	Export trading	OEM products according to individual orders	PRC	6	90 days	Bank transfer
Shanghai Yukun Industrial Co., Ltd* (上海瑜琨實業有 限公司)	13.4	2.6%	Design and construction, wholesale and retail of chemical products	Spray paint and sealant products	PRC	9	None ^(Note 2)	Bank transfer
Mr. Wang Shengtian (王盛田先生)	8.1	1.6%	Merchant	Spray paint, all-purpose adhesive, floor wax and AB glue	PRC	14	None ^(Note 2)	Bank transfer
Nanning Huitianfeng Decoration Material Co., Ltd* (南寧滙添豐裝飾材 料有限責任公司)	6.0	1.2%	Wholesale and retail of building and decorating materials	Spray paint, sealant products and all-purpose lubricant	PRC	5	None ^(Note 2)	Bank transfer
Total	123.7	24.1%						

Notes:

- (1) Sanvo Holdings was wholly owned by an independent third party throughout the Track Record Period up until April 2018 when it was acquired by Guangdong Sanvo, and since then it has been an indirect wholly-owned subsidiary of our Company. For further details on the acquisition of Sanvo Holdings, please refer to the subsection headed “History, Reorganisation and Corporate Structure — Our corporate history — 2. The Operating Subsidiaries — Sanvo Holdings” in this prospectus.
- (2) “None” means we require the purchase price to be paid in full before we deliver our products.

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To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who or which, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of our five largest customers during the Track Record Period. During the Track Record Period and as at the Latest Practicable Date, we have not entered into any long-term agreement with our customers and save for Sanvo Holdings, which we acquired in April 2018, all of our customers (including our five largest customers) are independent third parties.

Pricing policy

Our pricing policy for our products generally comprises (i) a uniform price list pursuant to which we provide products to our distributors, (ii) mandatory minimum price levels for our distributors to resell our products (i.e. wholesale), and (iii) suggested price levels for our distributors to resell our products. Our Directors believe that this pricing policy, together with the geographical restriction related to distribution territory, have, and will continue to, effectively minimise the risk of market cannibalisation among our distributors.

We determine our product price levels on an annual basis using a cost-plus approach and review our prices from time to time with the assistance of, among others, our sales and marketing, finance and research and development departments, taking into account various factors including the demand for our products, production costs, raw material costs and the prices of our competitors' or other similar products. In order to maintain our competitiveness and optimise our profit margin, we review our pricing strategies and adjust our price levels from time to time to adapt to changes in market conditions.

SALES AND MARKETING

We place strong emphasis on the marketing and promotion of our brands and our products and believe that our sales and marketing strategies have been important components of our success. We market and advertise our products and brands through a variety of channels and methods to increase the penetration of our target markets.

We maintain frequent contact with and conduct regular visits to our distributors, which facilitate our obtaining feedback on our products and gauging customer satisfaction, as well as improving our business relationship with them. Our distributors also contribute to the marketing and promotion of our brand by conducting local promotions within their geographic areas. We encourage our distributors to spend a portion of their sales on local advertising and activities and offer stipends for relevant marketing activities which conform to our internal sales and marketing policy and standards.

Our sales and marketing team is responsible for formulating the overall marketing and branding strategies of our Group to enhance sales and maintain market awareness of our brand. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group had in total 112, 142, 143 and 133 sales and marketing personnel, respectively. We currently do not have a sales incentive or commission scheme in place. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our advertisement fee and promotion expenses amounted to approximately RMB7.6 million, RMB15.7 million, RMB28.3 million and RMB18.2 million, respectively.

During the Track Record Period, we principally implemented the following sales and marketing initiatives to promote our brands and products:

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Advertisements

During the Track Record Period, we have placed advertisements in or on billboards, signage and common area of commercial buildings to maximize our reach to a wider group of target customers. For example, in early 2018, we placed advertisements on the light box displays or television panels erected or set-up in various high speed rail (高鐵) stations (such as Nanjing South Station, Kunming Station, Hangzhou East Station and Jinan West Station) in the PRC.

We have also placed commercials on television channels in the PRC, such as with China Central Television's CCTV-1 and CCTV-7 channels. Our Directors believe that television marketing is one way for our brand to reach a large number of end-users in the PRC.

Engagement of spokesperson

Since February 2017, we have engaged Yedda Chiu (趙彤), an actress, model and television programme host in the PRC and Taiwan to appear in our promotional materials and also the packaging.

Sales promotions and discounts

Our sales and marketing team selects products to be sold at a discounted price during our promotional sale to stimulate our sales. The list of discounted products is provided to our distributors or customers through third party electronic payment platforms or through our ERP system. Apart from promotions, we also launch other types of sales throughout the year, which cover different types of products to boost sales.

Our Group also provides incentive to our distributors by offering sales discounts when our distributors achieve or exceed the predetermined sales targets set forth in the distribution agreements, which are negotiated and determined based on various factors such as the general market conditions and historical sales or past performance of the distributors. The percentage or amount of sales discount received by a distributor generally follows a tiered system, whereby the amount of discount will increase if the predetermined sales targets are exceeded by a higher amount. If a distributor achieves or exceeds its predetermined sales target, such distributor can apply such sales discounts towards purchases in the following financial year. Such sales discounts are recognised and deducted from our revenue for each of the relevant periods (being the period in which the distributors earned the sales discounts through achieving or exceeding sales targets). During the Track Record Period, the discount is normally in the range of 1% to 4% of the price of the relevant products.

Customer events

Our goal is to share our experience and knowledge of our products with our customers, therefore, we set up regular customer events, including annual summits, training camps and appreciation gatherings. These activities strengthen our relationships with our customers, enhance our customers' knowledge on our brand, mission and products and thus increases their loyalty to our Group.

Participation in domestic and international exhibitions and trade fairs

During the Track Record Period, we have participated in 14 domestic and international exhibitions and trade fairs. Our Directors believe that by attending such exhibitions and trade fairs, we are able to showcase our products, enhance our industry knowledge by keeping abreast of the latest trends and developments in new designs and types of products and other developments in the fine industrial chemical products industry.

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OUR PRODUCTS

We focus principally on the manufacture, research and development, and sale of fine industrial chemical products which can be applied as hardware and building materials and towards automotive maintenance in the PRC. Our products can be broadly categorized into four main segments:

- (i) aerosols;
- (ii) organic silicone adhesives;
- (iii) synthetic adhesives; and
- (iv) other miscellaneous products.

The following table sets forth the breakdown of our revenue by product segment during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	Revenue RMB'000 (unaudited)	% of total revenue	Revenue RMB'000	% of total revenue
Aerosols	321,558	62.8	426,820	63.8	387,562	50.4	153,249	48.1	199,486	53.7
Organic silicone adhesives	69,124	13.5	80,514	12.0	186,245	24.2	88,107	27.7	85,590	23.0
Synthetic adhesives	54,919	10.7	78,612	11.7	65,909	8.6	27,827	8.7	31,535	8.5
Other miscellaneous products ^(Note)	66,618	13.0	83,328	12.5	129,455	16.8	49,425	15.5	54,743	14.8
Total	512,219	100.0	669,274	100.0	769,171	100.0	318,608	100.0	371,354	100.0

Note: Other miscellaneous products include product types such as architectural coatings, oil products and wood paints, which do not fall into other product categories.

The following sets out the average selling prices and price range by product type during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June 2019	
	2016		2017		2018		Average selling price	Price range
	Average selling price (RMB/kg)	Price range (RMB)	Average selling price (RMB/kg)	Price range (RMB)	Average selling price (RMB/kg)	Price range (RMB)	(RMB/kg)	(RMB)
Aerosols	15.5	2.9 to 21.8	15.6	2.9 to 21.8	16.1	3.0 to 21.8	16.3	3.0 to 30.0
Organic silicone adhesives	11.5	1.7 to 15.9	13.0	1.7 to 15.9	13.9	2.2 to 30.0	14.1	2.0 to 30.0
Synthetic adhesives	15.6	1.0 to 175.0	18.8	1.2 to 178.0	18.4	1.2 to 170.3	18.5	1.2 to 198.0
Other miscellaneous products	10.0	4.0 to 1,320.0	13.2	4.0 to 528.0	13.5	4.0 to 481.0	13.6	2.5 to 483.0






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We did not experience any material fluctuations in the average selling price of our products during the Track Record Period because of our pricing policy. The high-end of the price range of our other miscellaneous products fluctuated during the Track Record Period mainly due to changes in our products and product mix offered. In addition, the high-end of the price range of our organic silicone adhesives for the year ended 31 December 2018 increased significantly as compared to the preceding year, due primarily to the addition of products with an increased packaged product volume, which accordingly resulted in an increase in the high-end of price per packaged product. We expect that our average selling prices will observe a stable increase in the future, mainly attributable to the general increase in raw materials and demand from downstream industries.



We have a broad range of products that suits customers or end users with specific needs across various downstream industries, such as automotive maintenance, building hardware and materials. The following sets out details on our various product types:

Aerosols

Our aerosols mainly comprise spray paints and automotive care products, including spray paint, carburetor cleaner, spray wax, anti-rust spray lubricant, polyurethane foam, cleaning spray and spray refrigerant for automobile air-conditioners. As at the Latest Practicable Date, our aerosols include approximately 31 types of products in aggregate. The table below sets out further information about our key product series in this product segment:




Key product series	Description/applications	Sample photographs
Spray paint	Spray paints for use on various types of objects and different surfaces, such as metal, glass and/or wood	
Carburetor cleaner	Spray for removal of gel, slurry, paint film and other deposits in carburetors	
Spray wax	Spray for cleaning and polishing of dashboards, household appliances and other objects	
Anti-rust spray lubricant	Corrosion inhibitor to protect machinery, equipment, tools, precision instruments and hardware fittings; rust remover for loosening rusted parts or components	
Polyurethane foam	Aerosol foam used as a gap sealant	

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Key product series	Description/applications	Sample photographs
Cleaning spray	Cleaning spray for cleaning and removing dirt and stains from various objects, such as vehicles, hardware, power tools and household items and surfaces	
Spray refrigerant for automobile air-conditioners	Refrigerant for protection of automotive refrigeration system	



Organic silicone adhesives

Our organic silicone adhesives mainly consist of three product series, which are all types of silicone-based adhesives. The table below sets out further information about our major products in this category:





Key product series	Description/applications	Sample photographs
Structural adhesive	Adhesives used for bonding in, for example, the installation of curtain walls	
Silicone sealant	Sealant used to bond and seal glass with other substrates	
Silicone gasket	High-strength leak-proof gasket sealant for heavy-duty vehicles and other machinery and equipment	

Synthetic adhesives

Our synthetic adhesives consist of several product series, which are all types of multi-purpose contact adhesives. The table below sets out further information about our major products in this category:

Key product series	Description/applications	Sample photographs
SBS contact adhesive	Multi-purpose adhesive commonly used in home decoration, automotive interiors and advertisements	
Neoprene contact adhesive	Multi-purpose contact adhesive for different surfaces, such as wood, metal, rubber, leather and textiles	

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Key product series	Description/applications	Sample photographs
Nail-less glue	Liquid adhesive for use with different materials and can replace nails and screws	
Liquid sealant	Liquid sealant which provides shockproof sealing and remains flexible after curing	
Heavy duty AB glue	Double component adhesive used on plastic panels, toys and electrical appliances etc. and for bonding and assembly of elevators and motors	
Anaerobic adhesive	Adhesive applied to, for example, the threads of fasteners such as screws and bolts to prevent loosening, leakage and corrosion	

Other miscellaneous products

The table below sets out further information on other miscellaneous products, including architectural coatings, oil products and wood paints, which we manufacture:

Key product series	Description/applications	Sample photographs
Emulsion paint	Decorative paint for use on wall, ceiling, concrete and masonry structure painting	
Special effects paint	Decorative paint with special effects, such as for creating stone effect	
Special function paint	Decorative paint with special functions, such as paint with nano-particles to promote better sleep	
Furniture paint	Paint used in manufacturing of wooden furniture	
Decorative paint	Decorative paint used for indoor household renovation and decoration of wooden surfaces	
Diesel engine oil	Lubricant for diesel motor engines	

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Key product series	Description/applications	Sample photographs
Gasoline engine oil	Lubricant for gasoline motor engines	
Gear oil	Paraffin-base lubricant oil with anti-rust and anti-friction properties for use transmissions in automobiles and other machinery	
Lubricating grease	Semisolid lubricant with anti-oxidant, anti-rust and anti-friction additives	
Anti-wear hydraulic oil	Hydraulic oil developed for high pressure hydraulic systems with, among others, anti-wear, anti-oxidation, anti-corrosion and demulsification additives	
Synthetic brake fluid	Fluid used in a hydraulic brake system in automobiles	
Engine water tank coolant	Cooling protection agent for automobile watertanks, providing protection from corrosion, rust and scaling	
Canned paint remover	Paint remover for removal of oil-based paints, which will not corrode metal substrates	
Fuel additives	A compound for clearing carbon deposits in intake valves and combustion chambers of vehicles	
Antifreeze	Liquid which preserves a car's coolant reservoir and the engine cooling system, providing long-term corrosion protection	
Fuel system cleaner	Agent for removing gum and carbon deposits in various components of engines for improving engine performance	
Tire repair liquid sealant	Liquid sealant to strengthen the tire, may seal pores caused by minor punctures, preventing air leakage	
Water tank plugging agent	Agent added to various types of antifreeze and coolant, used for stopping leakage of, for example, water tanks	

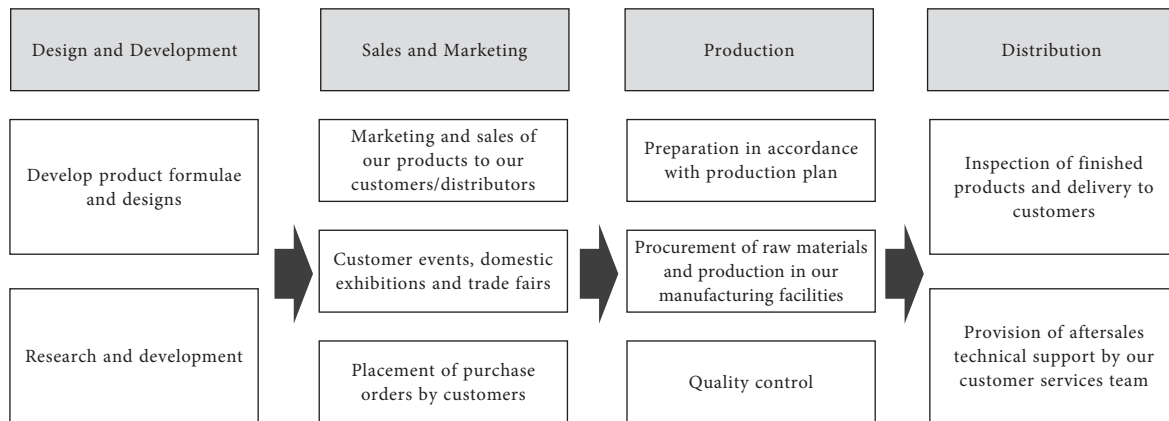
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Demand for our products may be affected by seasonality, with the period from January to June normally recording decreased levels of demand while the period from July to December normally records higher levels of demand. Our Directors believe this trend follows the general trend of annual consumer spending in the PRC.

The life cycle of our products ranges generally between six to 24 months.

OUR OPERATIONS

For illustration purposes, our operations principally involve the processes set out in the simplified operational workflow diagram below:



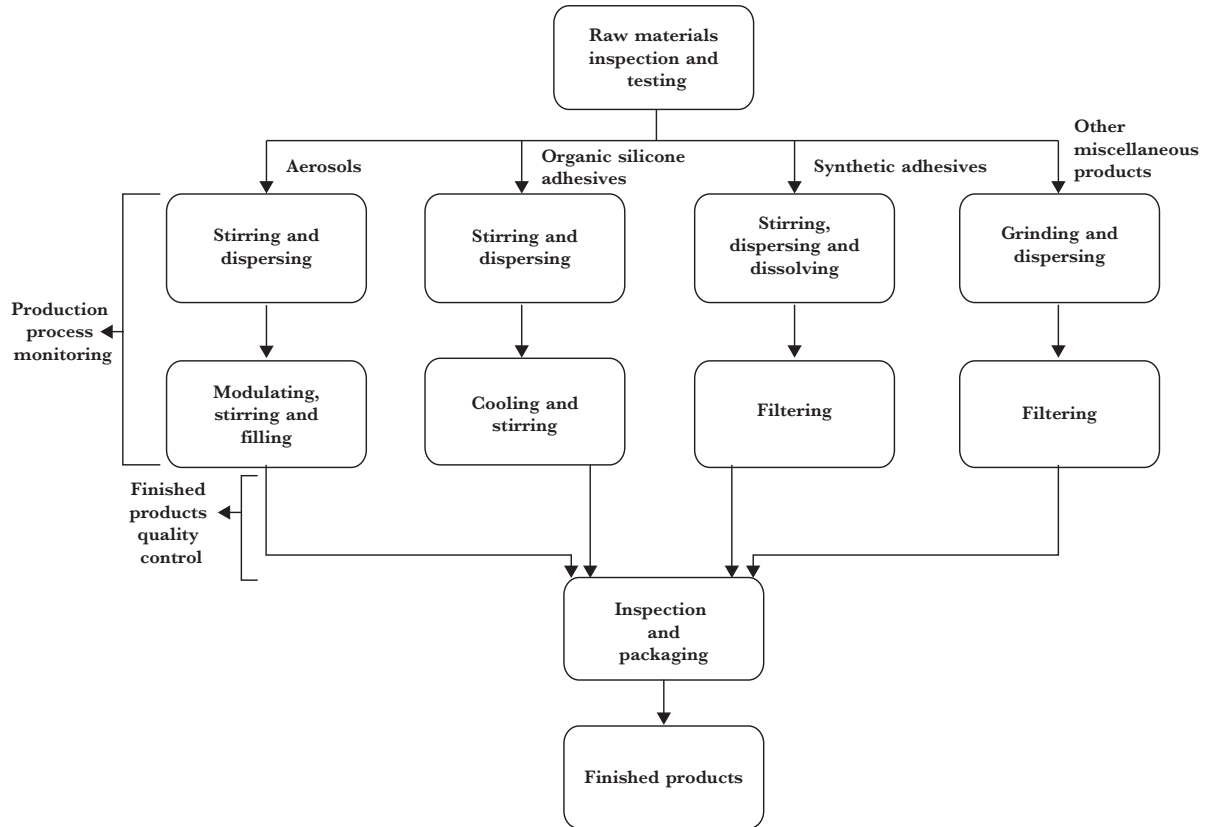
The production of our major products can generally be completed within five days, depending on the volume of individual purchase orders. From placement of a purchase order to delivery of products to our customers, the average product lead-time is approximately 13 days (depending on the delivery location). During the Track Record Period, our inventory turnover days ranged from approximately 41 days to 48 days.

To ensure that we have sufficient raw materials for production and to effectively control our risk exposure to excess production and inventory, our procurement team reviews and monitors our inventory level on a monthly basis, with reference to, among others, our actual production plan, our storage of raw materials and their prevailing purchase price. This allows us to decide on the quantity of raw materials we should procure taking into account our production plan in the forthcoming months, our current inventory levels, the availability of our storage, the current purchase price, and estimated price trend of such raw materials, ensuring that there is no excessive storage of raw materials.

Manufacturing

Production process

The production process varies depending on the type of product manufactured. The diagram below illustrates the major production processes for our Group's products:



Further details on the various major production steps involved in our production processes are set out below:

Raw materials inspection and testing

Upon delivery, the incoming raw materials will be fully inspected and tested pursuant to our quality control requirements and specifications. Raw materials will only be stored in our warehouses after they have passed the relevant quality control tests. Solvents that have passed our quality control tests will be transported through a tanker pipeline system and pumped into storage tanks for use.

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Stirring and dispersing

Raw materials used in our production are selected and weighed pursuant to the product codes by our production department for each batch or group of products to be produced, and then loaded into a mixing machine. Raw materials are stirred and dispersed by high speed dispersion cylinders until they break down into finer particles for further processing.

Stirring, dispersing and dissolving

Raw materials used in our production are selected and weighed pursuant to the product codes by our production department for each batch or group of products to be produced. Raw materials are then loaded into a mixing machine, then ground and dispersed, stirred and dissolved simultaneously in order to expel air and evaporate water from the mixtures.

Grinding and dispersing

Raw materials used in our production are selected and weighed pursuant to the product codes by our production department for each batch or group of products to be produced, and then loaded into a mixing machine for grinding. Raw materials are stirred and dispersed with high speed in accordance with specific process requirements and order within required time to expel the dust and air in the mixing.

Modulating, stirring and filling

After the first stage of stirring, the product is mixed and modulated with other solvents or adhesives materials and transferred to sand mill or high speed dispersion cylinder for grinding in accordance with certain production requirements and orders within a set period of time in order to achieve the required level of fineness. After this procedure, the resulting product is filtered through a filter to remove incomplete or semi-finished products.

Cooling and stirring

After the heating, stirring and dispersing procedures, the product is cooled in accordance with certain production requirements, and then mixed with other raw materials and stirred in accordance with certain production requirements and orders within required time.

Filtering

The product is then filtered again through a filter to remove incomplete undesirable semi-finished products from mixing.

Inspection and packaging

Semi-finished products which were ground, mixed, dispersed, cooled and/or filtered and filled will be thoroughly inspected to make sure they meet our quality standards and other product specifications (such as colour, density, level of dispersion, texture, adhesivity and level of water content). After passing our quality control inspection, the semi-finished products will be poured into labelled cans or buckets, sealed, packed and transported to our warehouses for storage pending delivery to our customers.

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Production Sites

As at the Latest Practicable Date, we operated four manufacturing facilities, namely the SV Production Site, FV Production Site, SK Production Site and XV Production Site, which are all situated in Zhongshan City and Shunde District, Foshan City in the Guangdong Province in the PRC with an aggregate of 16 production lines, comprising (i) eight aerosol production lines, (ii) two organic silicone adhesives production lines, (iii) two synthetic adhesives production lines, and (iv) four other miscellaneous products production lines. All of the manufacturing processes of our products take place at our FV Production Site, SK Production Site, SV Production Site and XV Production Site, where we have a range of machinery and equipment, which are all self-owned. Save as otherwise disclosed in the subsection headed “Business — Properties — Properties with defective titles” in this prospectus, we or the landlord of our Production Sites (as the case may be) have obtained all land use right certificates and building ownership certificates over the land used by our manufacturing facilities. Most of our production lines are capable of producing different types of products within individual product segments and are adjustable for switching production from one product type to another to cater for changes in production volume or orders for different types of products.

Production Site	Self-owned/ leased	Location	Total site area (sq.m.)	Total gross floor area		Main types of products produced	Year/timing of commencement of commercial production
				(sq.m.)	Breakdown of gross floor area by function (sq.m.)		
FV Production Site	Leased	Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC	31,288.5	4,825.2	Production workshops: approximately 2,191.2 sq.m. Warehouses: approximately 2,034.3 sq.m. Offices: approximately 507.0 sq.m. Miscellaneous: approximately 92.7 sq.m.	Organic silicone adhesives, aerosols and other miscellaneous products	2012
SK Production Site	Self-owned	No. 5 Xinliu West Road, Huangpu Town, Zhongshan City, Guangdong, the PRC	62,606.7	40,801.2	Production workshops: approximately 37,361.9 sq.m. Offices: approximately 2,416.8 sq.m. Miscellaneous: approximately 1,022.5 sq.m.	Organic silicone adhesives, lubricants and other miscellaneous products	2018 ^(Note)
SV Production Site	Leased	Dacen Industrial Park, Huangpu Town, Zhongshan City, Guangdong, the PRC	18,600.0	7,958.2	Production workshops: approximately 1,344.0 sq.m. Warehouses: approximately 2,388.0 sq.m. Offices: approximately 1,636.5 sq.m. Miscellaneous: approximately 2,589.7 sq.m.	Aerosols and other miscellaneous products	2002

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Production Site	Self-owned/ leased	Location	Total site area (sq.m.)	Total gross floor area		Main types of products produced	Year/timing of commencement of commercial production
				(sq.m.)	Breakdown of gross floor area by function (sq.m.)		
XV Production Site	Self-owned	Jiyu Industrial Park, Xingtan Town, Shunde District, Foshan City, Guangdong, the PRC	13,824.28	6,900.8	Production workshops: approximately 2,880.1 sq.m. Warehouses: approximately 2,269.9 sq.m. Offices: approximately 1,288.9 sq.m. Miscellaneous: approximately 461.8 sq.m.	Synthetic adhesives, wood paints and architectural coatings	2007

Note: We acquired our SK Production Site when we acquired Sanvo Holdings in April 2018.

Properties under construction

We are currently in the course of upgrading and expanding our aerosols production. As at the Latest Practicable Date, the construction works relating to phase one of the construction plans with respect to our MV Production Site have been substantially completed and we will target to commence trial production in 2020.

An expected breakdown of the gross floor area of MV Production Site by function is as follows: (i) production workshops — approximately 24,277.3 sq.m.; (ii) warehouses — approximately 34,475.9 sq.m.; (iii) research and development — approximately 8,856.2 sq.m.; and (iv) miscellaneous — approximately 126.8 sq.m.

For further details on our manufacturing facilities and Production Sites, please refer to the subsection headed “Business — Properties” in this prospectus and also the property valuation report set forth in Appendix III to this prospectus for further details.

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Production capacity and utilisation rates

The following table sets forth the designed production capacity, actual production volume and utilisation rate of our manufacturing facilities at our SV Production Site, FV Production Site, XV Production Site and SK Production Site during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
SV Production Site (seven aerosols production lines)				
Designed production capacity ^(Note 1) (tonnes)	19,885.5	23,427.9	23,427.9	11,713.9
Actual output ^(Note 2) (tonnes)	22,138.0	23,125.0	22,245.0	11,400.0
Utilisation rate ^(Note 3) (%)	111.3	98.7	95.0	97.3
	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
FV Production Site^(Note 8)				
<i>Production line 1 (organic silicone adhesives)</i>				
Designed production capacity ^(Note 1) (tonnes)	5,392.8	5,392.8	5,392.8	2,696.4
Actual output ^(Note 2) (tonnes)	5,028.0	5,753.0	5,240.0	1,743.0
Utilisation rate ^(Note 3) (%)	93.2	106.7	97.2	64.6
<i>Production line 2 (organic silicone adhesives)</i>				
Designed production capacity ^(Note 1) (tonnes)	954.0	3,089.9	3,089.9	—
Actual output ^(Note 2) (tonnes)	836.0	3,062.0	990.0 ^(Note 7)	—
Utilisation rate ^(Note 3) (%)	87.6 ^(Note 4)	99.1	32.0 ^(Note 7)	—
<i>Production line 3 (aerosols)</i>				
Designed production capacity ^(Note 1) (tonnes)	—	3,710.0	3,710.0	— ^(Note 9)
Actual output ^(Note 2) (tonnes)	—	2,090.0	4,544.0	— ^(Note 9)
Utilisation rate ^(Note 3) (%)	—	56.3 ^(Note 5)	122.5	— ^(Note 9)

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	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
XV Production Site				
Production line 1 (other miscellaneous products)				
Designed production capacity ^(Note 1) (tonnes)	10,202.5	10,202.5	10,202.5	5,101.3
Actual output ^(Note 2) (tonnes)	5,600.0	4,734.0	4,358.0	1,794.0
Utilisation rate ^(Note 3) (%)	54.9	46.4	42.7	35.2
Production line 2 (other miscellaneous products)				
Designed production capacity ^(Note 1) (tonnes)	7,287.5	7,287.5	7,287.5	3,643.8
Actual output ^(Note 2) (tonnes)	3,200.0	2,786.0	1,979.0	633.0
Utilisation rate ^(Note 3) (%)	43.9	38.2	27.2	17.4
Production line 3 (synthetic adhesives)				
Designed production capacity ^(Note 1) (tonnes)	7,287.5	7,287.5	7,287.5	3,643.8
Actual output ^(Note 2) (tonnes)	3,300.0	3,937.0	3,966.0	1,768.0
Utilisation rate ^(Note 3) (%)	45.3	54.0	54.4	48.5
				For the six months ended 30
				June
	2016	2017	2018	2019
SK Production Site^(Note 6)				
Production line 1 (synthetic adhesives)				
Designed production capacity ^(Note 1) (tonnes)	—	—	182.0	91.0
Actual output ^(Note 2) (tonnes)	—	—	123.0	70.7
Utilisation rate ^(Note 3) (%)	—	—	67.6	77.7
Production line 2 (organic silicone adhesives)				
Designed production capacity ^(Note 1) (tonnes)	—	—	12,816.0	6,408.0
Actual output ^(Note 2) (tonnes)	—	—	6,147.0	4,131.8
Utilisation rate ^(Note 3) (%)	—	—	48.0	64.5
Production line 3 (other miscellaneous products)				
Designed production capacity ^(Note 1) (tonnes)	—	—	10,080.0	5,040.0
Actual output ^(Note 2) (tonnes)	—	—	3,848.0	1,436.7
Utilisation rate ^(Note 3) (%)	—	—	38.2	28.5
Production line 4 (other miscellaneous products)				
Designed production capacity ^(Note 1) (tonnes)	—	—	720.0	360.0
Actual output ^(Note 2) (tonnes)	—	—	301.0	265.1
Utilisation rate ^(Note 3) (%)	—	—	41.8	73.6

BUSINESS

Notes:

1. The designed production capacity figures are calculated based on a number of assumptions, including the daily operation time and the number of working days for the relevant period. The figures for each of the three years ended 31 December 2018 are based on the assumption that each production line operates eight hours per day, an average of 26.5 days per month and 11 months per year (excluding Sundays and public holidays during the year in the PRC). The designed production capacity figures for the three years ended 31 December 2018 are therefore calculated by multiplying eight hours per day by 26.5 days per month and further by 11 months (or on a pro-rata basis, where appropriate). The figures for the six months ended 30 June 2019 are based on the assumption that each production line operates eight hours per day, an average of 26.5 days per month and five and a half months from 1 January 2019 to 30 June 2019 (excluding Sundays and public holidays during the year in the PRC).
2. For the purposes of this calculation, the number of products produced have been generalised and based upon the unit product with the largest volume produced.
3. Utilisation rate is calculated by dividing actual output by designed production capacity during the same period.
4. Trial production commenced in August 2016.
5. Trial production commenced in March 2017.
6. We acquired our SK Production Site when we acquired Sanvo Holdings in April 2018. Sanvo Holdings was wholly owned by an independent third party throughout the Track Record Period until April 2018 when it was acquired by Guangdong Sanvo. Since then it has become an indirect wholly-owned subsidiary of our Company.
7. The production of organic silicone adhesives on production line 2 at our FV Production Site was taken up by and transferred to our SK Production Site with effect from July 2018, and hence the production volume and utilisation rate experienced a significant year-on-year decrease in 2018.
8. On 26 November 2018, a fire broke out at our FV Production Site (the “**Incident**”). However, as a result of the Incident: (i) only approximately 100 sq.m. of production space in the FV Production Site was affected; and (ii) production originally scheduled to take place at our FV Production Site during its suspension of production and operations subsequent to 27 November 2018 and up until 8 January 2019 were taken up by our other Production Sites. As such, save for the total financial loss of approximately RMB500,000, there was no material impact of the Incident on our Group’s operation and production capacity. For further details, please refer to the subsection headed “Business – Occupational health and work safety – Fire Incident at our FV Production Site” in this prospectus.
9. The production of aerosols on production line 3 at our FV Production Site has been under restoration since 27 November 2018 and was taken up by and transferred to our SV Production Site thereafter. Our Group has resumed operation and aerosols production on the restored aerosols production line at the FV Production Site since 10 November 2019.

During the Track Record Period, we have experienced relatively low utilisation rates with respect to certain of our production lines for organic silicone adhesives, synthetic adhesives and other miscellaneous products. Due to the highly fragmented nature of the fine industrial chemical products industry in the PRC, our market share for those product types was relatively small, which resulted in a lower level of demand from customers. Customers for such types of products typically take a longer period of time to work through their inventories and hence our related machinery and equipment for such types of products operated at lower utilisation rates. We had also acquired the SK Production Site when we acquired Sanvo Holdings in April 2018, which has an overall high designed production capacity, leading to a low level of overall utilisation rate at the SK Production Site for the period from April 2018 to December 2018.

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There was over-utilisation of certain of our production lines at our SV Production Site and FV Production Site because our actual operating hours exceeded eight hours per day, which we used to calculate our annual production capacity. Our longer operating hours were due to the inspection, maintenance and upgrading of our production machinery and equipment, which ultimately shortened maintenance overhauls at our production facilities, prolonged the operating time of our equipment and also increased our operating efficiency. We also adjusted our production schedule and volume in accordance with our production plans, which resulted in different utilisation rates during the Track Record Period.

We will replace or upgrade current machinery and invest in new machinery to improve our production capacity and/or capabilities as necessary, utilising internal funding. We currently have no plans to replace our current machinery at our existing production sites in operation for the near foreseeable future, but will continue to monitor the condition of our machinery and have also retained funding in reserve in the event we are required to replace or upgrade our machinery, for example to further increase the level of automation in our production processes.

Major production machinery and equipment

As at the Latest Practicable Date, all machinery and equipment which are material to our production process at our existing production sites in operation are owned by us and were purchased from domestic suppliers in the PRC. The following table sets out further information on our major types of machinery and equipment as at the Latest Practicable Date:

<u>Types of machinery and equipment</u>	<u>Principal usage or function</u>	<u>Expected useful life</u> <i>(years)</i>	<u>Remaining useful life</u> <i>(years)</i>	<u>Average age</u> <i>(years)</i>
Can unscrambler	Arranging and conveying cans	10	7.6	2.4
Ink jet printer	Coding production date	5-10	6.1	3.9
Filling machine	Packaging (liquid materials filling)	10	6.6	3.4
Inflator pump	Injection of air or vapour propellant into aerosols products	10	6.1	3.9
Valve fitting machine	Installation and fitting of valves in aerosol products	9	7.6	1.9
Labelling machine	Product labelling	10	9.2	0.8
Automatic packaging machine	Packaging (general)	10	5.5	7.4
Kettle equipment	Materials mixing	5-10	5.5	4.5
Sand mill	Materials grinding	3-10	4.8	5.7
Air compressor	Air compression and pressure generation	5-10	6.2	2.7
Colouring machine	Colour modulation	5-10	3.6	5.0
Cooling machine	Heat removal	0-10	2.1	6.2
Racking machine	Packaging (product racking)	5-10	4.8	3.6

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We place an emphasis on the maintenance of our machinery and equipment and our production teams carry out internal repair and maintenance work (such as cleaning and lubrication) on a regular basis. In addition, we carry out regular inspection and maintenance for our major machinery and equipment once a month (such as checking for wear and tear and replacements of parts), and also engage independent third party experts to provide maintenance or technical support services in accordance with their respective maintenance requirements and conditions when necessary. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material production interruption or suspension which had any significant effects on our financial position. As a result of our emphasis on maintenance, we expect the operational life of our major machinery to be relatively long and we only replace aged machinery when necessary. For details of our depreciation policies, please refer to the Accountant's Report as set out in Appendix I to this prospectus.

Relocation to the MV Production Site and expansion plans

As at the Latest Practicable Date, we had already invested an initial aggregate amount of approximately RMB92.2 million towards the development of the MV Production Site including for acquisition of the land and part of the land development costs. We plan to use the proceeds from the Share Offer to finance part of the remaining capital expenditures in relation to our expansion plans by investing approximately HK\$60.2 million (equivalent to approximately RMB51.6 million) (representing approximately 80% of the net proceeds) in our new manufacturing facility at the MV Production Site. Major categories of capital expenditures which remain outstanding in relation to our MV Production Site include (i) purchase of production machinery and equipment, (ii) land development costs (in relation to both phase one and phase two of construction), (iii) construction costs in relation to the setting up of the production site, (iv) environmental engineering related expenses, and (v) other miscellaneous capital expenditures. We expect to invest in aggregate approximately HK\$43.7 million (equivalent to approximately RMB37.4 million), approximately HK\$8.8 million (equivalent to approximately RMB7.5 million), HK\$4.2 million (equivalent to approximately RMB3.6 million), HK\$2.5 million (equivalent to approximately RMB2.1 million) and HK\$1.0 million (equivalent to approximately RMB0.9 million), respectively in the items set out above from the net proceeds. The remaining capital expenditures of approximately RMB91.2 million to be invested in the MV Production Site will be funded by bank borrowings and our internally generated funds and resources. We believe that external debt financing can be obtained by us for the development of MV Production Site, having taken into account the following (i) as at the Latest Practicable Date, we have already obtained a letter of intent from a financial institution which is willing to make available a line of credit of HK\$150 million to our Group, (ii) the net proceeds in connection with the Share Offer of approximately HK\$75.2 million will further enhance our liquidity and reduce our existing gearing ratio, (iii) as at 31 October 2019, we have unutilised banking facilities of approximately RMB25.5 million, and (iv) we will obtain the building ownership certificate of MV Production Site upon its completion, which can serve as leverage for our future bank borrowings.

The relocation of our production facilities from the SV Production Site and FV Production Site to the MV Production Site will take place gradually and there are periods where we will concurrently operate on all three of such production sites. As such, our existing production machinery and equipment at the SV Production Site and FV Production Site will not be relocated or transferred to the MV Production Site when trial production commences, as we will need to retain our existing production lines at our SV Production Site and FV Production Site to accommodate existing purchase orders and production. After the completion of relocation of our aerosols production to the MV Production Site, we expect to discontinue our lease of the SV Production Site from Mr. Ernest Chen. Over 30% of the production machinery and equipment currently in use at our SV Production Site has fully depreciated, with the remaining machinery and equipment having an average useful life of between approximately four years, whereas the remaining average useful life of our aerosols production machinery and equipment at the FV Production Site is approximately six years. As such, our Group does not expect to transfer and continue the usage of such machinery and equipment at our other Production Sites (including the MV Production Site), and intends to lease out the aerosols production machinery and equipment

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together with the production site or factory (which will be leased out by Mr. Ernest Chen) as a package to independent third party manufacturers after the eventual discontinuation of our lease of the SV Production Site from Mr. Ernest Chen, or failing which sell such machinery and equipment to recycling companies. As we will be concurrently operating on all three of the SV Production Site, FV Production Site and the MV Production Site prior to completion of the relocation of our aerosols production to the MV Production Site (at which full-scale operation is expected to commence around December 2021), it is expected that any lease, or failing which sale, of our existing machinery and equipment will not take place prior to the year of 2022. Although the existing tenancy agreement of SV Production Site will expire in June 2021, prior to the expected date of commencement of full-scale operation of MV Production Site around December 2021, Mr. Ernest Chen is willing to extend the term of the said lease to our Group until the relocation to the MV Production Site takes place, if necessary. Based on the remaining useful life of such machinery and equipment, our Group may consider to lease, or failing which sell, the machinery and equipment at a relatively low price. In addition, after the eventual discontinuation of our lease of the SV Production Site from Mr. Ernest Chen, our Group may consider to lease out the aerosols production machinery and equipment together with the production site or factory (which will be leased out by Mr. Ernest Chen) as a package to independent third party manufacturers, which would eliminate any compatibility, operational feasibility or transfer risks and uncertainties. As confirmed by our Directors, the production machinery may also be used for production of a wide range of aerosols e.g. pesticide spray, insecticide spray and as such can cater to the needs of different types of manufacturers. As an alternative, depending on the age of the relevant piece of machinery or equipment, our Group may also consider selling certain machinery or equipment to recycling companies as scrap metal at a low cost.

We target to expend approximately RMB78.0 million towards the purchase of more advanced and automated machinery and equipment for our production lines at our MV Production Site. Although the cost and carrying value of our existing plant and machinery and equipment is lower than RMB78.0 million (being the amount we expect to invest in machinery and equipment for our MV Production Site), we believe the addition to our existing production machines, the technological advancement and increased automation of our production lines would facilitate the manufacturing of our aerosols in a more efficient manner and achieve long-term costs savings for our Group. Further, our production capacity would also be raised. In addition, although we invested in new machinery and equipment in our existing production sites during the Track Record Period, certain of such machinery and equipment were designated for use at our SK Production Site and XV Production Site. The aggregate investment in additional machinery and equipment for aerosol production lines at our SV Production Site and FV Production Site during the Track Record Period only amounted to approximately RMB2.0 million, RMB2.6 million, RMB1.3 million and RMB0.9 million respectively. As confirmed by our Directors, in order to increase our Group's production output level to fulfil market demand in the short to medium term during the construction and development of the MV Production Site, such investments (which included improvements to production capacity, upgrades to both machinery and storage equipment and facilities) were necessary to maintain business operation. Said investments also included restorations the electricity and related systems at our FV Production Site subsequent to the fire incident which took place in November 2018 (as further described in the subsection headed "Business — Occupational health and work safety — Fire Incident at our FV Production Site" in this prospectus).

Also, our existing aerosol production lines have been assembled and installed in accordance with the specifications of our SV Production Site and FV Production Site. Accordingly, there are risks and uncertainties which could arise from the transfer of the existing production lines to the MV Production Site. There are inherent uncertainties in relation to the integration of such production lines with our MV Production Site in terms of both compatibility and operational feasibility, taking into account the necessary works that would be required (with respect to aspects such as water, electricity, fire safety and production safety) to properly fit the existing machinery and equipment to the MV Production Site. In addition, due to the increasing and tightening regulations imposed by the PRC Government with respect to, among others, environmental

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protection, fire safety and production safety, our Directors are of the view that there will be greater difficulty in complying with the applicable laws and regulations by carrying out necessary renovation and installation for integrating our existing machinery and equipment with the MV Production Site, as compared to the purchase of new production machinery and equipment.

Since the relocation to the MV Production Site will take place in phases, we expect the relocation will not cause a material interruption in our production nor will it cause any material adverse impact on our financial position. Such gradual relocation is intended to cater for existing purchase orders and production while the MV Production Site is being set up. Our Directors are of the view that the transfer of existing production machinery and equipment to the MV Production Site would cause a material disruption to our aerosols production, as the machinery and equipment would have to be dismantled prior to transfer, and undergo assembling, setting up, pre-testing and trial production prior to commencement of full operation. Accordingly, if we were to transfer our production machinery and equipment to the MV Production Site, our normal operations and production, and hence production plans and shipment schedules, would be suspended and affected during the transfer process.

Therefore, taking into account the aforementioned considerations (including the relative age, quality and specifications of our existing production machinery and equipment), and in particular that over 30% of the production machinery and equipment currently in use at our SV Production Site has fully depreciated, we have decided to purchase brand new and more advanced production machinery and equipment for use at our MV Production Site, which we believe will be beneficial to our Group in terms of, among others, operation workflow, production efficiency and future business growth.

Our SK Production Site and XV Production Site primarily produce organic silicone adhesives, lubricants, wood paints and architectural coating, and other miscellaneous products and such production facilities were intended to be configured for the production of products categorised as non-hazardous. If our Group were to further develop and reconfigure the production lines at our SK Production Site and XV Production Site to production facilities capable of accommodating our aerosols production, our existing production capacity for other product segments would diminish and as such we may not be able to cope with the sales volume or purchase orders for our other product types, which may have an adverse impact on our overall sales and revenue. The production of hazardous chemical products in the PRC is also subject to more stringent regulatory approvals and licensing requirements, the process of which is, among others, time-consuming and uncertain. As such, our Group has not considered the further development of our SK Production Site and XV Production Site to accommodate our aerosols production.

We expect to complete phase one of our construction plans at our MV Production Site by the end of 2019 and commence trial production in 2020. As at the Latest Practicable Date, we have substantially completed the construction works relating to phase one of our construction plans. Assuming: (i) the construction of and commencement of trial production at our MV Production Site are carried out as currently planned; (ii) an increase in average selling prices of approximately 2.3% year-on-year; (iii) a utilisation rate of approximately 50%, 100%, 150%^(Note 3) and 150%^(Note 3) for the year ended 31 December 2021, 2022, 2023 and 2024, respectively; and (iv) the revenue will be in line with the expected demand according to the Frost & Sullivan Report and there will be no adverse material impact on the business operating results of the MV Production Site and machinery due to fluctuation in market demand, market inflations, increase in new material costs and labour expenses throughout the operation period, the breakeven period^(Note 1) of our MV Production Site is expected to be approximately three years and the payback period^(Note 2) of our initial setup costs is expected to be approximately six years. For further details on the use of our net proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

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Notes:

- (1) Breakeven period refers to the period of time required for a production plant to generate revenue equal to its operating cost for the first time, assuming gross profit margins would be similar to the existing production facilities.
- (2) Payback period refers to the period of time required to recover the initial setup costs, which is expected to grow in line with our Group's overall expansion plan of each production plant by its net profit, assuming the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating result of the production plant due to fluctuation in market demand, inflations, increase in raw material costs and labor expenses throughout the operation period.
- (3) The expected utilisation rate is calculated on the assumption that (i) we will increase the number of shifts operated at the MV Production Site to up to three shifts per day, and (ii) the volume of sales of aerosols in the PRC will reach approximately 3,220 million cans by 2023, according to Frost & Sullivan.

We intend to expand our aerosols production at the MV Production Site (which will include relocating our aerosol production currently situated at our SV Production Site and FV Production Site) situated in the Shazi Industrial Area, Minzhong Town, Zhongshan City after completion of construction and development of the MV Production Site in the PRC, where we will have 22 new aerosol production lines, with a designed production capacity of approximately 30,000 tonnes (equivalent to approximately 130 million cans) per year.

In November 2014, we acquired the MV Production Site and the land use rights to the land parcel on which it is erected, through an online listing-for-sale bidding process held by the Zhongshan City Land and Mining Rights Public Resources Exchange. In accordance with the terms of the land use right grant contract, we were required to commence construction before January 2016 and complete construction by January 2019. In addition, if we were unable to commence construction before the required timeframe, we would be required to apply for delay of construction, which is subject to the approval of the land grantor, allows us to postpone the commencement of construction for a certain period of time and the date of completion of construction shall be extended for such period of time accordingly. We commenced the application process with respect to the planning approval for construction and land use right certificate in December 2014 and February 2015, respectively.

As confirmed by our Directors, given the land parcel on which the MV Production Site is situated was land being repossessed and on-sold by the PRC Government, the amount of time involved in commencing construction and developing the land would be longer compared to that of our Group's other Production Sites, all of which are situated on developed parcels of land for industrial use, and acquired from or held by individuals or corporations. Further, at the time of acquiring the land use right to the land on which the MV Production Site is erected, there were certain individuals that remained in occupation of our land without prior approval for agricultural use. Up until May 2015, our Group had issued several notifications to each individual in illegal occupation of our land, requesting that they vacate the area to allow us to proceed with construction and development of the site. After negotiations with the relevant individuals, in May 2017, they undertook to vacate the land for our construction and use by July 2017. However, due to the delays in the PRC Government's completion of repossession and vacation of the land parcel, we were unable to commence development and construction of the production site as initially scheduled.

In April 2015 and June 2016 respectively, the relevant PRC Government land administration authority responsible for identifying and handling idle land issued a confirmation agreeing to the delay of our application for planning approval for construction and the construction work commencement permit until January 2017, and as such, our overall construction should be completed by no later than August 2020. We obtained the necessary planning approvals for construction by October 2016 and the construction work commencement permit in relation to the MV Production Site in January 2017. As advised by our PRC Legal Adviser, based on the

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confirmations issued by the relevant PRC Government authorities, and that our Group had commenced construction within the timeframe as extended by the PRC Government, the land on which the MV Production Site is situated will not be deemed as idle land. As at the Latest Practicable Date, we have substantially completed the construction works relating to phase one of our construction plans at the MV Production Site.

Up until early November 2019, there remained one individual which was in illegal occupation of approximately 20 mu of a vacant area on our land, and our Group has notified the relevant PRC Government land administration authorities regarding such illegal occupation of our land. As confirmed by our Directors, in mid-November 2019, we had successfully vacated the land and removed the illegal occupant. Our PRC Legal Adviser has further advised us that, as at the Latest Practicable Date, our Group's development and construction of the MV Production Site does not contravene the applicable PRC laws, and subject to future examination and production procedures (trial or otherwise) of the competent PRC Government authorities, there are no legal impediments to our Group's completion of development and construction of the MV Production Site. We have already obtained the land use right certificate, planning approval for construction and the construction work commencement permit in relation to the MV Production Site. We are in the process of applying for other permits and licenses, such as those associated environmental protection and product manufacturing, for the implementation of our expansion plan when necessary.

A timeline for key milestones in the development of the MV Production Site is set forth below:

Event/milestone	Timing/expected timing	
	Phase one construction ^(Note 1)	Phase two construction ^(Note 2)
Obtainment of planning approvals	October 2016	October 2016
Completion of construction	December 2019	March 2020
Installation of production machinery and equipment	December 2019	April 2020
Full-scale test running of production lines	June 2020	June 2020
Commencement of trial production/operation	July 2020	June 2020
Commencement date of operation ^(Note 3)	July 2020	June 2020
Obtainment of work safety licence for dangerous chemicals	December 2021	December 2021
Obtainment of building ownership certificate ^(Note 4)	December 2021	December 2021
Commencement of full-scale operation ^(Note 5)	December 2021	December 2021

Notes:

- (1) Phase one refers to the first phase of construction/development carried out at the MV Production Site, which is expected to encompass a GFA of approximately 25,914.8 sq.m., and primarily comprises production workshops and main warehouses. Our Directors confirm that the reasons for having two phases of development include: (i) more efficient and convenient management by our Group, (ii) quality assurance through phased development (given there would be room for progress checks and inspection prior to commence of the next phase), and (iii) reduction of any incongruity between different parts of the MV Production Site which may arise from simultaneous construction/development (i.e. no room for adjustment).
- (2) Phase two refers to the second phase of construction/development carried out at the MV Production Site, which is expected to encompass a GFA of approximately 7,334.6 sq.m. and primarily comprise ancillary facilities, such as certain warehouses and areas for placement of storage tanks.

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- (3) As advised by our PRC Legal Adviser, under PRC laws relating to safety production, the general practice is that before applying for and obtaining the relevant work safety licence, enterprises are normally required to demonstrate to the PRC Government authorities which are responsible for safety production governance that, among others, (i) the safety facilities, equipment and technology have been properly erected and are in good conditions, (ii) each of the production lines and the entire production site can be safely operated and (iii) payments of insurance relating to occupational hazards have been sufficiently paid for their production staffs — therefore in practice, these shall require the commencement of the trial production and operation of such enterprises in order to fulfill the foregoing conditions and obtain the relevant work safety licence. Thus, our Directors consider that various degrees of trial production/operation and commencement of operation of Zhongshan Minhe at our MV Production Site are necessary. We expect and intend to commence operation of Zhongshan Minhe at our MV Production Site in terms of trial production at different stages, and carry out other corporate affairs conducted in the ordinary course of business, such as bank account opening, contribution to social security and housing provident funds, but such operation will not include the full-scale production and sales of hazardous chemical products until we have obtained the work safety licence for dangerous chemicals.
- (4) The grant of the building ownership certificate is vital to the full-scale operation of Zhongshan Minhe at our MV Production Site, and as such, our Directors consider that although it is not a pre-requisite to conduct trial production and obtain the work safety licence, we will still pay close attention to the progress and will not conduct business activities beyond the ordinary course of business as abovementioned before obtaining such certificate.
- (5) Our PRC Legal Adviser has further advised us that production of hazardous chemicals is a highly regulated industry in the PRC, and enterprises shall file with the PRC Government authorities responsible for safety production governance before commencement of trial production. As confirmed by our Directors, the time limit for trial production would be determined by the relevant PRC Government authorities on a case-by-case basis. Based on our previous experience in obtaining the work safety licence, our Directors consider that a time limit of 30 days for each of our production lines is normally set on our trial production, and as we will have 22 aerosol production lines along with other production lines at our MV Production Site, the trial production at our MV Production Site is expected to take place for six months. Based on the advice of our PRC Legal Adviser, we are obliged to apply for the acceptance check of the safety condition of our MV Production Site immediately after the trial production and further apply for the work safety licence within 10 days after passing the acceptance check. It will take the PRC Government authorities governing production safety affairs no more than 45 working days to decide on the grant of a work safety licence, and therefore, the time frame for obtaining the work safety licence after commencement of trial production will approximately last for 11 months. However, as we may undergo several on-site investigations by the relevant PRC Government authorities on their own discretion during the approval process, which will not be counted in the 45 working day time limit for issuing such a licence, our Directors consider that giving a grace period of another six months for obtaining the work safety licence and commencement of full-scale operation is necessary.

In additional to the key milestones listed above, completion of the construction project environmental impact assessment for phase one of our MV Production Site is expected to take place in December 2019, whereas full-scale test running of production lines is expected to take place in June 2020. Our Directors confirm that our Group will require additional time to: (i) carry out pre-testing of individual machinery and equipment in several phases to ascertain, among others, the safety of machinery operation, the cohesiveness between our different production machinery and equipment (as configured at the MV Production Site), and the connectivity between such machinery and equipment; and (ii) collect and provide data (relating to our discharged pollutants generated during the pre-testing) to the relevant PRC Government environmental authorities to ensure our compliance with the emission standards as specified in the environmental impact assessment report. We will then make adjustments as required prior to the full-scale test running of our production lines in June 2020.

Upon completion of construction of our MV Production Site, pending the obtaining of the final inspection approval from the relevant local environmental authority and final inspection approval on completion of construction, we will submit our building ownership certificate and production permits applications in respect of our MV Production Site. Upon obtaining the relevant certificates, we would be able to commence production. Our PRC Legal Adviser has confirmed that we have obtained the construction permit as required for our current construction project, and we are in compliance with the relevant PRC laws and regulations relating to construction projects in all material respects.

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The reason for acquiring the MV Production Site is multi-fold. Firstly, we believed that the MV Production Site could cater for the needs of our business growth by housing 22 aerosol production lines. For the year ended 31 December 2018 and the six months ended 30 June 2019, the utilisation rate of our aerosol production lines at our SV Production Site has reached 95.0% and 97.3% respectively. The utilisation rate of our aerosols production line at our FV Production Site also reached 122.5% for the year ended 31 December 2018. By taking into account numerous factors such as the anticipated high level of demand of our products in the near future, the convenient location and the period of time that we have carried on our business in the area, we acquired the MV Production Site.

Although it is expected that the 22 new aerosols production lines at the MV Production Site will have an increase in aerosols production capacity of only approximately 11% as compared to the eight production lines in aggregate at SV Production Site and FV Production Site, our Directors are of the view that our new aerosols production lines (including the number thereof) are beneficial to our Group's production, operations and overall business. Our Directors confirm that due to (i) space constraints at our SV Production Site and FV Production Site and (ii) the design and configuration of our current production machinery and equipment, our Group could only accommodate an aggregate of eight aerosol production lines (with seven at the SV Production Site and one at the FV Production Site), and based on our historical output, we have fully utilised our production capacity during the Track Record Period. With the larger GFA at the MV Production Site, we expect to be able to accommodate 22 aerosols production lines. In addition to the manufacture and sale of fine industrial chemical products under our brands, we also manufacture and sell fine industrial chemical products on an OEM basis. As such products are manufactured in accordance with our customers' design and specifications, we would be required to designate an entire production line towards the production of our OEM products, despite in much smaller quantities as compared to products under our brands. As a result, our overall production capacity would decrease whilst our production schedules may also be affected (as the relevant production line would otherwise be used to manufacture products under our brands in higher volumes and quantities). With the increase in number of aerosols production line, our Directors are of the view that we will be able to have more flexibility in terms of our production plans (especially with respect to production of OEM products) and reduce our reliance on any single production line.

In addition, we currently operate our aerosol production facilities in separate premises in Guangdong Province in the PRC. As such, the eventual relocation and consolidation of our aerosol production under a single facility would allow us to accommodate the expected expansion of capacity and streamline our production and business.

As confirmed by our Directors, due to space constraints, our existing Production Sites were designed to accommodate a larger number of machinery and equipment through the utilisation of stacking (that is, production machinery and equipment are fitted to operate on multiple tiers or levels within the same area). As such, the GFA occupied by the production machinery and equipment at our SV Production Site and FV Production Site is relatively smaller as compared to the GFA of our MV Production Site. Our Directors believe that although the GFA of our MV Production Site is larger than the aggregate GFA of our SV Production Site and FV Production Site, and the relative increase in annual designed production capacity for aerosols is only approximately 11%, given that our MV Production Site is designed to operate on a single-plane area (i.e. no stacking of production lines and machinery), such layout will lead to a smoother production flow given there is more room and flexibility to arrange the logistics of our inventories and work in progress materials during the production process, and will be beneficial to our Group's production and operation in the long-term. Certain designated areas of the MV Production Site was set up and designed for future development and expansion as and when necessary, to cater for the needs of any further business growth in the future.

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We believe that by further streamlining and modernising our production processes (including through the purchase of new machinery and equipment that is more advanced and automated) at our new MV Production Site, we will be able to increase production capacity, thereby enjoying economies of scale and production efficiencies, which will enable us to compete more effectively and improve our financial performance. Our existing machinery, which is purchased in the PRC, a proportion of which has fully depreciated, currently requires regular maintenance, whereas the new machinery and equipment to be acquired for our MV Production Site (which is expected to be sourced from Switzerland) will be brand new and fully automated, as compared to our existing production machinery and equipment which is only semi-automated and requires manual operation. The number of production staff required for operation and supervision of each aerosols production line is expected to be reduced by approximately 30%. As such, the new machinery is expected to be more efficient and precise in performing production as manual errors in the production process are expected to be eliminated, which would decrease the amount of raw materials wasted during production and also reduce occurrences of quality defects due to manual errors. The new machinery and equipment is also equipped with auto-inspection functions, which would save time and costs in relation to our inspection and maintenance efforts. In light of the above, our Directors consider the higher costs of the new machinery and equipment to be justifiable.

In particular, we would be able to increase our operational efficiency and achieve long-term cost savings, as we would be able to better control and manage various operational arrangements, such as warehousing and delivery logistics, through the operation of one single aerosol production facility at our MV Production Site. The cost savings arising from the consolidation of our warehousing and delivery logistics and operations are expected to amount to approximately RMB1.1 million per annum. Our Directors have confirmed that such cost savings are calculated based on the average cost of delivering our products between our individual production facilities for warehousing purposes (amounting to approximately RMB400 per delivery), multiplied by an average of ten deliveries per day, 26.5 days per month and 11 months per year (which excludes Sundays and public holidays during the year in the PRC). Further, we would also require fewer employees on a day-to-day basis for the operation of a single aerosols production facility, which would result in expected staff costs-related savings of approximately RMB1.4 million. Our Directors have confirmed that such cost savings are calculated based on the estimated reduction of 20 production staff currently stationed at our FV Production Site, who each have an average salary of approximately RMB72,000 per annum.

Prior to completion of the relocation to the MV Production Site, we will concurrently operate on all three of the SV Production Site, FV Production Site and the MV Production Site. As a result, our overall aerosols production capacity will increase by more than 100% in the interim. For further details on the designed production capacities of our SV Production Site and FV Production Site, please refer to the subsection headed “Business — Our operations — Manufacturing — Production capacity and utilisation rates” in this prospectus. After completion of relocation of our aerosols production to the MV Production Site, the designed production capacity of our MV Production Site will be approximately 30,000 tonnes, and such designed production capacity has been calculated on the assumption of operating one eight-hour shift per day for 26.5 days per month and 11 months per year. In the event that there is an even more significant increase in demand for our aerosols products than expected, we are able to increase our production to three shifts per day to further increase our production capacity, given our new and upgraded machinery and equipment will be more advanced and automated. In considering whether to adjust the number of shifts for production purposes, our Group considers, among others (i) the relative age and specifications of machinery used, (ii) the production efficiency and precision of the machinery, (iii) costs of maintenance and repair, and frequency of maintenance and repair required, (iv) the noise generated during production and operation at night, and (v) overtime costs. Taking into account the aforementioned factors, given the new machinery

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and equipment we intend to purchase for use at the MV Production Site (a) will be brand new, (b) operates with higher efficiency and precision as compared to our existing machinery and equipment (as they are fully-automated), (c) are equipped with auto-inspection functions and should require less frequent manual inspection, (d) are equipped with sound insulation functions, and (e) will only incur overtime staff costs of approximately RMB16.5 million per annum with the increase to three shifts per day, (which represents overtime staff cost savings of approximately RMB7.1 million as compared to approximately RMB23.6 million in aggregate for the operation of eight aerosols production lines with three shifts per day at our SV Production Site and FV Production Site) (which in turn will bring about an increase in output and sales), our Directors are of the view that operating three shifts per day at the MV Production Site is feasible and can be implemented as and when necessary to cater for our business and production needs.

Although we carry out regular inspection and maintenance of our major machinery and equipment, due to the age and existing use of our production machinery and equipment, the increase of usage and operation to three shifts a day would accelerate wear and tear, and it is also expected that parts and components may also have to be more frequently replaced. Any downtime for material maintenance and repairs (caused by accelerated wear and tear from increased number of shifts) may lead to material or prolonged interruptions of our production.

We target to commence trial production at our MV Production Site in 2020 and will relocate our aerosol production currently located at our SV Production Site and FV Production Site at the appropriate time.

Also, as our SV Production Site (which focuses solely on aerosols production) is leased from Mr. Ernest Chen (as landlord and the authorised representative), the investment into and relocation of our aerosols production to our new manufacturing facility at the MV Production Site will help to lower our rental costs in the long-run.

Furthermore, policies promulgated by the PRC Government are expected to impose more stringent requirements on the operation of production facilities in the PRC and to fall in line with international standards. For example, according to Frost & Sullivan, a more stringent regulatory requirement has been imposed on fine industrial chemical product manufacturers with respect to environmental pollution. The Ministry of Ecology and Environment of the PRC promulgated certain measures in January 2018, requiring all pollutant discharging entities, especially industrial manufacturers, to hold pollutant discharge licenses and comply with the associated regulations when discharging pollutants. Having considered the costs and time involved in the continued development and upgrading of existing production facilities, such as our SV Production Site and FV Production Site, which are leased from third parties, especially taking into account our Group's plan for the expansion of our production of aerosols, which are categorised as a hazardous chemical product, our Directors are of the view that the development of the MV Production Site on this front is more beneficial to our Group. Due to the space constraints of the SV Production Site and FV Production Site, our Directors are of the view that there is inherent difficulty and impracticality in development and upgrading of our production facilities to be in compliance with the anticipated environmental regulatory environment in the PRC. For example, our existing production facilities do not possess regenerative thermal oxidiser (“RTO”) burners for treatment of our waste. We generally classify and store our waste and engage an independent third party service provider to properly treat and dispose of our waste. During the Track Record Period, we incurred approximately RMB0.2 million in aggregate on services relating to treatment and disposal of our waste. We expect to install a RTO combustion furnace (at a cost of approximately RMB3.0 million) for the treatment and disposal of waste generated at our MV Production Site, which will be able to meet the relevant regulatory requirements imposed by the PRC Government. Although the initial investment costs arising from the RTO combustion furnace are relatively high, our Directors are of the view that such equipment for the disposal and treatment of waste will strategically position us to capture business opportunities under the trend of more stringent environmental requirements and bring long-term benefits to our Company.

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Furthermore, we currently store and transport resin (being one of our primary types of raw materials) in barrels, which generates certain air volatiles when transferred to production lines for use. The production lines at our MV Production Site will be configured with automated pipeline transfer systems, and as such, the evaporation of raw materials and generation of air volatiles arising from the use of/transfer from barrels will be reduced. It is estimated that our Group would be able to achieve delivery logistics-related cost savings from the utilisation of the automated pipeline transfer systems of approximately RMB1.8 million per annum arising from the transportation of approximately 4,000 tonnes of resin in barrels per year. Therefore, our Directors are of the view that although the rental cost savings are not significant, we would be able to achieve costs savings in the long-term through the operation of a single production facility, being the MV Production Site, on our self-owned land, which has been developed and designed to comply relevant PRC laws and regulations.

We believe that the following factors should substantiate sufficient market demand for the expected increase in our production capacity through the MV Production Site:

- the sales of our aerosols products amounted to approximately 50.4% of our total revenue for the year ended 31 December 2018, having increased at a CAGR of approximately 9.8% for the three years ended 31 December 2018; and
- according to the Frost & Sullivan Report, the sales value of spray paint increased from approximately RMB9.6 billion in 2014 to approximately RMB12.8 billion in 2018, representing a CAGR of 7.5%. Growing along with the development of the industrial and manufacturing industry in the PRC, it is expected that the sales value will grow at a CAGR of 7.7% during 2019 to 2023. We believe that the demand of our Company's products will continue to increase along with the growth of the PRC fine industrial chemical product market.

We also believe that our business strategies and plans, as detailed below, should also support the growth in and development of our business and revenue, which would bring about a need for increase in our production capacity as well:

- our business strategy to deepen our penetration of and strengthen our market position in the PRC fine industrial chemicals products industry. We target to, amongst others, further expand our distribution network in Eastern China and Southern China, in order to capture the economic growth and increasing affluence in these regions; and
- our business strategy to strengthen our brand image through marketing and advertising initiatives. We target to continue to advertise our products through, for example, social media platforms, placing advertisements on billboards and print media (e.g. magazines and newspapers). We plan to devote more resources towards our marketing and advertising initiatives and expect that our marketing and advertising expenses for the year ending 31 December 2019 will amount to approximately RMB35.0 million;

As at the Latest Practicable Date, our Group had 884 employees. We expect to recruit approximately another 56 employees by 2020 to manage the production, quality assurance, procurement and logistics of the MV Production Site. At the same time, we plan to allocate experienced employees from our existing production facilities to manage the production, quality assurance, procurement and logistics of the MV Production Site in order to train the new employees.

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Based on the aforementioned reasons and factors, we believe that the proposed scale of expansion of our MV Production Site would be able to capture the expected growth in the fine industrial chemical products market in the PRC in the medium term.

We may face a number of risks and challenges in implementing our expansion plans, including technical difficulties, human or other resource constraints, or capital investment or funding constraints. For details, please refer to the subsection headed “Risk Factors — Risks relating to our business — Our plan to expand our manufacturing facilities may not be successful or such expansion may result in significant increase in our cost of sales and may materially and adversely affect our operations and financial result.” in this prospectus. We also expect to incur additional depreciation going forward as a result of the installation of additional machinery and equipment.

Subcontracting

We have subcontracted the manufacture of amongst others, nail-less glue, special effects paint and antifreeze to a total of three and four manufacturers based in Guangdong Province, the PRC, for the two years ended 31 December 2017, respectively, in order to maintain flexibility in our resources and production and to better serve or suit our customers’ needs. We did not carry out any subcontracting arrangements during the year ended 31 December 2018 and the six months ended 30 June 2019.

We generally placed orders based on our production schedules and we did not enter into long-term contracts with any of our subcontractors. We selected manufacturers to whom we subcontract by considering a number of factors, including their qualifications, experience, technical processes, production capacity, services quality, machinery and equipment, proximity to our Production Sites, terms offered by them and their ability to assure timely delivery, in order to ensure they have the operating capabilities and resources to meet our internal standards and technical specifications. Our Directors confirmed that we had typically carried out subcontracting arrangements in the past where our customers had placed orders for specific products in relatively small quantities and we were of the view that our production efficiency would be low due to the low output. We believe that subcontracting under those circumstances allowed us to satisfy our customers’ purchase orders whilst maintaining our overall cost and production efficiency. In view of our intention to better align our resources and production efforts, and to focus on mass production of our own products, we had ceased all subcontracting arrangements in January 2018.

While we did not enter into long-term subcontracting agreements, to ensure consistency of our products we had entered into annual agreements with our subcontractors pursuant to which we may place individual orders. The principal terms of these framework agreements are as follows:

- (i) **Subcontracting fees:** a fixed unit fee which is inclusive of labour, materials and costs incurred by the subcontractors.
- (ii) **Scope of work:** under a framework agreement, we may place, and our subcontractors may accept an order for products. Once accepted, our subcontractors will produce and deliver to us the products specified in the order, and they may also be required to provide a certificate demonstrating that the products meet the agreed quality standard (or alternatively provide additional samples of the product to be used for quality testing).

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- (iii) **Compliance:** subcontractors should comply with all the relevant rules and regulations and the subcontractors' responsibilities and policies relating to quality control, work safety and environmental protection. The subcontractors must also comply with the provisions contained in the product order relating to the quality and packaging requirements for the subcontracted products.
- (iv) **Indemnity:** subcontractors are required to indemnify us against any loss, expense or claim arising from the failure to comply with all relevant laws, rules and regulations by the subcontractors.
- (v) **Payment terms:** depending on the agreement, we may be given credit terms of up to 75 days after delivery.
- (vi) **Termination:** we may generally terminate a framework agreement early with cause by giving notice to the subcontractors of our termination.

For each of the two years ended 31 December 2016 and 2017, our subcontracting expenses accounted for approximately 1.5% and 0.7% of our total cost of sales, respectively. During the Track Record Period and up to January 2018, we had neither experienced any (i) difficulties in procuring services from our subcontractors; nor (ii) material adverse consequences from any unsatisfactory products produced by our subcontractors.

To the best of the knowledge of our Directors, all of our subcontractors during the Track Record Period are independent third parties, none of our Directors, their respective close associates or any Shareholder who owns more than 5% of our issued share capital had an interest in any of our subcontractors during the Track Record Period.

Quality control

We strive to provide high quality products to our customers and place great emphasis on quality control, which is equally important during our procurement and manufacture processes. Accordingly, we have adopted a quality control system and we believe that as a result of our stringent in-house quality control procedures, (i) during the Track Record Period, we did not receive any material complaints or claims in relation to our products that would materially and adversely affect our financial position, and (ii) the total value of products returned by our customers due to product defects for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 was approximately RMB1.6 million, RMB2.6 million, RMB0.8 million and RMB0.1 million respectively, representing approximately 0.3%, 0.4%, 0.1% and 0.0% of our total revenue.

In recognition of our quality management system, we are certified as being in compliance with the requirements of ISO 9001: 2015. Please refer to the subsection headed "Business — Certifications, awards and recognitions" in this prospectus for further details. Our quality control system is divided into the following main stages:

Raw materials procurement: All raw materials used in our production processes are subject to inspection upon receipt at our current production sites, before being warehoused. We conduct sample inspections and tests on each batch of our raw materials when they are delivered to our manufacturing facilities, to ensure that they are in accordance with our standards. We document all quality control checks on all raw materials and conduct regular reviews on our suppliers to

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assess their own quality controls. We also request that our suppliers enter into quality assurance agreements with us and raw materials that fail to meet our standards are returned to our suppliers for corrective measures or for replacement at the supplier's own cost.

Production process monitoring: Our quality control personnel monitor our production processes to ensure consistency in the quality of our products. Work-in-progress products are checked by the designated quality control personnel before being passed on to the next stages of production. The quality control personnel at the next stage of production re-examines the work-in-progress products received, to ensure there are no defects before the products are further processed.

Finished products quality control: At the end of the production process, we inspect our products on a sampling basis to verify that they meet our quality standards and specifications before delivery to our customers. In addition, we ensure that our finished products are properly stored in our warehouses prior to delivery to our customers.

Customer and distributor feedback: We have adopted a policy for handling product complaints received from our customers and/or distributors. If our customers have feedback or complaints regarding the quality of our products or services, they may contact our customer service personnel on our hotline, who will record details of such feedback or complaints, and the relevant departments, such as production, quality control, operations and procurement, will be notified of such complaints and relevant corrective or remedial measures will be implemented when necessary. To verify the veracity of any complaints over the quality of our products, we will assess a sample of the product taken prior to the delivery against the product specifications to evaluate the product's quality. If it is determined that the complaint is due to manufacturing fault, defective products are generally returned to us or replaced by non-defective products at our own costs to our customers and/or distributors. In the event that the product quality problem is due to defective materials, we will request that the relevant supplier(s) bear(s) the costs of replacement and/or rectification.

Ongoing quality improvement: Depending on the extent of any products quality issues which we may detect, we may engage independent third party experts to perform product quality inspections. We also expose our products to various environment conditions to ensure that each type of product maintains an optimum level of quality for the duration of its expected useful life.

As at the Latest Practicable Date, we had a team of quality control personnel which comprised a total of 46 employees, with the longest employment relationship being up to 16 years. We also provide regular training to ensure that they remain abreast with our in-house quality control standards, procedures and requirements.

Logistics and delivery

Depending on the terms of the agreements and/or purchase orders with our customers, we generally deliver our products to our customers and/or distributors in the PRC within approximately 13 days from the date of the purchase order (depending on the delivery location), with the products typically being delivered to our customers no later than seven days from collection by the transportation companies. The usual logistic arrangement with our customers and/or distributors is that we engage external transportation companies at our own costs for delivering our products to our customers' warehouses or collection points. Our Group maintains a pool of transportation companies with which we enter into fixed-term agreements (the term of which ranges between one to two years), pursuant to which we place orders on a case-by-case basis. As at the Latest Practicable Date, we have not entered into any long-term agreements with such transportation

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companies. We generally bear the transportation cost for delivery in the PRC and the risk passes to the transportation companies when the transportation companies collect the products for delivery. The transportation companies shall purchase (at our cost) and possess the appropriate insurance policy for our goods, and in the event of any loss, theft or damage to our goods during the course of delivery, the transportation company is responsible to compensate our Group. Any costs arising from delays in delivery or damages to our products are also borne by the transportation companies. For each of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our freight charges amounted to approximately RMB28.9 million, RMB28.1 million, RMB32.1 million and RMB16.7 million, respectively.

Aftersales support services

In order to ensure that our customers and/or distributors are correctly and effectively using and/or marketing our products, we have an experienced aftersales customer service team who are available to answer any questions, technical or otherwise, that our customers and/or distributors may have. We also offer other value-added services free of charge to our customers including annual summits and training camps during which we provide training to our customers and/or distributions on, among others, sales and marketing policies and practices and also product specifications and development.

OUR SUPPLIERS AND PROCUREMENT

We source various types of raw materials from our suppliers. The major types of materials used by us include packaging materials, additives, pigments, fillers, color powder, metallic powder, resin, rubber and solvents. During the Track Record Period, all of our materials and equipment were sourced from suppliers based in the PRC.

To ensure consistency in quality, purchase orders are normally placed with suppliers which are on our internal list of approved suppliers. We have multiple sources for most of our raw materials to reduce possible interruptions to our business operations and over-reliance on any individual supplier. This helps us to maintain stability of components and raw materials procurement. As at the Latest Practicable Date, we have not entered into any long-term agreements with our suppliers. We have an extensive network of suppliers on our internal list of approved suppliers which have a track record of delivering the materials and components on schedule. In selecting a supplier, we take into account a number of criteria, including: (i) its track record and reputation, (ii) quality of materials or components/parts (as applicable), and (iii) their qualifications (such as the obtainment of an Operating Licence for Dangerous Chemicals). In order to ensure our suppliers supply components and/or raw materials to our Group at competitive prices, we have internal control measures in place, including separate teams that handle the (i) procurement of suppliers, and (ii) obtainment of quotations from suppliers, respectively. Our suppliers provide their quotations to us by email or facsimile. In addition, we strive to source our raw materials only from suppliers which we believe are reputable as to ensure quality standards and maintain our competitive edge. We also request that our suppliers enter into quality assurance agreements with us.

We usually enter into supply agreements with our suppliers on an annual basis, which typically do not have an automatic renewal clause. Our supply agreements typically provide for the type of raw materials, equipment and/or components supplied, quantity, price, method of order and delivery, payment and credit terms, quality assurance, penalty for delays and defects of raw materials, and termination and renewal of the agreements. In general, our purchases from raw material suppliers are made on the basis of individual orders specifying the quantity of raw materials. In some cases, we will pay a certain percentage of the purchase price to our suppliers

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prior to the delivery of raw materials. Payment terms granted by our suppliers vary depending on a number of factors including our relationship with the supplier and the size of an order. Our major suppliers generally extend us a credit period ranging between 30 to 90 days from delivery.

As at the Latest Practicable Date, we had over 75 suppliers on our list of approved suppliers. We have built up business relationships with some of our major suppliers, with the longest business relationship lasting up to 15 years. We do not anticipate any difficulty in sourcing the required materials and equipment in the future. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any substantial delay or shortage in the supply of products. We also ensure that our supply of raw materials are procured from legal sources.

For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our five largest suppliers, accounted for 31.5%, 32.9%, 28.8% and 29.7% of our total purchases, respectively, and our single largest supplier accounted for 7.8%, 7.4%, 7.5% and 8.8% of our total purchases during the same periods respectively. Our five largest suppliers for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 include principally suppliers for raw materials or components for our business, each of which is an independent third party.

The table below sets out information on our top five suppliers for the periods indicated:

Suppliers	Amount of purchase (RMB 'million)	% of our total purchases	Business background of supplier	Products purchased	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the six months ended 30 June 2019								
Guangzhou Sihai Can Manufactory Co., Ltd* (廣州泗海印鐵制罐 有限公司)	20.8	8.8%	Production of metal packaging and container	Spray paint cans	PRC	14	75 days from delivery	Cheque/ Bank transfer
Supplier A	16.6	7.0%	Sales of chemical products	Industrial methoxymethane	PRC	6	30 days from delivery	Bank transfer
Foshan Nanhai Saibang Can Manufacturing Co., Ltd* (佛山市南海賽邦印鐵 制罐有限公司)	12.2	5.1%	Production and sale of metal cans	Aerosols cans	PRC	15	30 days from delivery	Bank transfer
Zhongshan Langma Chemical Co., Ltd* (中山市朗瑪化工有限 公司)	12.0	5.1%	Sale of water soluble coatings and chemical raw materials	Acrylic resin products	PRC	10	30 days from delivery	Cheque/ Bank transfer
Dongguan Hongchuan Chemical Supply Chain Co., Ltd* (東莞市宏川化工供應 鏈有限公司)	8.7	3.7%	Wholesale of dangerous chemicals	Toluene acetone, xylene, cyclohexanone and solvent oil	PRC	4	30 days from delivery	Bank transfer
Total	70.3	29.7%						

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Suppliers	Amount of purchase (RMB 'million)	% of our total purchases	Business background of supplier	Products purchased	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2018								
Guangzhou Sihai Can Manufactory Co., Ltd* (廣州泗海印鐵制罐 有限公司)	42.6	7.5%	Production of metal packaging and container	Spray paint cans	PRC	14	75 days from delivery	Cheque/ bank transfer
Supplier A	42.5	7.5%	Sale of chemical products	Industrial methoxymethane	PRC	6	30 days from delivery	Bank transfer
Dongguan Hongchuan Chemical Supply Chain Co., Ltd* (東莞市宏川化工供 應鏈有限公司)	28.2	5.0%	Wholesale of dangerous chemicals	Toluene acetone, xylene, cyclohexanone and solvent oil	PRC	4	30 days from delivery	Bank transfer
Foshan Nanhai Saibang Can Manufacturing Co., Ltd* (佛山市南海賽邦印 鐵制罐有限公司)	25.0	4.4%	Production and sale of metal cans	Aerosols cans	PRC	15	30 days from delivery	Bank transfer
Zhongshan Langma Chemical Co., Ltd* (中山市朗瑪化工 有限公司)	24.9	4.4%	Sale of water soluble coatings and chemical raw materials	Acrylic resin products	PRC	10	30 days from delivery	Cheque/ bank transfer
Total	163.2	28.8%						

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Suppliers	Amount of purchase (RMB 'million)	% of our total purchases	Business background of supplier	Products purchased	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2017								
Guangzhou Sihai Can Manufactory Co., Ltd* (廣州泗海印鐵制罐 有限公司)	37.9	7.4%	Production of metal packaging and container	Spray paint cans	PRC	14	75 days from delivery	Cheque/ bank transfer
Foshan Nanhai Saibang Can Manufacturing Co., Ltd* (佛山市南海賽邦印 鐵制罐有限公司)	37.6	7.3%	Production and sale of metal cans	Aerosol cans	PRC	15	30 days from delivery	Bank transfer
Supplier A	34.9	6.8%	Sale of chemical products	Industrial methoxymethane	PRC	6	30 days from delivery	Bank transfer
Dongguan Hongchuan Chemical Supply Chain Co., Ltd* (東莞市宏川化工 供應鏈有限公司)	34.3	6.7%	Wholesale of dangerous chemicals	Toluene acetone, xylene, cyclohexanone and solvent oil	PRC	4	30 days from delivery	Bank transfer
Tangshan Sanyou Silicon Industry Co., Ltd* (唐山三友硅業有限 責任公司)	24.1	4.7%	Development of organosilicon and related products	Silicone rubber methyl	PRC	7	None ^(Note)	Bank transfer
Total	168.8	32.9%						

Note: “None” means we are required to pay the price for the products purchased in full before delivery is made to us.

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Suppliers	Amount of purchase (RMB 'million)	% of our total purchases	Business background of supplier	Products purchased	Principal place of business	Years of business relationship with us	Credit terms	Payment method
For the year ended 31 December 2016								
Guangzhou Sihai Can Manufactory Co., Ltd* (廣州泗海印鐵制罐 有限公司)	31.3	7.8%	Production of metal packaging and container	Spray paint cans	PRC	14	75 days from delivery	Cheque/ bank transfer
Foshan Nanhai Saibang Can Manufacturing Co., Ltd* (佛山市南海賽邦印 鐵制罐有限公司)	29.9	7.5%	Production and sale of metal cans	Aerosol cans	PRC	15	30 days from delivery	Bank transfer
Dongguan Hongchuan Chemical Supply Chain Co., Ltd* (東莞市宏川化工供 應鏈有限公司)	24.2	6.1%	Wholesale of dangerous chemicals	Toluene acetone, xylene, cyclohexanone and solvent oil	PRC	4	30 days from delivery	Bank transfer
Supplier A	22.1	5.5%	Sale of chemical products	Industrial methoxymethane	PRC	6	30 days from delivery	Bank transfer
Zhongshan Langma Chemical Co., Ltd* (中山市朗瑪化工有 限公司)	18.2	4.6%	Sale of water soluble coatings and chemical raw materials	Acrylic resin products	PRC	10	30 days from delivery	Cheque/ bank transfer
Total	125.7	31.5%						

Notes: Supplier A is a limited liability company established in the PRC in 2007.

Save as disclosed above, to the best of the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

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Inventory control

We have multiple channels to source most of our materials or components. During the Track Record Period, we did not experience any material shortage or delay of our major materials or components.

Our inventory mainly comprises raw materials such as packaging materials, additives, pigments, fillers, color powder, metallic powder, resin, rubber and solvents and other components and parts for our products. We manage our inventory on a “first-in, first-out” basis whereby raw materials that are first received will be first used for production. Our production management staff and procurement team closely monitor the inventory level of our raw materials via our ERP system, which has been implemented since January 2016, to (i) ensure we maintain an optimal level of raw materials through tracking the utilisation of each type of raw material, (ii) determine whether we maintain a sufficient level of raw materials for production, and (iii) assess the aging of the raw materials. Such inventory level will be reviewed from time to time by reference to our expectation of future demand based on outstanding sales orders and our production schedule based on information available on our ERP system. This way, we believe we are able to avoid stocking up raw materials unnecessarily but at the same time secure a stable supply of quality raw materials at reasonable costs. During the Track Record Period, certain of our Group’s inventories (mainly comprising packaging materials) were held by our independent third party suppliers. Our Directors confirm that such inventories were held by our suppliers in order to save warehousing and storage space at our production facilities. The value of the relevant inventories amounted to approximately RMB866,000, RMB805,000, RMB700,000 and RMB534,000, which represented approximately 1.4%, 1.1%, 1.0% and 0.9% of the total inventory balances of our Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. In addition, our procurement team monitors the market prices and trends of certain raw materials such as packaging materials, additives and pigments on a regular basis, and may occasionally make pre-purchases of such raw materials if their market prices are relatively low or if we expect that the market prices will significant increase in the near future. The raw materials as purchased by our Group would be delivered to our production facilities by the relevant suppliers upon request by us to fit our production schedule.

As at the Latest Practicable Date, we have not and generally do not enter into any hedging arrangement to mitigate our exposure to the fluctuations in the cost of raw materials. Although we attempt to reflect raw material price fluctuations in the selling prices of our products, there can be no assurance that we will be able to reflect all such increases in the selling prices of our products on a timely basis or at all. For further details, please refer to the paragraphs headed “Risk Factors — Risks relating to our business — We are dependent on a stable supply at raw materials and increase in raw material prices in the PRC may adversely affect our profitability” in this prospectus.

We also perform monthly inventory checks of our raw materials, work-in-progress and finished goods. We also conduct regular checks on any obsolete or damaged inventory. During the Track Record Period, we had not identified any material obsolete or damaged inventory.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our inventory amounted to approximately RMB61.8 million, RMB73.9 million, RMB70.4 million and RMB59.0 million respectively. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, our average inventory turnover days were approximately 41.3 days, 47.9 days, 45.1 days and 45.1 days respectively.

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MARKET AND COMPETITION

Competitive landscape

According to the Frost & Sullivan Report, attributable to the wide range and diverse types of products, the overall fine industrial chemical products industry in the PRC is highly fragmented and comprises mainly a large number of small and medium-sized enterprises specialising in the development, manufacture, distribution and sales of certain types of fine industrial chemical products. Similarly, the spray paint market in the PRC is also relatively fragmented. Our Group faces intense competition from other fine industrial chemical products manufacturers in the PRC. The major entry barriers of the fine industrial chemical products industry in the PRC include, among others, technical knowledge, high initial capital investment, and stringent licensing requirement and industry standards. A significant amount of investment would also be required for the establishment and maintenance of brand recognition or distribution channels.

Key market drivers

We believe that the demand for fine industrial chemical products in the PRC will continue to grow due to, amongst others, expansion of downstream industries (particularly the building construction industry, real estate market and automobile industry), supportive PRC Government policies towards development of the chemical industry, urbanisation and upgrading consumption of the Chinese population and higher awareness towards application of protective chemicals, as set out in the Frost & Sullivan Report. Riding on our market position as an established industrial chemical products manufacturer with a diversified range of fine industrial chemical products, which can serve range of purposes, including as hardware and building materials and towards automotive maintenance, our Directors believe that we are well positioned to capture the growing demand for fine industrial chemical products in the PRC across the downstream industries of automotive maintenance, building hardware and materials.

Our Directors believe that given our competitive strengths as set out in the subsection headed “Business — Our competitive strengths” in this prospectus, we are able to maintain our market leading position in the fine industrial chemical products industry in the PRC. For further information regarding the competitive landscape of the industry in which our Group operates, please refer to the section headed “Industry Overview” in this prospectus.

RESEARCH AND DEVELOPMENT

Our Group places emphasis on research and development for the purpose of strengthening our competitiveness in the fine industrial chemical products industry. As at the Latest Practicable Date, we had six research and development centres in total, and our research and development team had 48 staff members. The team is headed by Mr. Leo Chen, our chief technical engineer, who has more than 16 years of experience in the chemical industry in the PRC. Furthermore, our customers may request for production of customised paint and coating products for special applications. An accurate measurement of the raw materials is important to ensure that the paint products are of satisfactory quality and in the right colour. Each of our research and development centres is able to undertake product improvements and testing as they each have a laboratory that can support comprehensive product testing activities. Our research and development centres based in the PRC have the following objectives and functions:

- (i) improving existing production processes to increase production efficiency and effectiveness or decrease production costs;

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- (ii) research and development on new products and designing new solutions and/or formulae;
- (iii) providing solutions to technical difficulties arising from the production process;
- (iv) gathering market intelligence and closely monitoring the technological trends in our industry in the PRC and also globally; and
- (v) developing an accurate measurement of raw materials and devising a formula or specifications for the production of customised paint and coating products.

During the Track Record Period, we entered into co-operation agreements with certain local universities and other technological institutions in relation to the development of new products. Pursuant to such co-operation agreements, (i) we are responsible for product application, whereas such counter-parties are generally responsible for product refinement and (ii) we retain the ownership of all know-how, conceptual or detail designs resulting from these arrangements. We are of the view that these research and development collaborations have inspired us to develop new technological solutions relating to the manufacture of our products and enhanced our ability to explore new technology, know-how and skills, which we believe is crucial for a strong foundation for our in-house research and development team.

During the Track Record Period, our expenditure on research and development amounted to approximately RMB10.5 million, RMB17.6 million, RMB27.9 million and RMB16.5 million, respectively, which primarily included the salaries for our research and development staff and procurement cost for materials and utensils used in our laboratories for product testing and development. The aggregate expenditure of RMB72.5 million during the Track Record Period was recognised as expenses, but was not capitalised as all relevant products were ultimately delivered to customers.

INSURANCE

We maintain different types of insurance policies for all of our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. To minimise our product liability risk, we maintain product liability insurance and have stringent quality control measures in place in order to avoid or reduce the incidence of product defects. Details of our quality control measures are set out in the subsection headed “Business — Our operations — Quality control” in this prospectus.

We are also required under relevant PRC laws and regulations to pay social insurance and housing provident fund for our employees. We provide group life, employer liability, work safety and mandatory social insurances for our employees in the PRC.

Our Directors believe that we have sufficient insurance coverage in place and the terms of our insurance policies are in line with the industry norm. For each of the three years ended 31 December 2018 and the six months ended 30 June 2019, the total amounts of premium paid were approximately RMB270,000, RMB340,000, RMB420,000 and RMB173,000 respectively. During the Track Record Period and as at the Latest Practicable Date, we had not made and did not make or had not been subject to any material insurance claims and/or product liability claims. We will review and assess our risks and make necessary adjustments to our insurance coverage in line with our needs and industry practice in the PRC. However, there is a risk that we do not have sufficient insurance coverage for losses and damages that may arise in our business operations. For further details, please refer to the subsection headed “Risk Factors — Risks relating to our business — We could sustain substantial losses from damages not covered by, or exceeding the coverage limits of, our insurance policies” in this prospectus.

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ENVIRONMENTAL MATTERS

We endeavour to minimize any adverse impact on the environment resulting from our business activities. The main pollutants generated during our production processes include wastewater, gas pollutants and other solid waste. The conduct of our business is subject to various national laws, regulations, rules and standards on environmental protection, including but not limited to the Environmental Protection Law of the PRC. For further details in respect of applicable environmental laws, regulations, rules and standards, please refer to the section headed “Regulatory Overview” in this prospectus.

We continuously observe the laws and regulations in relation to environmental protection in the PRC. We have implemented environmental protection measures in our operations including having environmental protection procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. Dust, waste water, noise and different sorts of pollutants are generated during our production processes. According to our environmental and pollution control policies, we have various measures in place to process and dispose of our industrial wastes to minimise the impact on the environment. For example, we generate airborne pollutants in our production and transportation processes. Our vehicles are regularly inspected to ensure exhaust emissions are within regulated limits. With respect to waste water, we have filters installed in our sewage pipelines and carry out regular cleaning of our sewers and pipelines to ensure pollutants do not directly enter the sewer. We also install soundproof walls to control the noise generated during any renovation or maintenance works carried out at our Production Sites. According to our policy on procedures for identification and assessment of environmental impact, our employees should be aware of and monitor the impact of our operations from, among others, the following aspects: (i) air/exhaust; (ii) waste water; (iii) noise; (iv) solid waste; (v) fire safety; and (vi) resources consumption (including energy, raw materials and other natural resources). During the Track Record Period, the discharge of each of the key pollutants generated during our production process had remained within prescribed regulatory limits and we believe that our business operations do not have a material adverse impact on the environment. Our production facilities in the PRC are subject to regular inspection by PRC environmental regulatory authorities. If our facilities are found not to be in compliance with applicable environmental standards, we may be subject to penalties, which may range from fines to suspension of production.

According to the Frost & Sullivan Report, there are increasingly stringent environmental and safety requirements in the PRC fine industrial chemical industry. For example, according to the Zhongshan Municipal Environmental Protection Bureau Circular on the Issuance of the Key Supervision List of VOCs Emission Enterprises of Zhongshan City (second batch) (《中山市環境保護局關於印發中山市VOCs重點監管企業名錄(第二批)的通知》) published on 20 April 2018, Guangdong Fuvo has been listed as one of the VOCs emission enterprises under supervision and required to compile a VOCs emission comprehensive control scheme (VOCs排放綜合整治方案) (the “**Control Scheme**”), which shall be reviewed by an expert panel registered with the PRC Government environmental protection authorities and filed with such authorities by no later than 31 October 2018. Under the instruction of the PRC Government environmental protection authorities, we prepared and concluded the Control Scheme on 22 August 2018. On 24 October 2018, the expert panel reviewed and approved our Control Scheme, and we subsequently filed the Control Scheme and the expert panel’s opinion with the Zhongshan Municipal Environmental Protection Bureau on the same date. Our Directors confirmed that, as at the Latest Practicable Date, the production activities of Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings and Shunde Sanvo have been in compliance with relevant PRC environmental protection laws and

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regulations as well as the Control Scheme, and we have not received any further governmental notification or decision in relation to the imposition of orders of correction or administrative penalties of any form with respect to the VOCs emission from the PRC Government environmental protection authorities.

The extent to which our Group's products belong to water-based/low-VOCs products are illustrated below:

Type of product	Total number of products	Number of water-based/low-VOCs products
Aerosols	31	2
Organic adhesives	11	11
Synthetic adhesives	33	15
Other miscellaneous products	132	90

Our Directors are of the view that the Control Scheme may have a positive impact on our Group's business prospects. According to the Frost & Sullivan Report, the more stringent environmental and safety requirements in the PRC may restrict the development of the fine industrial chemical industry as a whole, particularly impacting manufacturers in the PRC who would fail to meet the standards and requirements, but despite this, these new requirements may translate into further business opportunity for qualified manufacturers. Our Group has been discovering ways to minimise any adverse impact on the environment resulting from our business activities and monitor technological trends in our industry in the PRC, which is evident from (i) 118 out of 207 of our fine industrial chemical products (representing approximately 57.0% of our products) are currently water-based/low-VOCs, and (ii) our Group holds various patents (such as "zero VOC nano tranquil emulsion paint" and "high-hardness wear-resistant double-group water-based wood paint and its preparation method") in relation to the manufacture of environmentally friendly fine industrial chemical products which are water-based and/or low-VOCs. Our Directors believe that our Group will continue to further explore the development of different types of eco-friendly fine industrial chemical products. As set out in the sub-section headed "Business — Our business strategies — Deepen our penetration of and strengthen our market position in the PRC fine industrial chemical products industry" in this prospectus, one of our business strategies will also be to aim to align our product offering accordingly to increase the number and proportion of our products which are water-based/low-VOCs to adhere to the prevailing and more stringent industry environmental standards.

Our Group strictly adheres to the standards, metric and targets set or issued by the PRC Government environment-related compliance (including those issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and Standardization Administration of the PRC) in assessing and managing our impact on the environment resulting from our business activities, including without limitation our consumption or use of hazardous or harmful substances in our fine industrial chemical products. In addition, given the increasingly stringent environmental and safety requirements in the PRC fine industrial chemical products industry, our Group places emphasis on minimising adverse impact on the environment, particularly through research and development on eco-friendly products, in order to strengthen and maintain our competitiveness. As at the Latest Practicable Date, we had six research and development centres in total, the objectives and functions of which include (i) research and

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development on new products and designing new solutions and/or formulae, and (ii) gathering market intelligence and closely monitoring the technological trends in our industry in the PRC and also globally. We also strive to produce high quality products, which includes limiting the use of harmful and non-eco-friendly substances in the production process. For example, Sanvo Holdings has been accepted as a member of the Motor Vehicle Brake Fluids Industry Quality Alliance* (機動車輛制動液產業品質聯盟), which is an association aimed at promoting the industrial adjustment through enhancing the technical merit and quality of brake fluids products, and Guangdong Sanvo is also a member of the Guangdong Association of Quality Inspection (廣東省質量檢驗協會) and has participated in relevant association activities, such as staff trainings and seminars on quality inspection. In addition, our Group has been keeping apprised close attention to the newly published or amended environmental laws, regulations or rules enacted by the environmental protection governmental authorities of national or local level from time to time and is willing to assume social responsibilities to assist in building up a more environmentally-friendly, pollutant-free and recyclable society. For example, Guangdong Sanvo has been focusing on improving clean production and has joined, among others, the Guangdong Clean Production Association (廣東省清潔生產協會). Moreover, we have also participated in academic research relating to clean production and a number of our management and employees have published papers with respect to environmental issues caused by the production of relevant hazardous chemicals in various periodicals in the PRC. We will continue to encourage our management and employees to conduct or take part in research relating to environmental protection issues, especially in areas connecting with manufacture of, among others, aerosols, adhesives, painting and coating products.

Based on the advice of our PRC Legal Adviser, our Directors confirm that during the Track Record Period and as at the Latest Practicable Date, save as disclosed in this subsection and in the subsection headed “Business — Legal compliance and litigation — Non-compliance”, we had complied with the applicable laws and regulations relating to environmental matters in the PRC in all material respects, and no material administrative sanctions, fines, penalties or punishments have been imposed upon us for the violation of any environmental laws or regulations, nor were we aware of any threatened or pending actions against our Group by any environmental regulatory authority. For further details, please refer to the subsection headed “Business — Legal compliance and litigation — Non-compliance” in this prospectus.

Our costs of compliance with applicable environmental rules and regulations were approximately RMB442,000, RMB191,000, RMB268,000 and RMB90,000 respectively for each of the three years ended 31 December 2018 and the six months ended 30 June 2019. As the PRC legal system continues to evolve, we may be requested to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future. The expected cost of compliance with applicable environmental rules and regulations will be approximately RMB300,000 for the year ending 31 December 2019.

OCCUPATIONAL HEALTH AND WORK SAFETY

We are subject to PRC laws and regulations regarding labour, safety and work-related incidents such as the Work Safety Law of the PRC (中華人民共和國安全生產法). For further details, please refer to the section headed “Regulatory Overview” in this prospectus.

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Occupational health and safety measures

We are committed to providing a working environment that prioritizes the occupational health and safety of our employees. Pursuant to applicable PRC laws and regulations, we have implemented various health and safety measures, such as:

- (i) compiling health and safety management manuals;
- (ii) establishing standard procedures and guidelines for the operation of machineries;
- (iii) establishing contingency plans and measures in case of emergency and work accidents; and
- (iv) providing other information, instructions, training and supervision as necessary.

Our business involves the handling, storage and use of flammable and explosive materials. Improper handling of these materials may result in serious health effects or personal injury. During the Track Record Period, we have not received any complaints on material issues on production safety or any medical claims from our employee on serious personal injuries. As at the Latest Practicable Date, there were no claims or penalties from the relevant authorities in the jurisdiction that we operate in.

We have designated warehouses in place for the storage of raw materials or goods that are classified as hazardous substances. These warehouses are equipped with safety and fire control systems and equipment in accordance with relevant PRC laws and regulations. As at the Latest Practicable Date, the storage levels of our inventory, including hazardous substances, remained satisfactory and were within our storage capacity.

Work injuries during Track Record Period

We have established a production safety committee for each of our current production sites to oversee the implementation of the safety measures at our current production sites. We have also prepared a number of production safety manuals for different production processes, which are designed to standardise the operating procedures in respect of work safety.

We also provide on-the-job training to our employees on work safety. During the Track Record Period, we complied with material relevant PRC health and safety laws and regulations and have not been subject to any material fine, penalty or citation related to health and safety matters. We arrange for our employees to undertake an annual occupational health examination. If there is any employee having occupational diseases, we will report to relevant authorities in the PRC and file work injury insurance claim for employee concerned.

We maintain an internal record of our work injuries. During the Track Record Period and up to the Latest Practicable Date, we did not have any material incidents of work injury. Further, as at the Latest Practicable Date, there is no outstanding or pending claim of work injury from our employees. As such, our Directors consider that our Group did not have any material work injuries during the Track Record Period.

Fire Incident at our FV Production Site

On 26 November 2018, a fire broke out at our FV Production Site (the “**Incident**”). The Zhongshan Fire Services Department Huangpu Branch (中山消防支隊黃圃大隊) (the “**Zhongshan FSD**”) and the Zhongshan Administration of Production Work Safety (中山市安全生產監督管理局) (“**Zhongshan AWS**”) conducted inspections of our FV Production Site on 27 November 2018, following which production and operations at our FV Production Site were suspended.

The Zhongshan FSD issued a fire incident report on 10 December 2018, in which it was set out that (i) the Incident affected the FV Production Site’s aerosols production area (representing approximately 100 sq.m. of production space) and (ii) the Incident was caused by a worker at the FV Production Site. In contravention of our production protocol, the worker did not use an anti-static device, and the resulting static discharge ignited the raw materials for aerosols production in one of our vats. As a result of the Incident, the work platform, certain walls, four separation vats and eight weighing vats were destroyed, resulting in a total financial loss of approximately RMB500,000. No employees or other persons were harmed or injured as a result of the Incident.

As a result of the Incident: (i) only approximately 100 sq.m. of production space in the FV Production Site was affected; and (ii) production originally scheduled to take place at our FV Production Site during its suspension of production and operations subsequent to 27 November 2018 and up until 8 January 2019 (the “**Interim Period**”) were taken up by our other existing production sites. As such, save for the total financial loss of approximately RMB500,000, there was no material impact of the Incident on our Group’s operation and production capacity. Production staff at our FV Production Site were also temporarily transferred to our existing production sites during the Interim Period.

We are committed to operating our Production Sites in a safe and reliable manner, and the health and safety of our employees is key to us. After the Incident, our Group has enhanced the health and safety protocols at our Production Sites, and as at the Latest Practicable Date, have implemented the following measures:

- (i) we have terminated the employment of the worker responsible for the Incident and admonished the relevant manager;
- (ii) we have provided further safety education and training for our production staff at all of our existing production sites to minimise the risk of operator error and to improve our staff’s ability to respond to incidents; and
- (iii) qualified risk assessment firms were commissioned to assess specific safety risks at our existing production sites, including, for example (a) the sufficiency of our safety training; (b) the risk of static discharge and fire risk; (c) our incident response ability; and (d) our ability to use specialised equipment during an incident. We have, as a result of such assessments, implemented rectification and improvement measures at the relevant Production Sites.

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We have also adopted and fully implemented the recommendation by the Zhongshan AWS, and have been granted approval pursuant to a letter of approval issued by the Zhongshan AWS to resume our production at the FV Production Site on 8 January 2019. After the implementation of above enhanced health and safety measures and according to the result of the review of work safety management performed by our internal control consultant, nothing has come to our attention that would cause the Directors to believe that our Group did not maintain, in all material respects, effective internal controls related to work safety management as at the Latest Practicable Date.

On 22 March 2019, the Zhongshan City Fusha Town People's Government (中山市阜沙鎮人民政府) issued an incident report on the Incident, which was endorsed by the Zhongshan City People's Government (中山市人民政府) on 29 March 2019, in which it was confirmed that (i) no penalty or fine in relation to any breach of production safety rules or regulations arising from the Fire Incident will be imposed on Guangdong Fuvo, and (ii) an administrative penalty is recommended to be imposed on Guangdong Fuvo in relation to the deficiency in production safety education and training provided to employees. On 17 April 2019, Zhongshan AWS issued a decision letter, pursuant to which an administrative fine of RMB40,000 was imposed on Guangdong Fuvo. The administrative penalty was fully settled on 19 April 2019.

Based on the advice of our PRC Legal Adviser, save as set out above, the Incident did not result in any other legal action, or other criminal or civil investigation against us.

INTELLECTUAL PROPERTY

Patents and trademarks

We have developed and maintained a number of patents and trademarks for our product purposes, and sell and market our products under a number of trademarks, including “SANVO 三和” and “FullTeam 芙田”. As at the Latest Practicable Date, we held 143 registered trademarks and 65 pending trademark applications in the PRC. We also have 50 registered patents and 35 pending patent applications in the PRC. In addition, we have registered three domain names in the PRC, which are being used by and are material to the business of our Group. On 13 December 2019, our Company entered into a trademark license agreement with Mr. Ernest Chen, pursuant to which Mr. Ernest Chen has granted an exclusive right to our Company and its subsidiaries to use certain trademarks relating to the “SANVO 三和” and “FullTeam 芙田” brands. For further details, please refer to the subsection headed “Statutory and General Information — B. Further information about the business — 2. Intellectual Property Rights — (a) Trademark” in Appendix V to this prospectus. We have not granted, except within our Group, and do not intend to grant any licenses to other parties for the use of our trademarks.

Protection of our intellectual property rights

The protection of our technologies, products and processes is essential for our businesses. In order to protect our trade secrets and other proprietary know-how, we have established a confidentiality sub-division, which operates under our research and development centre, and have implemented procedures to ensure that only a limited number of employees have access to information about the entire production process, including certain technical know-how and chemical formulae.

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In addition, all of our product development personnel have entered into confidentiality and proprietary information agreements with us. These agreements highlight that they are obliged to maintain strict confidence on our intellectual property rights and their agreement that all inventions, designs and technologies they develop during their employment belong to us.

As at the Latest Practicable Date, we were not aware of any infringement by us of any intellectual property rights owned by third parties, or by any third parties of any intellectual property rights owned by us. Further, during the Track Record Period, we were not involved in any disputes or proceedings concerning any material claims of infringement, either threatened or pending, of any intellectual property rights initiated by or against us that had a material and adverse effect on our business.

Please refer to the subsection headed “Statutory and General Information — B. Further information about the business — 2. Intellectual Property Rights” in Appendix V to this prospectus for further details on our intellectual property rights.

EMPLOYEES

As at the Latest Practicable Date, our Group had 882 employees in the PRC and two employees in Hong Kong who are all directly employed by us. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

Department/Function	Number of Employees
Management	31
Sales and marketing	136
Operations and logistics	102
Production	
— SV Production Site	186
— FV Production Site	24
— SK Production Site	76
— XV Production Site	50
— MV Production Site	1
Human resources and administration	127
Accounting and finance	57
Research and development	48
Quality control	46
Total	884

As at 31 December 2016, 2017, 2018 and 30 June 2019, the total number of our employees has increased by approximately 18.5% and 8.6%, and decreased by approximately 0.5% and 5.4%, respectively, compared to the end of the preceding financial period.

Our direct labour costs for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 amounted to approximately RMB16.6 million, RMB19.9 million, RMB20.7 million and RMB11.9 million, or accounted for 4.4%, 3.9%, 3.6% and 4.6% of our cost of sales respectively.

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The employees of our Group are generally remunerated by way of fixed salary. We have devised an appraisal system for our employees and we consider the appraisal result in conducting our salary reviews and making promotion decisions. All our staff members undergo a performance appraisal once a year. The appraisal provides us with an opportunity to assess each individual staff's strengths and areas for improvement, thereby enabling us to effectively train and develop each individual staff.

We recruit new employees based on specific job requirements, our resources and needs from time to time. We believe our success depends heavily upon our employees' provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skills and quality of our employees, we place strong emphasis on the development and training of our employees. Induction courses, training programs and safety courses are conducted regularly. Apart from the above, we also incentivise our employees to gain knowledge in the relevant field of studies. We believe this will also increase the overall competitiveness of our workforce.

In compliance with applicable PRC laws and regulations, we are required to make contributions to various PRC Government sponsored employee benefit funds, including pension plans, basic medical insurance (including maternity insurance), unemployment insurance and work-related injury insurance.

Our Directors consider that we have maintained good relationship with our employees. During the Track Record Period, we have not experienced any significant disputes with our employees or any disruption to our operations due to labour disputes. In addition, we have not experienced any difficulties in recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

PROPERTIES

Details of the major properties owned or occupied by our Group's manufacturing facilities, headquarters, offices and staff quarters are as follows:

Property type	Location	Self-owned/ leased	Approximate site area/gross floor area (sq.m.) ^(Note 1)	Tenure	Usage
<i>SV Production Site</i>					
Land	No. 43, Chengye Avenue, Dacen Industrial Park, Huangpu Town, Zhongshan City, Guangdong, the PRC	Leased	18,600.0	From 1 July 2018 to 30 June 2021 (Note 5)	For office, manufactory, warehouse and other supporting purposes
Building	No. 43, Chengye Avenue, Dacen Industrial Park, Huangpu Town, Zhongshan City, Guangdong, the PRC	Leased	7,958.21	From 1 July 2018 to 30 June 2021 (Note 5)	For office, manufactory, warehouse and other supporting purposes

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Property type	Location	Self-owned/ leased	Approximate site area/gross floor area (sq.m.) ^(Note 1)	Tenure	Usage
<i>XV Production Site</i>					
Land	Jiyou Industrial Area, Xingtang Town, Shunde District, Foshan City, Guangdong, the PRC	Self-owned	13,824.28	Until 30 June 2052	Industrial purpose
Building	Jiyou Industrial Area, Xingtang Town, Shunde District, Foshan City, Guangdong, the PRC	Self-owned	4,752.18 ^(Note 2)	Until 30 June 2052	Industrial purpose
<i>FV Production Site</i>					
Land	Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC	Leased	31,288.5	From 1 June 2018 to 31 May 2021 <i>(Note 5)</i>	Industrial purpose
Building	Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC	Leased	4,825.2	From 1 June 2018 to 31 May 2021 <i>(Note 5)</i>	Industrial purpose
<i>SK Production Site</i>					
Land	No. 5 Xinliu West Road, Huangpu Town, Zhongshan City, Guangdong, the PRC	Self-owned	62,606.7	Until 8 February 2044	Industrial purpose
Building	No. 5 Xinliu West Road, Huangpu Town, Zhongshan City, Guangdong, the PRC	Self-owned	27,760.9 ^(Note 3)	Until 8 February 2044	Industrial purpose

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Property type	Location	Self-owned/ leased	Approximate site area/gross floor area (sq.m.) ^(Note 1)	Tenure	Usage
<i>MV Production Site</i>					
Land	Shazai Industrial Area, Minzhong Town, Zhongshan City, the PRC	Self-owned	63,825.3	Until 24 December 2064	Industrial purpose
<i>Other properties</i>					
Land	Maan Village, Huangpu Town, Zhongshan City, Guangdong, the PRC	Self-owned	30,764.1	Until 7 June 2068	Industrial purpose
Land	Jiyou Village, Xingtian Town, Shunde District, Foshan City, Guangdong, the PRC	Leased	7,153.37 (10.73 Chinese mu)	From 1 June 2013 to 31 March 2062	Industrial purpose ^(Note 4)
Land	West of the Old Office, Xingtian Town Industrial Zone, Shunde District, Foshan City, Guangdong, the PRC	Leased	436 (0.65 Chinese mu)	From 1 January 2016 to 31 December 2062	Industrial purpose ^(Note 4)

Notes:

- (1) The figures refer to: (i) with respect to land, the site area; and (ii) with respect to buildings, the gross floor area.
- (2) This does not include the gross floor area in relation to the three buildings or structures for which building ownership certificates have not been obtained. The three buildings or structures had a total gross floor area of approximately 2,148.65 sq.m.
- (3) This does not include the gross floor area in relation to the five buildings or structures for which building ownership certificates have not been obtained. The five buildings or structures had a total gross floor area of approximately 13,040.3 sq.m.
- (4) As confirmed by our Directors, these parcels of land is contiguous with the land of the XV Production Site, which, all together, constitute a package of land and was required to be leased from the villagers committee of Jiyou Village integrally. These other leased properties are currently not in use by our Group.
- (5) As confirmed by Mr. Ernest Chen, he is willing to extend the term of the respective leases to our Group until the relocation to the MV Production Site takes place, if necessary.

Properties with defective titles

We set out below summaries of properties which we lease or own with defective titles during the Track Record Period and as at the Latest Practicable Date:

1. **Company involved:** Guangdong Sanvo

Details of properties, nature of title defect and reasons for historical non-compliance:

Pursuant to a tenancy agreement entered into between Guangdong Sanvo and Mr. Ernest Chen and Ms. Liang Yinsheng (the “**SV Landlords**”), we currently rent from the SV Landlords the buildings and land located at No.43, Chengye Avenue, Dacen Industrial Park, Huangpu Town, Zhongshan City, Guangdong, the PRC, on which our SV Production Site is situated.

The SV Landlords have not obtained the building ownership certificates in relation to (i) three production areas, (ii) six warehouses, and (iii) other miscellaneous production site areas (together, the “**Phase 1 SV Defective Areas**”), with an aggregate gross floor area of approximately 4,227.88 sq.m. Our Directors have confirmed that, to the best of their knowledge and belief, notwithstanding the efforts of the SV Landlords to complete the relevant approval procedures, they were unable to obtain, amongst others, planning approval and building ownership certificate with respect to the Phase 1 SV Defective Areas as a result of certain upgrading and reconstruction measures promulgated by the local PRC Government, pursuant to which landlords were encouraged to dismantle any zinc iron frames used in building structures. As such, although the process for inspection and acceptance on completion of construction with respect to the Phase 1 SV Defective Areas had already been completed, applications for the relevant building ownership certificate would not be able to be processed due to continued use of zinc iron frames in our building structures.

In addition, the SV Landlords have also not obtained (i) planning approval for construction (建設工程規劃許可證), (ii) the construction work commencement permit (建築工程施工許可證) and (iii) inspection and acceptance on completion of construction (竣工驗收) prior to commencing operation, in relation to (a) an employee canteen and (b) one heating-machine repair room (the “**Phase 2 SV Defective Areas**”, together with the Phase 1 SV Defective Areas, the “**SV Defective Areas**”), with an aggregate gross floor area of approximately 636 sq.m. Our Directors have confirmed that, to the best of their knowledge and belief, with respect to the Phase 2 SV Defective Areas, notwithstanding the efforts of the SV Landlords to complete the relevant planning approval, inspection and acceptance approval procedures, as a result of the local PRC Government in Huangpu Town not having an updated land use planning index in force, any application for planning approvals and other subsequent permit and certificates would not be able to be processed at present.

Legal consequences and potential maximum penalty/fine:

As at the Latest Practicable Date, Guangdong Sanvo had not received any notice of request for demolition or prohibition of continued use of the Phase 1 SV Defective Areas.

Pursuant to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), if a construction project proceeds without obtaining the construction works planning permit or in violation of the requirements thereof, the relevant planning authorities have the right to order the construction entity to stop construction. If it is still possible for the construction entity to take measures to eliminate the impact on the implementation of the planning, the relevant planning authorities shall order the construction entity to correct within a specified period and impose a fine ranging from 5% to 10% of the construction cost; if it is impossible to take measures to eliminate the impact, the relevant planning authorities shall order the construction entity to demolish the buildings within a specified period or confiscate the material objects or the illegal gain if the buildings are unable to be demolished, and may also impose a fine not more than 10% of the construction cost. As a result, the relevant planning authority may require the SV Landlords to demolish the Phase 2 SV Defective Areas within a specified period and impose on the SV Landlords a fine of up to approximately RMB108,000 calculated based on 10% of the construction costs.

In addition, according to the Construction Law of the PRC (《中華人民共和國建築法》) and the Regulations on the Quality Administration of Construction Engineering (《建設工程質量管理條例》), prior to commencing construction, the construction work commencement permit shall be obtained, and prior to commencing operation, inspection and acceptance on completion of construction shall be obtained. According to the Regulations on the Quality Administration of Construction Engineering, our failure to obtain the construction work commencement permit for the Phase 2 SV Defective Areas may lead to imposition of rectification orders, suspension of construction, and imposition of fines ranging from RMB10,800 to RMB21,600, representing 1% to 2% of the contract value of the Phase 2 SV Defective Areas. In addition, the SV Landlords' failure to obtain the inspection and acceptance on completion of construction for the Phase 2 SV Defective Areas may lead to imposition of rectification orders, and imposition of fines ranging from RMB21,600 to RMB43,200, representing 2% to 4% of the contract value of the Phase 2 SV Defective Areas.

As advised by our PRC Legal Adviser, based on the relevant PRC laws and regulations mentioned above, although the penalties will not be imposed on Guangdong Sanvo, there may be a risk that Guangdong Sanvo will not be able to continue its use of the Phase 2 Defective Areas.

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Views of our PRC Legal Adviser:

Our PRC Legal Adviser had conducted interviews with (i) Zhongshan City Huangpu Town City Management and Administration Enforcement Branch (中山市黃圃鎮城市管理行政執法分局), (ii) Zhongshan City Urban and Rural Planning Bureau Huangpu Branch (中山市城鄉規劃局黃圃分局), (iii) Zhongshan City Huangpu Town Housing and Urban and Rural Construction Bureau (中山市黃圃鎮住房和城鄉建設局), and (iv) Zhongshan City Land Resources Bureau Huangpu Branch (中山市國土資源局黃圃分局) (together, the “**Relevant PRC Government Authorities**”) respectively on 22 June 2018 and 21 March 2019, during which it was verbally confirmed that, amongst others, (i) the Relevant PRC Government Authorities were aware that the relevant non-compliances were due to historical reasons in Fusha Town as mentioned hereinabove, (ii) neither the SV Landlords nor us would be requested to vacate or be ordered to suspend our production activities at the SV Production Site, (iii) subject to the completion of the planning approval application procedures, there would not be any substantial legal impediment for the SV Landlords to obtain the planning approvals for the Phase 2 SV Defective Areas, and (iv) subject to the obtaining of the relevant planning approvals, there would not be any substantial legal impediment for the SV Landlords to obtain the construction work commencement permits, pass the relevant inspection and acceptance process and obtain the relevant building ownership certificate in relation to the SV Defective Areas.

We have been advised by our PRC Legal Adviser that the Relevant PRC Government Authorities are competent authorities to consult on the aforementioned non-compliances. Pursuant 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), properties which have not been registered or where title certificates have not been obtained, such properties shall not be transferred. Further, pursuant to the Property Law of the PRC (中華人民共和國物權法), properties in relation to which ownership or right of use are unclear or controversial shall not be mortgaged. Therefore, our PRC Legal Adviser is of the view that the SV Defective Areas, which we lease from the SV Landlords, cannot be bought, sold or be accepted by banks as security for mortgages. We have also been advised by our PRC Legal Adviser that, based on the verbal confirmations provided by the Relevant PRC Government Authorities, (i) the risk of Guangdong Sanvo being ordered to demolish or vacate the Phase 1 SV Defective Areas for the non-compliances is relatively low, and that (ii) there should be no substantial legal impediment to Guangdong Sanvo’s continued occupation and use of the Phase 1 SV Defective Areas. Separately, our PRC Legal Adviser is also of the view that based on the verbal confirmations provided by the Relevant PRC Government Authorities, (i) subject to the completion of relevant application and inspection procedures, there should be no substantial legal impediment to the SV Landlords’ obtaining of the relevant building ownership certificate for the Phase 2 SV Defective Areas, and (ii) there should be no substantial legal impediment to Guangdong Sanvo’s continued occupation and use of the Phase 2 SV Defective Areas.

Remedial actions taken or to be taken:

To the best of our Directors’ knowledge, belief and understanding, the SV Defective Areas are in safe conditions as at the Latest Practicable Date. As at the Latest Practicable Date, neither the SV Landlords nor Guangdong Sanvo had received any penalty notice or request for demolition or vacation from the Relevant PRC Government Authorities. Our Directors also confirm that there would also be no difference in land rental to be paid by us if there was no defective title with respect to the SV Defective Areas.

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Due to the reasons mentioned above, we are currently unable to ascertain the expected time for the SV Landlords to rectify the title defects with respect to the SV Defective Areas. In view of our relocation plans with respect to our MV Production Site, and to save further administrative costs and efforts, we have currently not taken any further action with respect to the perfection of title in relation to the SV Production Site. For further details, please refer to the subsections headed “Business — Our operations — Manufacturing — Relocation to the MV Production Site and expansion plans” and “Business — Properties — Properties with defective titles — Contingency arrangements for our production operations at the SV Production Site and FV Production Site” in this prospectus. Further, our Directors are of the view that, based on the advice of our PRC Legal Adviser and interviews with the Relevant PRC Government Authorities, such non-compliances will not materially and adversely affect our business operations and financial condition. Accordingly, no provision has been made in our consolidated financial statements.

2. **Company involved:** Guangdong Fuvo

Details of properties, nature of title defect and reasons for historical non-compliance:

Pursuant to a tenancy agreement entered into between Guangdong Fuvo and Mr. Ernest Chen, we currently rent from Mr. Ernest Chen the buildings and land located at Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC, on which our FV Production Site is situated.

Mr. Ernest Chen had not obtained the building ownership certificates in relation to an aggregate gross floor area of approximately 4,825.2 sq.m. (the “**FV Buildings**”). He had also not obtained (i) planning approval for construction, (ii) the construction work commencement permit and (iii) inspection and acceptance on completion of construction prior to the commencement of operations at the FV Buildings. To the best knowledge and belief of our Directors, notwithstanding the efforts of Mr. Ernest Chen to complete the relevant inspection and acceptance approval procedures, he was unable to obtain the inspection approval and the relevant building ownership certificates. This was a result of certain building structures having historically been erected on land which exceeded the demarcation line by the previous landowner for the relevant land parcel owned by Mr. Ernest Chen (the “**Exceeded Area**”). Mr. Ernest Chen had subsequently liaised with the Relevant PRC Government Authorities, which had imposed administrative penalties on both Mr. Ernest Chen and Guangdong Fuvo with respect to the Exceeded Area and the FV Buildings for non-compliance with the Urban and Rural Planning Law of the PRC. As at the Latest Practicable Date, relevant rectification measures with respect to the Exceeded Area have been completed and the relevant fines have been fully paid by Mr. Ernest Chen and Guangdong Fuvo.

Our Directors have confirmed that, to the best of their knowledge and belief, notwithstanding the efforts of Mr. Ernest Chen to complete the relevant inspection and acceptance approval procedures, as a result of the local PRC Government in Fusha Town not having an updated land use planning index currently in force, Mr. Ernest Chen’s application for planning approvals and other subsequent permit and certificates would not be able to be processed at present.

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Legal consequences and potential maximum penalty/fine:

According to the provisions of the Construction Law of the PRC and Regulations on the Quality Administration of Construction Engineering as described above, the failure to obtain the construction work commencement permit for the FV Buildings by Mr. Ernest Chen may lead to imposition of rectification orders, suspension of construction, and imposition of fines ranging from RMB93,600 to RMB187,200, representing 1% to 2% of the contract value of the FV Buildings. In addition, Mr. Ernest Chen's failure to obtain the inspection and acceptance on completion of construction for the structures on the Exceeded Area may lead to imposition of rectification orders, and imposition of fines ranging from RMB187,200 to RMB374,400, representing 2% to 4% of the contract value of the structures on the Exceeded Area.

As advised by our PRC Legal Adviser, based on the relevant PRC laws and regulations mentioned above, there is therefore a risk, albeit relatively low, that Guangdong Fuvo may not be able to continue its use of the FV Production Site and be requested by Relevant PRC Government Authorities to relocate from the premises.

Views of our PRC Legal Adviser:

Our PRC Legal Adviser had conducted interviews with (i) Zhongshan City Fusha Town City Management and Administration Enforcement Branch (中山市阜沙鎮城市管理行政執法分局), (ii) Zhongshan City Urban and Rural Planning Bureau Fusha Branch (中山市城鄉規劃局阜沙分局), (iii) Zhongshan City Fusha Town Housing and Urban and Rural Construction Bureau (中山市阜沙鎮住房和城鄉建設局), and (iv) Zhongshan City Land Resources Bureau Fusha Branch (中山市國土資源局阜沙分局) (together, the “**Relevant FV PRC Government Authorities**”) respectively on 22 June 2018 and 21 March 2019, during which it was verbally confirmed that, amongst others, (i) given the party responsible for constructing the structures on the Exceeded Area was Mr. Ernest Chen, Guangdong Fuvo would not be requested to vacate or be ordered to suspend our production activities at the FV Production Site, (ii) subject to the completion of the planning approval application procedures, there would not be any substantial legal impediment for Mr. Ernest Chen to obtain the planning approvals for the FV Land Parcel, and (iii) subject to the full payment of any administrative penalties imposed and the submission of an independent third party construction quality authentication report, there would not be any legal impediment for Mr. Ernest Chen to obtain the construction work commencement permits, pass the relevant inspection and acceptance process and obtain the relevant building ownership certificate in relation to the FV Land Parcel.

We have been advised by our PRC Legal Adviser that the Relevant FV PRC Government Authorities are competent authorities to consult on the aforementioned non-compliances. Pursuant to the Urban Real Estate Administration Law of the PRC, properties which have not been registered or where title certificates have not been obtained, such properties shall not be transferred. Further, pursuant to the Property Law of the PRC, properties in relation to which ownership or right of use are unclear or controversial shall not be mortgaged. Therefore, our PRC Legal Adviser is of the view that the land on which our FV Production Site is situated, which we lease from Mr. Ernest Chen, cannot be bought, sold or be accepted by banks as security for mortgages. We have also been advised by our PRC Legal Adviser that, based on the verbal confirmations provided by the Relevant FV PRC Government Authorities, with respect to the failure to obtain planning approval and completion of inspection and acceptance procedures, (i) the risk of Guangdong Fuvo

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being ordered to demolish or vacate the FV Production Site for the non-compliances is relatively low, and that (ii) subject to the completion of relevant application and inspection procedures, there should be no legal impediment to Guangdong Fuvo's continued occupation and use of the FV Production Site.

Separately, our PRC Legal Adviser is also of the view that based on the verbal confirmations provided by the Relevant FV PRC Government Authorities, with respect to the structures erected upon the Exceeded Area, given that (i) Mr. Ernest Chen and Guangdong Fuvo had already been imposed with administrative penalties in this regard by relevant planning authorities, and such administrative penalties have been fully paid, and (ii) relevant rectification measures had been completed, the risk of Guangdong Fuvo being further investigated or penalised by relevant planning authorities, is relatively low. In addition, in the unlikely event of a request for vacation of the premises or a suspension of production activities, our production at the FV Production Site can be relocated to the MV Production Site and/or the SK Production Site, and hence our PRC Legal Adviser is of the view that any administrative penalties imposed on Guangdong Fuvo would not have a material adverse effect on the production activities carried out by it.

Remedial actions taken or to be taken:

As at the Latest Practicable Date, Mr. Ernest Chen and Guangdong Fuvo had been imposed with administrative penalties in the sum of approximately RMB278,000 and RMB127,000 respectively with respect to the Exceeded Area and the FV Buildings, which have been fully paid by both Mr. Ernest Chen and Guangdong Fuvo. Our Directors also confirm that, as at the Latest Practicable Date, any structures erected upon the Exceeded Area had already been demolished and relevant rectification measures have been completed.

To the best of our Directors' knowledge, belief and understanding, as at the Latest Practicable Date the FV Buildings are in safe conditions as at the Latest Practicable Date, and neither Mr. Ernest Chen nor us had received any penalty notice or request for demolition or vacation from the Relevant PRC Government Authorities. Our Directors also confirm that there would also be no difference in land rental to be paid by us if there was no defective title with respect to the FV Buildings.

Due to the reasons mentioned above, we are currently unable to ascertain the expected time for Mr. Ernest Chen to rectify the title defects with respect to the FV Buildings. In view of our relocation plans with respect to our MV Production Site, and to save further administrative costs and efforts, we have currently not taken any further action with respect to the perfection of title in relation to the FV Production Site. For further details, please refer to the subsection headed "Business — Our operations — Manufacturing — Relocation to the MV Production Site and expansion plans" and "Business — Properties — Properties with defective titles — Contingency arrangements for our production operations at the SV Production Site and FV Production Site" in this prospectus. Further, our Directors are of the view that, based on the advice of our PRC Legal Adviser and interviews with the Relevant FV PRC Government Authorities, such non-compliances will not materially and adversely affect our business operations and financial condition. Accordingly, no provision has been made in our consolidated financial statements.

3. **Company involved:** Sanvo Holdings

Details of properties, nature of title defect and reasons for historical non-compliance:

During the Track Record Period, Sanvo Holdings did not obtain (i) planning approval for construction, (ii) the construction work commencement permit and (iii) inspection and acceptance on completion of construction prior to commencing operation, in relation to five buildings or areas at our SK Production Site, comprising (a) three production workshop areas, (b) one office building and (c) one security room (the “**SK Defective Areas**”), with an aggregate gross floor area of 13,040.3 sq.m., situated at No. 5 Xinliu West Road, Huangpu Town, Zhongshan City, Guangdong, the PRC. Owing to the failure to obtain the above planning approvals, construction work commencement permit and inspection and acceptance on completion of construction, which were prerequisites to obtaining the building ownership certificates, Sanvo Holdings does not current hold any building ownership certificates with respect to the SK Defective Areas and as at the Latest Practicable Date, 10,650.3 sq.m. of the SK Defective Areas was neither in use, leased to independent third parties, nor relevant to the production or operation activities of Sanvo Holdings.

Our Directors have confirmed that, to the best of their knowledge and belief, notwithstanding the efforts of Sanvo Holdings to complete the relevant approval procedures, it was unable to obtain, amongst others, planning approval and building ownership certificates with respect to the SK Defective Areas as a result of historical reasons in the Zhongshan City Huangpu Town area, as the PRC Government did not and does not currently have an updated land use planning index in force, and as such our applications for planning approvals and other subsequent permit and certificates would not be able to be processed.

Legal consequences and potential maximum penalty/fine:

According to the provisions of the Urban and Rural Planning Law of the PRC as described above, the relevant planning authority has the authority to require us to demolish the SK Defective Areas within a specified period and impose on us a fine up to RMB1,799,000 calculated based on 10% of the construction costs.

In addition, according to the provisions of the Construction Law of the PRC and the Regulations on the Quality Administration of Construction Engineering as described above, our failure to obtain the construction work commencement permit for the SK Defective Areas may lead to imposition of rectification orders, suspension of construction, and imposition of fines ranging from RMB179,900 to RMB359,800, representing 1% to 2% of the contract value of the SK Defective Areas. In addition, our failure to obtain the inspection and acceptance on completion of construction for the SK Defective Areas may lead to imposition of rectification orders, and imposition of fines ranging from RMB359,800 to RMB719,600, representing 2% to 4% of the contract value of the SK Defective Areas.

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Views of our PRC Legal Adviser:

Our PRC Legal Adviser had conducted interviews with the Relevant PRC Government Authorities respectively on 22 June 2018, during which it was verbally confirmed that, amongst others, (i) the Relevant PRC Government Authorities were aware that the relevant non-compliances were due to long-standing and historical reasons as mentioned hereinabove, (ii) we would not be requested to vacate or be ordered to suspend our production activities at the SK Production Site, and (iii) subject to the obtaining of the planning approvals, there would not be any substantial legal impediment for us to obtain the construction work commencement permits, pass the relevant inspection and acceptance process and obtain the relevant building ownership certificate in relation to the SK Defective Areas.

We have been advised by our PRC Legal Adviser that the Relevant PRC Government Authorities are competent authorities to consult on the aforementioned non-compliances. Pursuant to the Urban Real Estate Administration Law of the PRC, properties which have not been registered or where title certificates have not been obtained, such properties shall not be transferred. Further, pursuant to the Property Law of the PRC, properties in relation to which ownership or right of use are unclear or controversial shall not be mortgaged. Therefore, our PRC Legal Adviser is of the view that the SK Defective Areas cannot be bought, sold or be accepted by banks as security for mortgages. We have also been advised by our PRC Legal Adviser that although there are risks that Sanvo Holdings will be required by the PRC Government to rectify the non-compliances, demolish the SK Defective Areas within a specified period or confiscate the relevant material objects or the illegal gain, based on (i) four out of five of buildings or areas comprising the SK Defective Areas being either not in use or leased to independent third parties, (ii) the remaining area (i.e. the security room) comprising only 0.07% of the gross floor area owned by Sanvo Holdings and the immateriality of any demolition or relocation thereof, and (iii) the verbal confirmations provided by the Relevant PRC Government Authorities that Sanvo Holdings would not be ordered to demolish or penalised for the above non-compliances, our PRC Legal Adviser is of the view that the risk that Sanvo Holdings will be ordered to demolish or be penalised for the SK Defective Areas for the non-compliance is relatively low, and that in the unlikely event that any penalty is imposed, there will not be any material adverse effect to our Group's production activities.

Remedial actions taken or to be taken:

As at the Latest Practicable Date, 10,650.3 sq.m. of the SK Defective Areas was not in use. In addition, the tenancies with respect to SK Defective Areas which we leases or leased to independent third parties have ceased with effect from (i) 31 March 2019 and (ii) 30 April 2019 respectively. Although we are currently unable to ascertain the expected time to rectify the title defects with respect to the SK Defective Areas due to the historical reasons mentioned above, we undertake to make the application for perfection of title with respect to the SK Defective Areas as soon as the relevant local land use planning index has been promulgated and is in force. We also undertake to continue to maintain active and regular communication with the Relevant PRC Government Authorities in order to ensure that there will be no unnecessary delay in our application for and obtaining the relevant approvals and certificates.

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To the best of our Directors' knowledge, belief and understanding, the SK Defective Areas are in safe conditions as at the Latest Practicable Date. As at the Latest Practicable Date, we had not received any penalty notice or request for demolition or vacation from the Relevant PRC Government Authorities. Our Directors also confirm that there would also be no difference in land cost to be paid by us if there was no defective title with respect to the SK Defective Areas.

Our Directors are of the view that, based on the advice of our PRC Legal Adviser and interviews with the Relevant PRC Government Authorities, such non-compliances will not materially and adversely affect our business operations and financial condition. Accordingly, no provision has been made in our consolidated financial statements.

4. **Company involved:** Shunde Sanvo

Details of properties, nature of title defect and reasons for historical non-compliance:

During the Track Record Period, Shunde Sanvo did not obtain (i) planning approval for construction, (ii) the construction work commencement permit and (iii) inspection and acceptance on completion of construction prior to commencing operation, in relation to one production workshop and two raw materials warehouses (“**Part 1 Ancillary Structures**”) and (a) the construction work commencement permit and (b) inspection and acceptance on completion of construction prior to commencing operation in relation to certain warehouse and production workshop areas (“**Part 2 Ancillary Structures**”, together with the Part 1 Ancillary Structures, the “**Ancillary Structures**”), with an aggregate gross floor area of 14,031.92 sq.m., situated at Jiyou Industrial Area, Xingtang Town, Shunde District, Foshan City, Guangdong, the PRC, where our XV Production Site is situated. Owing to the failure to obtain the above planning approvals, construction work commencement permit and/or inspection and acceptance on completion of construction, which were prerequisites to obtaining the building ownership certificates, the building ownership certificate currently held by Shunde Sanvo does not cover the Ancillary Structures.

As confirmed by our Directors, such non-compliance incident was mainly caused by our designated staff's unintended and inadvertent oversight of the relevant PRC laws and regulations.

Legal consequences and potential maximum penalty/fine:

According to the provisions of the Urban and Rural Planning Law of the PRC as described above, the relevant planning authority has the authority to require us to demolish the Part 1 Ancillary Structures within a specified period and impose on us a fine up to RMB845,000 calculated based on 10% of the construction costs.

In addition, according to the provisions of the Construction Law of the PRC Urban and the Regulations on the Quality Administration of Construction Engineering as described above, our failure to obtain the construction work commencement permit for the Ancillary Structures may lead to imposition of rectification orders, suspension of construction, and imposition of fines ranging from RMB210,900 to RMB421,800, representing 1% to 2% of the contract value of the Ancillary Structures. In addition, our failure to obtain the inspection and acceptance on completion of construction for the Ancillary Structures may lead to imposition of rectification orders, and imposition of fines ranging from RMB421,800 to RMB843,600, representing 2% to 4% of the contract value of the Ancillary Structures.

Views of our PRC Legal Adviser:

Our PRC Legal Adviser had conducted an interview with Foshan City Shunde District Development Planning and Statistics Bureau (佛山市順德區發展規劃和統計局), Foshan City Shunde District Environment, Transport and Urban Management Bureau Xingtang Branch (佛山市順德區環境運輸和城市管理局杏壇分局) and Foshan City Shunde District Xingtang Town Land, Construction and Hydraulic Engineering Bureau (佛山市順德區杏壇鎮國土城建和水利局) (collectively the “**Foshan Planning and Statistics Bureau**”) on 22 June 2018, during which it was verbally confirmed that (i) we would not be penalised for the failure to obtain planning approval for construction in relation to the five Ancillary Structures; (ii) subject to the completion of relevant planning approval procedures, there would not be any legal impediment for us to obtain the planning approval for construction of the Ancillary Structures, and (iii) subject to the obtaining of the planning approvals, there would not be any legal impediment for us to obtain the construction work commencement permits, pass the relevant inspection and acceptance process and obtain a renewed and updated building ownership certificate which would include the Ancillary Structures.

We have been advised by our PRC Legal Adviser that the Foshan Planning and Statistics Bureau is the competent authority to consult on the aforementioned non-compliances. Pursuant to the Urban Real Estate Administration Law of the PRC, properties which have not been registered or where title certificates have not been obtained, such properties shall not be transferred. Further, pursuant to the Property Law of the PRC, properties in relation to which ownership or right of use are unclear or controversial shall not be mortgaged. Therefore, our PRC Legal Adviser is of the view that the Ancillary Structures cannot be bought, sold or be accepted by banks as security for mortgages. We have been further advised by our PRC Legal Adviser that the risk that Shunde Sanvo will be ordered to demolish or be penalised for the Ancillary Structures for the non-compliance is relatively low and there is no substantial legal impediment for us to obtain the relevant planning approvals and certificates.

Remedial actions taken or to be taken:

We had obtained the planning approval for four out of five of the Ancillary Structures on 23 July 2018, and are in the process of applying for the planning approval for the remaining production workshop area. We will apply for the building ownership certificates for the Ancillary Structures once we obtain the planning approval for the remaining production workshop area and the construction work commencement permit for our Ancillary Structures. As at the Latest Practicable Date, we have yet to obtain the required permits and certificates, and are waiting for the Relevant PRC Government Authorities to examine and approve our applications.

To the best of our Directors’ knowledge, belief and understanding, the five Ancillary Structures are in safe conditions as at the Latest Practicable Date. As at the Latest Practicable Date, we had not received any penalty notice or request for demolition or vacation from the Foshan Planning and Statistics Bureau. Our Directors also confirm that there would also be no difference in land cost to be paid by us if there was no defective title with respect to the Ancillary Structures.

Our Directors are of the view that, based on the advice of our PRC Legal Adviser and interview with the relevant PRC Government authority, such non-compliance incident will not materially and adversely affect our business operations and financial condition. Accordingly, no provision has been made in our consolidated financial statements.

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Our Controlling Shareholders have also agreed to indemnify us for all losses, claims, actions, demands, liabilities, damages, costs and expenses, fines, penalties and charges suffered or incurred by us due to our non-compliances and/or the properties with defective titles as mentioned above.

Directors' view on the properties with defective titles

As set out above, during the Track Record Period and as at the Latest Practicable Date, there existed four properties which were leased or owned by us with title defects, and among them, the SK Defective Areas was neither in use nor leased to independent third parties and it thus was not crucial to our Group's operation. On the other hand, the FV Buildings, SV Defective Areas and the Ancillary Structures of XV Production Site (together with the FV Buildings and SV Defective Areas, the "**In-Use Defective Areas**") were used for manufacturing activities, the main product types of which are organic silicone adhesives, aerosols and synthetic adhesives. During the Track Record Period, our Group's actual production volume (in tonnes) for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 for products of: (i) organic silicone adhesives was approximately 5,864, 8,815, 12,377 and 5,875 respectively; (ii) aerosols was approximately 22,138, 25,215, 26,789 and 11,400; and (iii) synthetic adhesives was approximately 3,300, 3,937, 4,089 and 1,839 respectively. In contrast, the corresponding production volume of the In-Use Defective Areas for products of: (i) organic silicone adhesives was approximately 5,864, 8,815, 6,230 and 1,743 respectively; (ii) aerosols was approximately 22,138, 25,215, 26,789 and 11,400 respectively; and (iii) synthetic adhesives was approximately 3,300, 3,937, 3,966 and 1,768 respectively. According to the foregoing, the production output of products manufactured in the In-Use Defective Areas accounted for approximately 100%, 100%, 86% and 78% of our Group's total production output of the same product types respectively for each of the three years ended 31 December 2018 and the six months ended 30 June 2019. Therefore, our Directors are of the view that the properties with title defects are collectively crucial to our Group's operation.

However, for reasons that: (i) based on the verbal confirmations provided by the Relevant PRC Government Authorities, our Directors do not foresee any significant risk with respect to the demolition, vacation or cease of occupation of the In-Use Defective Areas; (ii) as disclosed in the subsection headed "Business — Our operations — Manufacturing — Relocation to the MV Production Site and expansion plans" and "Business — Properties — Properties with defective titles — Contingency arrangements for our production operations at the SV Production Site and FV Production Site" in this prospectus, we are implementing the eventual gradual relocation of our production operations at our SV Production Site and FV Production Site to our MV Production Site; and (iii) we are applying for the absent planning permits and will apply for the construction licences and building ownership certificate(s) for the Ancillary Structures of our XV Production Site, which, according to the verbal confirmations provided by the Relevant PRC Government Authorities, is of no material legal impediment (provided that the application documents as required under PRC laws can be properly prepared), our Directors are of the view that the properties with title defects will collectively become less crucial and should become immaterial to our Group's operation once we complete the relocation of our aerosols production to the MV Production Site and obtain the building ownership certificate for the Ancillary Structures.

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Contingency arrangements for our production operations at the SV Production Site and FV Production Site

Having consulted and obtained the views from our PRC Legal Adviser, while the Directors consider that the risk of being requested to relocate our production operations away from and vacate our SV Production Site and FV Production Site is remote, we have formulated the following contingency arrangements:

1. *Relocation*

In the event that we are required by the PRC Government to relocate our production operations at our SV Production Site and FV Production Site due to the title defects, we should be sufficiently advanced in our planned relocation of our aerosols production operations to the MV Production Site. We do not foresee significant obstacles in outfitting the MV Production Site to take over production at our SV Production Site and FV Production Site. We expect to be able to commence trial production in the first half of 2020 based on our current plans to relocate production to the MV Production Site.

2. *Subcontracting*

In the event of a relocation from the SV Production Site and FV Production Site and during the period when our production is suspended pending completion of the relocation process, we would seek to subcontract our production to subcontractors. For this purpose, we have entered into agreements with two subcontractors, both being independent third parties engaged in the manufacture of industrial chemicals located in Guangdong Province, the PRC (the “**Contingency Manufacturing Confirmations**”). Pursuant to the Contingency Manufacturing Confirmations, each subcontractor has agreed to, upon our request, take up the production output required to meet our sales order. Based on enquiries made and as confirmed by our Directors, the two subcontractors have an aggregate production capacity of approximately 300,000 cans per day, which is sufficient to cover our production of aerosols at our SV Production Site and FV Production Site. Under the Contingency Manufacturing Confirmations, the two subcontractors are responsible for the manufacture of specified products and we are responsible for providing the design and specifications of the products and packaging. The subcontractors will produce samples of the products for our inspection prior to commencing mass production. We would maintain our product’s quality through quality control tests and other monitoring methods that we apply to subcontractors.

In choosing these subcontractors, we considered various factors including their production qualifications, the proximity of their locations to our existing production facilities, their manufacturing capabilities, their capacity to complete our orders on time and ability to comply with our quality requirements.

Our PRC Legal Adviser has advised us that we should examine the business licence and permits or licences relating to safety production of such subcontractors prior to providing our design and specifications of products and packing to them. The Contingent Manufacturing Confirmations are legal, valid and enforceable under the laws of the PRC provided that products subcontracted for production are within the business scope and production licence scope of the relevant subcontractor.

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While this subcontracting arrangement would lead to additional subcontracting fees, our Directors are of the view that we would save on production overhead and raw material costs. Pursuant to the Contingency Manufacturing Confirmations, the subcontracting fees are based on a unit cost to be determined and set out in individual purchase orders to be made by our Group. For illustrative purposes only, should we have subcontracted our entire aerosols production at our SV Production Site and FV Production Site for the year ended 31 December 2018 pursuant to the Contingency Manufacturing Confirmations (assuming they apply in 2018 for this purpose), we would have incurred subcontracting fees of approximately RMB272.4 million. On the other hand, our cost of sales ^(Note) in relation to our aerosols products produced at our SV Production Site and FV Production Site were approximately RMB266.6 million in aggregate. Accordingly, the additional costs we would have incurred, should we have subcontracted and relocated our entire aerosols production at our SV Production Site and FV Production Site for the year ended 31 December 2018, would be in the amount of approximately RMB5.8 million.

Note: Our cost of sales comprised cost of raw materials, employee benefit expenses and other expenses, mainly including utilities and electricity, rental expenses and amortisation and depreciation. For the year ended 31 December 2018, our employee benefit expenses and other expenses represented approximately 5.7% of our total cost of sales for the same period, which we would have incurred in any event should we have subcontracted our entire aerosols production at our SV Production Site and FV Production Site.

In addition, apart from our aerosols production, the production of organic silicone adhesives on our remaining production line at our FV Production Site can also be taken up by our SK Production Site, which has sufficient production capacity to undertake the increase in production and output, if required. Accordingly, the above additional subcontracting costs have only taken into account the subcontracting of our aerosols production.

Given the above, our Directors do not expect to incur any material losses from business interruptions resulting from a relocation (the likelihood of which they consider to be remote), and given that we have contingency arrangements in place, our Directors confirm and the Sole Sponsor concurs that there will be no material impact on our operations in the event of us being forced to relocate the SV Production Site and FV Production Site.

For further details on our properties, please refer to the property valuation report set forth in Appendix III to this prospectus.

LEGAL COMPLIANCE AND LITIGATION

Our Directors confirm that, save as disclosed in the paragraphs below, we have been in compliance in all material aspects with the applicable laws and regulations in all jurisdictions where we operate business and have obtained all necessary approvals, permits license, approvals and certificates that are material to our business operations from the relevant government authorities during the Track Record Period and up to the Latest Practicable Date.

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Non-compliance

Non-compliance in relation to social insurance contribution in relation to Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings and Shunde Sanvo

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
<p>Pursuant to the Social Insurance Law of PRC (《中華人民共和國社會保險法》), employers are required to make social insurance contributions for all employees.</p> <p>During the Track Record Period, Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings and Shunde Sanvo made social insurance contribution based on the standard payment base accepted by the local government authorities but failed to make the correct payment base contribution of social insurance for some of our employees. The amounts of social insurance payments that we did not pay for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 were approximately RMB2.1 million, RMB3.8 million, RMB3.8 million and RMB2.4 million, respectively.</p>	<p>The non-compliance was due to the lack of sufficient knowledge on the relevant laws and regulations by our administrative staff members.</p>	<p>As at the Latest Practicable Date, no notice, administrative action, fine or penalty had been imposed by relevant government authorities with respect to this non-compliance incident, nor has any order been received by us to settle the outstanding amount of social insurance payments.</p> <p>We have obtained confirmation letters:</p> <p>(i) from Zhongshan Human Resources and Social Security Bureau Fusha Branch (中山市人力資源和社會保障局阜沙分局) on 16 January 2019, confirming that as at the date of the confirmation Guangdong Fuvo had made social insurance contributions in accordance with local requirements and there was not outstanding payment;</p> <p>(ii) from Zhongshan Human Resources and Social Security Bureau Huangpu Branch (中山市人力資源和社會保障局黃圃分局) on 17 January 2019, confirming that each of Guangdong Sanvo and Sanvo Holdings had made social insurance contributions in accordance with local requirements and there was not outstanding payment and that since 1 January 2015, Guangdong Sanvo had not been penalised for violating any laws and regulations for labour and social security and there was also not any complaints and legal proceedings in this regard; and</p> <p>(iii) from National Tax Bureau Foshan Shunde Branch Xingtian Office (國家稅務總局佛山市順德區稅務局杏壇稅務所) on 29 March 2019, confirming that Shunde Sanvo there was not any outstanding payment from January 2016 to December 2018 and there had not been any penalty record from January to December 2018.</p> <p>According to our PRC Legal Adviser, the respective PRC authorities mentioned above are the appropriate and competent authorities directly supervising the compliance of social insurance requirements.</p>	<p>In the event that an employer fails to pay on time and in full social insurance contributions, the relevant PRC authorities shall order the employer to make the outstanding contributions within a stipulated period and impose a daily late payment surcharge equivalent to 0.05% of the overdue payment from the date on which the payment becomes due. If the employer fails to make the overdue contribution within the stipulated period, the relevant PRC authorities may impose a fine equivalent to one to three times the amount of overdue payment.</p> <p>As at the Latest Practicable Date, our Group was not aware of any orders requesting us to make up the outstanding social insurance contributions within a stipulated time.</p> <p>Given that the confirmations were obtained and that our Group has contributed sufficient social insurance for all our eligible PRC employees according to the requirements of the competent human resources and social security bureaus, as advised by our PRC Legal Adviser, provided that we can continue to contribute social insurance on the basis of the requirements of the competent human resources and social security bureaus, the possibility of our Group being penalised for such non-compliance is relatively low. In view of the unlikelihood of being penalised for the possible breach, no provision was made in this regard.</p> <p>Based on the above, our Directors consider that the non-compliance has no significant adverse operational and financial impact on our Group.</p>

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Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
		<p>In addition, our Controlling Shareholders have agreed to indemnify us for any penalty or any costs, expenses and losses in connection with such non-compliance incident occurred or before the Listing.</p> <p>Our internal control consultant found that the amount of social insurance contribution payment covered our relevant number of employees during its following up review.</p> <p>We have enhanced our internal controls and have taken the following rectification measures to prevent future occurrences of such non-compliance incidents:</p> <ul style="list-style-type: none"> • Training — we have strengthened legal compliance training for our personnel, including by engaging our PRC Legal Adviser to provide training for our personnel on relevant laws and regulations; • Policy — we have formulated and distributed to our employees an internal control policy with respect to social insurance plans contribution in compliance with relevant PRC laws and regulations, which we have started to implement since 31 July 2019; • Review and record-keeping — we have designated our human resources department to provide a social insurance contribution breakdown to our accounting department before the 15th of each month. Our accounting department is then responsible for ensuring the accuracy of the relevant calculation, handling of the payment once approved and the provision of monthly payment records to our human resources department; and • Increasing awareness of developments in the law — we will regularly keep abreast of the latest developments in PRC Laws and regulations. 	

BUSINESS

Non-compliance in relation to housing provident fund contribution in relation to Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
<p>According to the Regulations on Management of Housing Provident Fund of the PRC (《中華人民共和國住房公積金管理條例》), a company is required to register with the relevant local housing provident fund administrative agency within 30 days from its establishment and make housing provident fund for its employees.</p> <p>During the Track Record Period, Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam had failed to register with relevant local housing provident fund administrative agencies within the required timeframe and did not open housing provident fund account and make full housing provident fund contribution for all employees.</p> <p>As at 31 December 2016, 2017 and 2018 and 30 June 2019, the maximum total outstanding amount of housing provident fund to be paid by us was approximately RMB2.9 million, RMB4.5 million, RMB6.1 million and RMB6.1 million, respectively.</p>	<p>The non-compliance was due to the lack of sufficient knowledge on the relevant laws and regulations by our administrative staff members.</p>	<p>In May to July 2018, Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam had duly registered with the relevant housing provident fund authority and opened its account for housing provident fund respectively. Since then, all of these group companies had made housing provident fund contributions for all of its employees in accordance with the relevant PRC laws and regulations.</p> <p>We have obtained confirmations from the Foshan Municipality Housing Provident Fund Management Centre (佛山市住房公積金管理中心) on 15 January 2019 confirming that (i) each of Shunde Sanvo and Guangdong Fullteam had opened its account for housing provident fund; and (ii) Shunde Sanvo and Guangdong Fullteam had made contribution payment for the housing provident fund since May and June 2018 respectively; and (iii) there had not been any non-compliance incidents from January 2016 to July 2019.</p> <p>Nevertheless, we have set aside approximately RMB6.1 million as provision for paying the aggregate outstanding amount of housing provident fund throughout the Track Record Period.</p>	<p>According to the Regulations on Management of Housing Provident Fund of the PRC, (i) the relevant housing provident fund authorities may order Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam to register and open an account for housing provident fund for their employees within a prescribed time period. If the relevant entity fails to do so at the expiration of the prescribed time period, a penalty ranging from RMB10,000 to RMB50,000 may be imposed; and (ii) 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 to the People's Court of the PRC.</p> <p>As advised by our PRC Legal Adviser, Zhongshan Municipality Housing Provident Fund Management Centre and Foshan Municipality Housing Provident Fund Management Centre are competent to issue the aforesaid confirmations.</p> <p>Our PRC Legal Adviser is of the view that if we have received any employee's complaints or demands for payment of housing fund contributions, or any notification from the relevant PRC authorities demanding payment of the same and we make the relevant payments within the prescribed time limit, the risk for being penalised is relatively low.</p>

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Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
		<p>We have obtained confirmations from the Zhongshan Municipality Housing Provident Fund Management Centre (中山市住房公積金管理中心) on 21 January 2019 confirming that (i) each of Guangdong Fuvo, Guangdong Sanvo and Sanvo Holdings had opened its account for housing provident fund; and (ii) from May to December 2018, we had made contribution payment for the housing provident fund; and (iii) we had not been penalised for violating the laws and regulations for housing provident fund contributions.</p> <p>We have obtained confirmation from the Zhongshan Municipality Housing Provident Fund Management Centre on 21 January 2019 confirming that (i) Zhongshan Minhe had opened its account for housing provident fund; and (ii) from July to December 2018, we had made contribution payment for the housing provident fund; and (iii) we had not been penalised for violating the laws and regulations for housing provident fund contributions.</p> <p>As at the Latest Practicable Date, each of Guangdong Fuvo, Guangdong Sanvo, Sanvo Holdings, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam has not received any notification(s) or request(s) from the relevant government authorities requesting the same to pay any outstanding housing provident fund contribution within a given period.</p> <p>Nevertheless, we have set aside approximately RMB6.1 million as provision for paying the aggregate outstanding amount of housing provident fund throughout the Track Record Period.</p> <p>We have obtained an indemnity from the Controlling Shareholders, pursuant to the Deed of Indemnity, to indemnify our Group against any claims, fines and other liabilities arising from such non-compliances.</p> <p>We were also advised by our internal control consultant to open housing provident fund accounts with the relevant housing provident fund authority and settle the outstanding payments. Additionally, a specified person should be appointed to review the housing provident fund situation monthly to ensure the timely payment of housing provident fund contributions to all employees. Our internal control consultant found that (i) we have registered with the relevant housing provident fund authorities from May 2018 and made housing provident fund contributions since June 2018; and (ii) housing provident fund contributions were made for employees on monthly wages during its follow up review.</p>	<p>Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on our Group's business operations and financial condition.</p>

BUSINESS

Non-compliance in relation to provision of safety fee in relation to Guangdong Fuvo and Guangdong Sanvo

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
<p>According to the Administrative Measures on the Collection and Utilisation of Production Safety Fee《企業安全生產費用提取和使用管理辦法》, companies should make provisions for fees and expenses in relation to enhancement and improvement of safety production matters in accordance with relevant standards. The provision of safety fee for the Group's dangerous goods production and storage entities is based on the actual sales revenue for the previous year, which is provided monthly in accordance with the following standards:</p> <p>(1) actual annual sales revenue of RMB10 million and below, provided on the basis of 4% of the actual sales revenue;</p> <p>(2) actual annual sales revenue of RMB10 million to RMB100 million (inclusive), provided on the basis of 2% of the actual sales revenue;</p> <p>(3) actual annual sales revenue of RMB100 million to RMB1 billion (inclusive), provided on the basis of 0.5% of the actual sales revenue; and</p> <p>(4) actual annual sales revenue above RMB1 billion, provided on the basis of 0.2% of the actual sales revenue.</p> <p>During the Track Record Period, Guangdong Fuvo and Guangdong Sanvo failed to make provisions for production safety fees for financial years prior to 2017 and Shunde Sanvo failed to make provisions for production safety fees for financial years prior to 2016.</p>	<p>The non-compliance was due to the lack of sufficient knowledge on the relevant laws and regulations by our accounting staff members.</p>	<p>As at 31 December 2018, we have made provisions for production safety fees for 2017 and 2018 in accordance with relevant standards under the Administrative Measures on the Collection and Utilisation of Production Safety Fee.</p> <p>We have obtained confirmation from Zhongshan Municipality Production Safety Supervisory Bureau Fusha branch (中山市安全生產監督管理局阜沙分局) on 30 August 2018 and Zhongshan Municipality Production Safety Supervisory Bureau Huangpu branch (中山市安全生產監督管理局黃圃分局) on 25 July 2018 confirming that, (i) each of Guangdong Fuvo and Guangdong Sanvo was in compliance with relevant laws and regulations in relation to production safety, dangerous chemical business and occupational health management, had established production safety system and work procedures, registered and obtained relevant approval for production of dangerous chemicals and declared for hazardous workplace; (ii) due to inadvertent oversight, Guangdong Fuvo and Guangdong Sanvo had historically failed to make provisions for production safety fees but had made relevant provisions on the basis of the sales revenue for dangerous chemicals which is satisfactory to the relevant authority; (iii) on the basis that we continue to make provisions in accordance with the relevant standards, the relevant authorities will not penalise us or require additional provisions; and (iv) from 1 January 2015 to the date of the confirmation, there was no production safety and occupational health incidents, and Guangdong Fuvo and Guangdong Sanvo had not been penalised for violating the laws and regulations in relation to production safety, dangerous chemical business and occupational health management.</p> <p>We were also advised by our internal control consultant to make provisions for production safety fees according to the Administrative Measures on the Collection and Utilisation of Production Safety Fee. Our internal control consultant found that the relevant provisions were made upon its follow up review.</p>	<p>According to the Administrative Measures on the Collection and Utilisation of Production Safety Fee, the relevant production safety and finance authorities may require Guangdong Fuvo, Guangdong Sanvo and Shunde Sanvo to rectify the relevant non-compliance within a prescribed time period and impose penalties in accordance with the relevant laws and regulations.</p> <p>As advised by our PRC Legal Adviser, Zhongshan Municipality Production Safety Supervisory Bureau Fusha branch, Zhongshan Municipality Production Safety Supervisory Bureau Huangpu branch and Foshan Municipality Shunde Production Safety Supervisory Bureau Xingtan branch are competent to issue the aforesaid confirmations.</p> <p>Our PRC Legal Adviser is of the view that based on (i) the fact that we have rectified and made provisions for production safety fees; and (ii) the aforementioned confirmations by the relevant authorities, the risk for being penalised is relatively low.</p> <p>Based on the view of our PRC Legal Adviser, our Directors confirm that such non-compliance incident would not have material adverse effect on our Group's business operations and financial condition.</p>

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Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
		<p>We have obtained confirmation from Foshan Municipality Shunde Production Safety Supervisory Bureau Xingtian branch (佛山市順德區安全生產監督管理局杏壇分局) on 16 January 2019 confirming that since 1 January 2015, Shunde Sanvo (i) had been in compliance with relevant laws and regulations in relation to production safety and occupational disease prevention, duly registered for production of dangerous chemicals, declared relevant hazardous workplace projects and made provisions for production safety fees in accordance with relevant standards under relevant laws and regulations; (ii) had no production safety and occupational health incidents; and (iii) had not been penalised for violating the laws and regulations for provisions for production safety fees and other non-compliance incidents.</p>	

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Non-compliance in relation to use of undesignated drainage outlet in relation to Shunde Sanvo

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
<p>Shunde Sanvo had used drainage outlet that was not designated by relevant authority to dispose waste water.</p>	<p>The non-compliance was due to the lack of sufficient knowledge on the relevant laws and regulations by our relevant staff members.</p>	<p>We have obtained confirmation from Foshan Municipality Shunde Environmental Transport and Urban Management Bureau Xingtian branch (佛山市順德區環境運輸和城市管理局杏壇分局) on 18 January 2019 confirming that save for the aforementioned non-compliance, which had been rectified and the relevant fine had been settled, there had been no other non-compliance incident since 1 January 2016.</p> <p>We were also advised by our internal control consultant to follow the relevant PRC laws and regulations and prohibit the use of drainage outlets not designated by relevant authorities to avoid breach of relevant laws in the future. We have agreed to implement such proposal.</p>	<p>On 20 March 2017, Shunde Sanvo was imposed a fine of RMB80,000 by Foshan Municipality Shunde Environmental Transport and Urban Management Bureau (佛山市順德區環境運輸和城市管理局), and the same had been fully settled on 28 March 2017.</p> <p>On 16 January 2018, the Department of Ecology and Environment of Guangdong Province (廣東省生態環境廳) had put Shunde Sanvo onto the blacklist for enterprises which contravened environmental law. On 5 September 2018, the same authority had issued a notice confirming that Shunde Sanvo had rectified the relevant non-compliance and it agreed to remove the same from the blacklist, and Shunde Sanvo had been removed from the said blacklist on 18 September 2018.</p> <p>As advised by our PRC Legal Adviser, Foshan Municipality Shunde Environmental Transport and Urban Management Bureau Xingtian branch is competent to issue the aforesaid confirmation.</p> <p>Our PRC Legal Adviser is of the view that based on (i) the fact that we have settled the relevant fine; (ii) as confirmed by the Department of Ecology and Environment of Guangdong Province in its announcement, Shunde Sanvo had rectified the relevant non-compliance and (iii) we have been removed the aforementioned blacklist, the risk for being further penalised is relatively low.</p> <p>Based on the view of our PRC Legal Adviser, our Directors confirm that such non-compliance incident would not have material adverse effect on our Group's business operations and financial condition.</p>

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Views of our Directors and the Sole Sponsor

Having considered (i) the facts and circumstances of, including the reasons for, the aforementioned non-compliances; (ii) the various written confirmations issued by and interviews with various departments of the PRC Government; (iii) the Deed of Indemnity; (iv) the enhanced internal control measures we have implemented, details of which have been set forth in the subsection headed “Internal Control Measures” in this section; (v) that the occurrence of the historical non-compliance incidents as disclosed above was not due to dishonesty or fraudulence of our Directors, nor did any of these incidents raise any concern on the integrity of our Directors; and (vi) none of the historical non-compliance incidents as disclosed above has any material impact on the results of our business operations or financial position, our Directors are of the view, and the Sole Sponsor concurs, that such non-compliance incidents would not affect the suitability of our Directors to act as directors under Rules 3.08 and 3.09 of the Listing Rules or suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Indemnity given by our Controlling Shareholders

On 13 December 2019, our Controlling Shareholders entered into the Deed of Indemnity with our Company to provide indemnities in favour of our Group, among others, relating to any penalties and other losses resulting from the aforementioned non-compliances.

Litigation and claims

During the Track Record Period and up to the Latest Practicable Date, the following claim and/or litigation against our Group remained outstanding:

Nature of the claim	Date of the incident	Plaintiff(s)	Defendant(s)	Amount/estimated quantum of damages claimed	Status
<p>The injured individual, who was an employee of a contractor engaged by our Group to carry out construction works for our FV Production Site, tripped over a horizontal steel bar while carrying out construction works at height (the “Accident”).</p> <p>As a result of the Accident, the injured individual suffered from, amongst others, multiple bone fractures which resulted in his being diagnosed with Level 8 and Level 10 disabilities.</p> <p>The injured individual had filed a summons of claim with the Zhongshan Intermediate People’s Court (the “Court”).</p>	2 July 2016	The injured individual (the “Plaintiff”)	<p>(i) Guangdong Fuvo</p> <p>(ii) Mr. Ernest Chen</p> <p>(iii) The construction work contractor (together, the “Defendants”)</p>	RMB1.9 million	<p>According to the Court’s judgment of second instance handed down on 27 May 2019, the Defendants were ordered to pay the Plaintiff the personal injury damages in the amount of approximately RMB1.4 million and litigation costs of approximately RMB35,000. Guangdong Fuvo paid up the damages in full to the Plaintiff on 19 June 2019. As at the Latest Practicable Date, Guangdong Fuvo had filed a summons of claim with the Court against the constructions work contractor for the repayment of all personal injury damages and litigation costs suffered by Guangdong Fuvo, and had received a notice of trial, pursuant to which it was announced that the court hearing is scheduled to be held on 21 January 2020.</p>

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Nature of the claim	Date of the incident	Plaintiff(s)	Defendant(s)	Amount/estimated quantum of damages claimed	Status
Considering the nature, scale, reasons and potential impact of the claim and/or litigation disclosed above, our Directors are of the view that the claim and/or litigation is not fundamental to the daily operations of our Group and will not likely have a material impact on our business operations, financial condition or reputation. In addition, our Directors are of the view, and the Sole Sponsor concurs, that although Mr. Ernest Chen was named as a defendant in relation to the Accident, given the claim and/or litigation was not due to any dishonesty or fraudulence of Mr. Ernest Chen, nor did the claim and/or litigation raise any concern on his integrity, there would be no effect on the suitability of Mr. Ernest Chen to act as an Executive Director under Rules 3.08 and 3.09 of the Listing Rules.					

From time to time we have been, and may be in the future be, occasionally involved in legal proceedings or disputes in the ordinary course of our business. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings which could have a material adverse effect on our business, financial condition or results of operations and, so far as the Directors are aware, no such litigation, arbitration or claim is pending or threatened against any member of our Group.

INTERNAL CONTROL MEASURES

It is responsibility of our Board of Directors to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. We have adopted or expect to adopt upon Listing a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

In January 2018 and in preparation for the Listing, we engaged an internal control consultant to perform an internal control review of our Group's internal control system, including but not limited to the areas of financial, information technology, operation and compliance. Our internal control consultant would identify deficiencies in our internal control system, furnish recommendation on enhanced internal control measures established by us to prevent future violations and ensure on-going compliance with applicable laws and regulations, perform testing for the implementation status of such enhanced internal control measures and prepare a report in this regard.

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In addition to the internal control measures we adopted as disclosed in the subsection headed “Business — Our sales network — Third Party Payments — Cessation of Third Party Payments and internal control measures” in this prospectus, our Group has also implemented, amongst others, the following measures to prevent the liability and the disruption of business operations in the event of re-occurrence of non-compliance incidents such as those disclosed in the subsection headed “Business — Legal compliance and litigation — Non-compliance” above. Having considered the implementation of the enhanced internal control measures below, our Directors are of the opinion, and the Sole Sponsor concurs that, as at the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects to prevent the re-occurrence of non-compliance incidents:

- (i) our Group will only undertake new property, upgrading and expansion work upon approval by our senior management. Our senior management will be responsible for ensuring completion of necessary formalities and obtaining necessary certificates, permits, approvals and/or the PRC Government’s consent in a timely manner and will consult our PRC Legal Adviser to advise us on relevant compliance (if necessary);
- (ii) we will engage external PRC legal adviser(s) to provide assistance in respect of any legal and compliance matters relating to our operations, where necessary;
- (iii) our management team will be primarily responsible for maintaining effective communication with PRC local governmental authorities to facilitate the application for various certificates, permits, approvals and/or government’s consent, and monitoring the progress regarding such application and communication with the local government authorities;
- (iv) our Directors have attended trainings conducted by our Company’s legal advisers as to Hong Kong law on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules, and the Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;
- (v) we will establish an audit committee which comprises three Independent Non-Executive Directors. The audit committee will also adopt terms of reference which set out clearly its duties and obligations for ensuring compliance with the relevant regulatory requirements. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters; and
- (vi) we have appointed VBG Capital Limited as our Company’s compliance adviser pursuant to the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

The above internal control measures are consistent with those recommended by our internal control consultant, in addressing some key findings of its review on our internal controls.

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After considering the above internal control measures taken by our Group and our business nature and operation scale, our Directors are satisfied, and the Sole Sponsor concurs, that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under the Listing Rules and the suitability for listing of our Company under the Listing Rules. As at the Latest Practicable Date, the above internal control measures had been implemented as planned.

RISK MANAGEMENT

We have implemented a series of measures to manage the various types of risks that we face in our operations, including the production and sales of products, daily operations, administration, financial reporting and recording, fund management, production safety and compliance with applicable environmental protection laws and regulations.

Our management team actively monitors and promptly reacts to changes in the industry's laws and regulations that impact our operations. Each of our production, administration and operations team members regularly report to our management with respect to any risks they identify, including product safety and quality risks, product liability risks and compliance risks. Where a potential risk or breach has been identified, responsible team members shall propose risk response plans if necessary for implementation and supervision, in order to minimise damage and prevent any further recurrence. Our Board of Directors supervises the implementation of our risk management policy at the corporate level by bringing together each operating department, to collaborate on risk issues among different business functions. We will consider whether measures against risk are being taken appropriately and revise our response plans or internal policies as appropriate. For details about the qualifications and experiences of our Directors, see the section headed "Directors and Senior Management" in this prospectus.

INFORMATION TECHNOLOGY

We believe that computerised systems are critical to improving our efficiency in distributorship management, quality and inventory control, logistics and sales. Our ERP system allows us to monitor our sales orders and inventory and track the movement of our products at our warehouses. Our ERP system also allows our distributors place orders via a computerized ordering system, which allows us to efficiently manage the ordering process. The data made available to use from these systems is shared with, amongst others, our production, procurement and accounting and finance departments.

We currently have an information technology policy in place, which contains various measures relating to the security of our information resources, in order to, among others, protect our Group's information resources and intellectual property, and provide general security awareness of our Group's information technology security practices. For information security risk management, we have adopted various safety measures including firewalls and data encryption, to enhance our information safety prevention and management and ensure the maintenance of continuously safe information systems. In order to reduce risk arising from potential system, software or hardware failures, there are also contingency plans in place to back up data for our operating systems and relevant procedures for hard disk data recovery in case of failure or loss of the backed-up data. There are also contingency plans in place to prevent the intrusion of our information systems and networks by network viruses. We believe information technology infrastructure and information systems are essential for the effective management and successful development of our businesses. In order to adapt to changing requirements of corporate governance, we will continue to optimize and upgrade our information technology infrastructure and the functionality of our current systems.

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LICENCES, PERMITS AND REGISTRATIONS

We have obtained all requisite material licenses, permits and registrations for our business operations, the details of which are set out in the following table:

<u>Licence/permit/registration</u>	<u>Granting/registration/ issuing authority</u>	<u>Holding subsidiary</u>	<u>Date of grant/issue</u>	<u>Expiry date (where applicable)</u>
Work Safety Licence	Foshan Shunde Administration Bureau of Production Safety	Shunde Sanvo	10 December 2018	9 December 2021
Dangerous Chemicals Registration Certificate	Dangerous Chemicals Registration Office of Guangdong Province	(1) Guangdong Sanvo (2) Guangdong Fuvo (3) Shunde Sanvo	(1) 13 January 2017 (2) 15 January 2018 (3) 23 April 2019	(1) 12 January 2020 (2) 14 January 2021 (3) 22 April 2022
National Industrial Product Manufacturing Licence	Bureau of Quality and Technology Supervision of Guangdong Province	Sanvo Holdings	12 December 2017	11 December 2022
Guangdong Province Pollutant Emission Permit	Zhongshan City Bureau of Environmental Protection	(1) Guangdong Sanvo (2) Guangdong Fuvo (3) Sanvo Holdings	(1) 19 November 2018 (2) 9 April 2018 (3) 15 March 2018	(1) 18 November 2020 (2) 31 December 2019 <i>(Note)</i> (3) 14 March 2021
	Foshan Shunde Environmental Transport and Urban Administration	Shunde Sanvo	8 March 2019	7 March 2024
Operating Licence for Road Transport	Zhongshan City Transportation Bureau	Guangdong Sanvo	11 November 2019	31 December 2023
Operating Licence for Dangerous Chemicals	Zhongshan City Administration Bureau of Production Safety	(1) Sanvo Holdings (2) Guangdong Fuvo (3) Guangdong Fullteam (4) Guangdong Sanvo	(1) 6 December 2019 (2) 25 September 2018 (3) 21 July 2017 (4) 29 August 2018	(1) 5 December 2022 (2) 24 September 2021 (3) 20 July 2020 (4) 29 August 2021
	Foshan Shunde Administration Bureau of Production Safety	(5) Shunde Sanvo	(5) 20 November 2017	(5) 19 November 2020
Food Distribution Permit	Foshan Shunde Market Supervision and Administration Bureau	Shunde Sanvo	17 August 2016	16 August 2021
Work Safety Licence for Dangerous Chemicals	Zhongshan City Administration Bureau of Production Safety	Guangdong Fuvo	20 August 2018	19 August 2021
	Zhongshan City Emergency Management Bureau	Guangdong Sanvo	22 March 2019	31 December 2020
Food and Pharmaceutical Distribution Licence	Zhongshan Food and Drug Administration	(1) Guangdong Sanvo (2) Sanvo Holdings	(1) 15 November 2016 (2) 5 April 2017	(1) 14 November 2021 (2) 4 April 2022

Note: As at the Latest Practical Date, we are in the process of preparation of renewal application.

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In relation to our licences, permits and registrations that are subject to periodic review and renewal, our administration team maintains a list recording details of such licences, permits, qualifications and registrations obtained, including their expiry dates and renewal requirements. Based on the advice of our PRC Legal Adviser, our Directors confirmed that there is no legal impediment which is likely to hinder us from obtaining or renewing such licences, permits or registrations when it becomes necessary. We will endeavour to apply for the renewal of the above licenses or permits prior to their expiry. Our administration team attends to and informs our management in a timely manner of any amendments to renewal requirements as notified by relevant granting or registration authorities. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any refusal of renewal of our licences, permits, qualifications and registrations that are necessary for our business operations. Our PRC Legal Adviser has advised that, save as otherwise disclosed in the subsection headed “Business — Legal compliance and litigation — Non-compliance”, our Group has obtained all relevant material approvals, licences, certificates and permits required for our business operations in the PRC.

BUSINESS

CERTIFICATIONS, AWARDS AND RECOGNITIONS

Certifications

The following table sets out the major certification(s) which we have received during the Track Record Period:

<u>Certification</u>	<u>Description</u>	<u>Award organisation or authority</u>	<u>Recipient</u>	<u>Period of validity</u>
ISO 9001:2015	Design and production of lubricant oil, automatic spray paint, anti-rust lubricant, polishes, spray wax, contact adhesive, paints, and multi-purpose foam cleaner	NSF International Strategic Registrations	Guangdong Sanvo	30 August 2018 to 29 August 2021
ISO 14001:2015	Design and production of lubricant oil, automatic spray paint, anti-rust lubricant, polishes, spray wax, contact adhesive, paints, and multi-purpose foam cleaner	NSF International Strategic Registrations	Guangdong Sanvo	30 August 2018 to 29 August 2021

The ISO accreditation demonstrates that we have achieved an international standard of quality management. We actively implement our commitment to ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) standards, setting internal targets and guidelines that align to stringent performance indicators.

BUSINESS

Awards and Recognitions

Over the past years, our Group has received recognition from various organisations. The table below sets out the significant awards and recognitions which we received:

Award	Year of issuance	Issuer of award	Recipient
Guangdong Province Hi-tech Product Certificate (dual fuel engine oil)	2018	Guangdong Hi-tech Enterprise Association	Sanvo Holdings
Guangdong Province Hi-tech Product Certificate (Screw thread sealant)	2018	Guangdong Hi-tech Enterprise Association	Sanvo Holdings
Guangdong Province Hi-tech Product Certificate (lubricant oil)	2016	Guangdong Hi-tech Enterprise Association	Sanvo Holdings
Guangdong Province Hi-tech Product Certificate (anaerobic adhesive)	2016	Guangdong Hi-tech Enterprise Association	Sanvo Holdings
Guangdong Province Hi-tech Product Certificate (low toxicity spray paint)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (spray wax)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (temperature endurable)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (lubricant oil)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (water-based spray paint)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (nail-less glue)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (all-purpose adhesive)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (peelable spray paint)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (lubricant oil)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (low-toxicity all-purpose adhesive)	2016	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (sealant)	2014	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo

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<u>Award</u>	<u>Year of issuance</u>	<u>Issuer of award</u>	<u>Recipient</u>
Guangdong Province Hi-tech Product Certificate (polyester paint)	2014	Guangdong Association for Science and Technology	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (white glue)	2014	Guangdong Hi-tech Enterprise Association	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (diesel engine oil)	2014	Guangdong Association for Science and Technology	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (emulsion paint)	2013	Guangdong Science and Technology Department	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (silicone adhesive)	2013	Guangdong Science and Technology Department	Guangdong Sanvo
Guangdong Province Hi-tech Product Certificate (low temperature starting agent)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Fuvo
Guangdong Province Hi-tech Product Certificate (sealant)	2017	Guangdong Hi-tech Enterprise Association	Guangdong Fuvo
Guangdong Province Hi-tech Product Certificate (Fluorocarbon paint)	2017	Guangdong Hi-tech Enterprise Association	Shunde Sanvo
Guangdong Province Hi-tech Product Certificate (nail-less glue)	2017	Guangdong Hi-tech Enterprise Association	Shunde Sanvo

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The following discussion and analysis should be read in conjunction with our audited consolidated financial statements included in “Appendix I — Accountant’s Report” together with the accompanying notes included elsewhere in this prospectus. Our consolidated financial statements set out in the Accountant’s Report are prepared in accordance with IFRSs.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our experience and analysis on historical trend, current status and expected future development as well as our assumptions and analysis made based on other factors which we believe are reasonable under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements.

Those factors which could result in significant difference between future results and those projected in the forward-looking statements include, but not limited to, factors set out in other sections in this prospectus, in particular the sections headed “Risk Factors” and “Forward-looking Statements”.

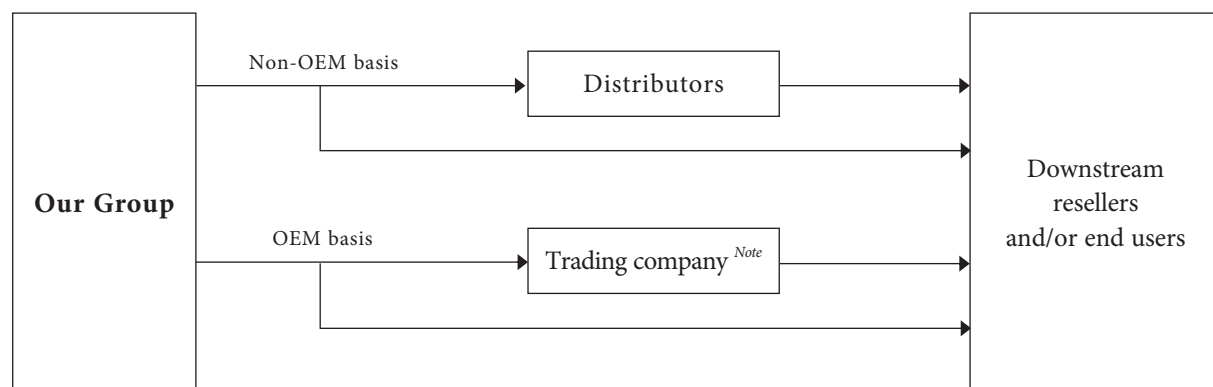
OVERVIEW

We are an established fine industrial chemical products manufacturer based in the PRC. We focus principally on the manufacture, research and development, and sale of a diversified portfolio of fine industrial chemical products, which can serve a range of purposes, including as hardware and building materials and towards automotive maintenance. Our products can be broadly categorised into the following segments: (i) aerosols; (ii) organic silicone adhesives; (iii) synthetic adhesives; and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints.

We have two principal lines of business operations, namely the manufacture and sale of fine industrial chemical products: (i) under our brands of “SANVO 三和” and “FullTeam 芙田”; and (ii) on an OEM basis. During the Track Record Period, we sold the majority of our “SANVO 三和” and “FullTeam 芙田” branded products to our distributors based in the PRC, which generally have exclusive rights to distribute our products within their designated areas. We also granted non-exclusive distribution rights to certain distributors with whom we have entered into non-exclusive distribution agreements. Our distributors distribute our products via different channels, including through (i) on-selling to downstream resellers and/or end users (such as hardware stores, automotive part shops and car repair shops), or (ii) in the case of certain distributors, their self-operated points of sales. As at the Latest Practicable Date, we had entered into distribution agreements with over 937 distributors. As at the Latest Practicable Date, our Group had 787 distributors with exclusive rights and 150 distributors with non-exclusive rights across 290 cities, covering 22 provinces, four municipalities and five autonomous regions. During the Track Record Period, we also (i) sold our products on an OEM basis, mainly to a PRC trading company; and

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(ii) have started to sell our products via certain e-commerce platforms in the PRC since 2016. For details of the breakdown of our revenue attributable to each of our principal sales channels during the Track Record Period, please refer to the subsection headed “Business — Our sales network”. The diagram below provides an overview of our business model as at the Latest Practicable Date:



Note: Products sold to our PRC trading company customer on an OEM basis are exported and sold to offshore resellers and/or end users.

As at the Latest Practicable Date, we operated four production sites with a total site area of approximately 126,319.4 sq.m., all of which are located in Guangdong Province, the PRC. In order to expand our production capacity and capabilities, we have acquired a plot of land in November 2014 with a site area of approximately 63,825.3 sq.m. in Zhongshan City, Guangdong Province, the PRC for the construction of our new production plant, being the MV Production Site. As at the Latest Practicable Date, the construction works relating to the first phase of construction plans have been substantially completed and we will target to commence trial production in mid-2020. The MV Production Site is intended to focus on the production of aerosols and will house 22 new aerosol production lines and related machinery and equipment, with a designed production capacity of approximately 30,000 tonnes per year (equivalent to approximately 150 million cans).

During the Track Record Period, we generated our revenue exclusively from the sale of fine industrial chemical products, which amounted to approximately RMB512.2 million, RMB669.3 million, RMB769.2 million and RMB371.4 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. During the same period, we recorded net profit of approximately RMB24.2 million, RMB20.4 million, RMB22.7 million and RMB16.7 million, respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set forth in the section headed “Risk Factors” in this prospectus, some of which may not be within our control. The principal factors affecting our results of operations are set out below.

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The Economic Condition of the PRC and Certain Importing Countries

The following table sets forth a breakdown of our revenue by geographical market.

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
The PRC	512,219	669,274	764,383	318,608	361,601
Australia	—	—	4,788	—	8,255
Others	—	—	—	—	1,498
	512,219	669,274	769,171	318,608	371,354

The PRC is our principal market during the Track Record Period, where we generated revenue of approximately RMB512.2 million, RMB669.3 million, RMB764.4 million and RMB361.6 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, representing 100%, 100%, approximately 99.4% and 97.4% of our total revenue for the respective periods. Furthermore, the PRC is our principal place of operations where our products are developed and manufactured. Accordingly, the PRC's economic conditions and other economic trends and factors have a direct impact on our businesses operation, the demands for our products, the supplies and prices of our requisite raw materials, and our other costs.

In addition, in order to sustain a steady growth of economy, the PRC Government has from time to time adjusted, among others, its monetary, financial, fiscal or industrial policies, or implemented other macroeconomic measures. We believe any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our business and financial conditions and operating results. Both the PRC's macroeconomic trends and policies could affect our procurement, production, sales, research and development and other parts of our business, affecting our results of business.

Additionally, as a certain portion of our products is sold to customers outside of the PRC, we may also be increasingly subject to the general economic conditions in the regions where our products are sold. Any economic downturn in the regions where our ultimate customers are based may result in reduced demand in end-use industries, such as automobiles and chemicals, which could negatively impact our future results of operations and financial condition.

Effectiveness of Our Distribution Network

Our business largely relies on our distributors to market and distribute our products. During the Track Record Period, revenue generated from sales through our distribution network amounted to approximately RMB412.5 million, RMB515.0 million, RMB692.4 million and RMB350.9 million for the respective period, representing approximately 80.6%, 76.9%, 90.0% and 94.5% of our total revenue for the respective periods.

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We believe that the performance of our distributors, their sales network and their ability to expand their businesses are crucial to our business and directly affect our sales volume and profitability. If our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot guarantee that we will be able to maintain our agreements with the distributors. The distributors may not be able to maintain their competitiveness to market and sell our products successfully, or we may not be able to monitor their marketing and selling activities. Any changes in our distribution network or performance of our distributors may affect our financial conditions and results of operations.

Our Production Capacity and Utilisation Rate

We believe that our operating results depend on our production capacity and the utilisation rate of our production facilities, since the utilisation rate has a significant impact on our gross profit margin. All else being equal, operations at or near full capacity would tend to have a positive effect on our profitability. If the utilisation rate of our production facilities increases, the production volume will increase and our average fixed costs per tonne will decrease, which would lead to an increase in our gross profit margin. The utilisation rate is affected by various factors, including the demand for our products, the overall economic performance in the PRC and the selected segment of the market and other operational disruptions, such as the expansion of production facilities, disruption to the power supply and our ability to manage our production facilities.

Cost of Raw Materials

The cost of raw materials is the principal component of our cost of sales. We purchase chemical and packaging materials for production, the prices of which, however, are subject to market conditions. During the Track Record Period, the cost of raw materials accounted for approximately 93.2%, 94.3%, 94.3% and 91.8% of our cost of sales for the Track Record Period, respectively. Since we do not enter into any arrangement with our suppliers to mitigate the fluctuations in the cost of materials, any significant fluctuation in the prices of materials could affect our gross profit margin and profitability, as reflected by the fluctuations of the gross profit margin for the Track Record Period, being 26.1%, 22.9%, 24.2% and 30.5%, respectively.

The following table sets out a sensitivity analysis illustrating the changes in our profit before income tax during the Track Record Period for hypothetical fluctuations in our cost of materials, given that other factors remain unchanged:

Hypothetical changes in the cost of raw materials ¹	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
+/-1.0%	-/+3,529	-/+4,871	-/+5,502	-/+2,411	-/+2,371
+/-3.0%	-/+10,588	-/+14,613	-/+16,506	-/+7,233	-/+7,112
+/-5.0%	-/+17,647	-/+24,355	-/+27,510	-/+12,056	-/+11,854

¹ The hypothetical changes in the cost of raw materials are assumed to be 1.0%, 3.0% and 5.0% with reference to the fluctuations of the cost of raw materials during the Track Record Period.

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Taxation

Our business operations are subject primarily to the PRC EIT and other local taxes in the PRC. The effective income tax rate was 17.0%, 16.2%, 17.4%, and 8.6% for the Track Record Period, respectively. Effective income tax rate is calculated by dividing income tax expense by profit before income tax. The PRC EIT Law provides a preferential tax treatment for “High and New Technology Enterprises” (高新技術企業) (“HNTE”) in the form of a reduced EIT rate of 15% subject to the relevant competent authorities’ review and approval. Four of our subsidiaries operating in the PRC enjoyed such preferential tax rate of 15% during the Track Record Period. Such preferential tax rate is subject to review every three years. If there is any adverse change in the tax preferential treatment we are currently entitled to in the PRC, our tax payment will be correspondingly changed, therefore affecting our financial results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our historical financial information in accordance with IFRSs. For a summary of these significant accounting policies, please refer to note 4 of section II of the Accountant’s Report set out in Appendix I to this prospectus.

The application of some of our accounting policies involve significant assumptions, estimates and judgements related to assets, liabilities, income, expenses and other accounting items, which are discussed in note 5 of section II of the Accountant’s Report set out in Appendix I to this prospectus. Our estimates are based on historical experience, expectations of future events and other assumptions that we believe to be reasonable under current circumstances, and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying our accounting policies.

Results may differ under different assumptions and conditions. We are not aware of any event or circumstance that, as at the Latest Practicable Date, would constitute any necessity to adjust our accounting estimates and assumptions.

APPLICATIONS OF IFRS 9 AND IFRS 15

Our historical consolidated financial information has been prepared based on our underlying financial statements, in which IFRS 9, “Financial Instruments” (“IFRS 9”) and IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) in lieu of IAS 18 “Revenue” (“IAS 18”) and IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”), have been adopted and applied consistently since the beginning of, and throughout, the Track Record Period in the preparation of our financial statements, such that our historical consolidated financial information prepared under IFRS 9 and IFRS 15 is comparable on a period-to-period basis. Our Group has already commenced an assessment of the related impact of adopting IFRS 9 and IFRS 15. We concluded that the adoption of IFRS 9 and IFRS 15 has no significant impact on our historical consolidated financial information as compared with that of IAS 18 and IAS 39.

CHANGES IN ACCOUNTING POLICY

Our Group has adopted IFRS 16, “Leases” (“IFRS 16”) retrospectively from 1 January 2019, but has not restated comparatives for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance of equity at 1 January 2019.

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Upon the adoption of IFRS 16, our Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 “Leases” (“IAS 17”). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 5.3% to 6.7%.

The associated right-of-use assets for properties and land were measured at the amount equal to the lease liability, adjusted by the amounts of any prepaid lease payments relating to the land leases recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. All these assets were assessed for any impairment based on IAS 36 “Impairment of Assets” (“IAS 36”) on that date. Our Group elected to present the right-of-use assets separately in the consolidated statement of financial position. This includes the land use rights recognised previously under prepaid lease payments of approximately RMB91.3 million as at 31 December 2018 that were reclassified to right-to-use assets upon the adoption of IFRS 16 for the presentation purpose.

For more information relevant to the changes in accounting policy during the Track Record Period, please refer to the note 3 of the section II of the Accountant’s Report set out in Appendix I to this prospectus.

The following table illustrates the impacts on the financial positions and the relevant ratios of our Group for the six months ended (or as at) 30 June 2019 if we had continuously applied IAS 17 since 1 January 2019. Please refer to the subsection headed “Key Financial Ratios” in this section for the relevant formulas of the ratios set out below.

For the six months ended (or as at) 30 June 2019	Continuous application of IAS 17	As currently reported with IFRS 16 adopted
Net current liabilities (<i>RMB’000</i>)	102,450	106,495
Total assets (<i>RMB’000</i>)	393,319	399,643
Total liabilities (<i>RMB’000</i>)	348,867	355,293
Return on equity	46.5%	46.2%
Current ratio	0.6	0.6
Quick ratio	0.4	0.4
Gearing ratio	2.5	2.5

The adoption of IFRS 16 does not have a significant impact on our Group’s financial position and performance.

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SELECTED HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

The table below sets forth the consolidated statements of comprehensive income for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Revenue	512,219	669,274	769,171	318,608	371,354
Cost of sales	(378,476)	(516,338)	(583,359)	(256,177)	(258,235)
Gross profit	133,743	152,936	185,812	62,431	113,119
Other income and gains	851	1,361	2,878	340	495
Gain from bargain purchase	—	—	4,847	4,847	—
Selling and distribution expenses	(60,050)	(72,711)	(90,238)	(38,135)	(48,843)
Administrative expenses	(37,988)	(47,076)	(62,163)	(25,106)	(37,628)
Listing expenses	—	(3,129)	(8,549)	(4,058)	(6,583)
Finance costs	(7,413)	(7,042)	(5,061)	(3,635)	(2,308)
Profit/(loss) before income tax	29,143	24,339	27,526	(3,316)	18,252
Income tax expense	(4,962)	(3,933)	(4,792)	(260)	(1,576)
Profit/(loss) for the year/period	24,181	20,406	22,734	(3,576)	16,676
Other comprehensive income/ (loss)					
Item that will not be reclassified subsequently to profit or loss: Exchange differences arising on translation	—	—	188	600	(99)
Total comprehensive income/ (loss) for the year/period	<u>24,181</u>	<u>20,406</u>	<u>22,922</u>	<u>(2,976)</u>	<u>16,577</u>
Profit/(loss) for the year/period attributable to:					
Owners of the Company	23,145	19,189	24,333	(1,977)	16,676
Non-controlling interests	1,036	1,217	(1,599)	(1,599)	—
	<u>24,181</u>	<u>20,406</u>	<u>22,734</u>	<u>(3,576)</u>	<u>16,676</u>
Total comprehensive income/ (loss) for the year/period attributable to:					
Owners of the Company	23,145	19,189	24,521	(1,377)	16,577
Non-controlling interests	1,036	1,217	(1,599)	(1,599)	—
	<u>24,181</u>	<u>20,406</u>	<u>22,922</u>	<u>(2,976)</u>	<u>16,577</u>

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Revenue

During the Track Record Period, our revenue, which was net of any trade discounts and sales related tax, was solely derived from sale of various chemical products which can be broadly categorised into (i) aerosols, contributing over 50% of the revenue during the Track Record Period; (ii) organic silicone adhesives; (iii) synthetic adhesives; and (iv) other miscellaneous products such as architectural coatings, oil products and wood paints. During the Track Record Period, revenue was affected by, among others, our products mix, sales volume, pricing policy and the effectiveness of our distributors.

The following tables set forth breakdowns of our revenue by product type for the periods indicated:

	For the year ended 31 December											
	2016				2017				2018			
	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue
		<i>RMB'000</i>				<i>RMB'000</i>					<i>RMB'000</i>	
	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%
Aerosols	20,785.9	15.5	321,558	62.8	27,448.2	15.6	426,820	63.8	23,997.7	16.1	387,562	50.4
Organic silicone adhesives	6,021.3	11.5	69,124	13.5	6,179.1	13.0	80,514	12.0	13,350.9	13.9	186,245	24.2
Synthetic adhesives	3,520.4	15.6	54,919	10.7	4,179.3	18.8	78,612	11.7	3,580.1	18.4	65,909	8.6
Other miscellaneous products	6,655.0	10.0	66,618	13.0	6,317.4	13.2	83,328	12.5	9,575.1	13.5	129,455	16.8
			<u>512,219</u>	<u>100.0</u>			<u>669,274</u>	<u>100.0</u>			<u>769,171</u>	<u>100.0</u>

	For the six months ended 30 June							
	2018				2019			
	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue
		<i>RMB'000</i>				<i>RMB'000</i>		
	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%
Aerosols	9,506.8	16.1	153,249	48.1	12,276.0	16.3	199,486	53.7
Organic silicone adhesives	6,325.0	13.9	88,107	27.7	6,065.9	14.1	85,590	23.0
Synthetic adhesives	1,514.8	18.4	27,827	8.7	1,706.4	18.5	31,535	8.5
Other miscellaneous products	3,658.4	13.5	49,425	15.5	4,031.2	13.6	54,743	14.8
			<u>318,608</u>	<u>100.0</u>			<u>371,354</u>	<u>100.0</u>

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Our revenue increased by approximately 30.7% from approximately RMB512.2 million for the year ended 31 December 2016 to approximately RMB669.3 million for the year ended 31 December 2017, among which, (i) the revenue from sale of aerosols increased by approximately 32.7% from approximately RMB321.6 million to approximately RMB426.8 million; (ii) the revenue from sale of organic silicone adhesives increased by approximately 16.5% from approximately RMB69.1 million to approximately RMB80.5 million; and (iii) the revenue from sale of synthetic adhesives increased by approximately 43.1% from approximately RMB54.9 million to approximately RMB78.6 million.

The approximately 32.7% increase in revenue from sale of aerosols corresponded to the approximately 32.1% increase in its sales volume from 20,786 tonnes for the year ended 31 December 2016 to 27,448 tonnes for the year ended 31 December 2017. Our Directors are of the view that the increase in sales volume of the aerosols was primarily because the PRC Government imposed a stringent environmental policy in 2017 which negatively affected some of the manufacturers in the industry, especially the small and medium-sized manufacturers. Therefore the overall market supply declined, leading to the increase in demands for our products.

Our revenue further increased by approximately 14.9% from approximately RMB669.3 million for the year ended 31 December 2017 to approximately RMB769.2 million for the year ended 31 December 2018. It was primarily due to the increase in number of our distributors from 924 as at 31 December 2017 to 1,022 as at 31 December 2018, which further led to (i) an approximately 131.3% increase in revenue from sale of organic silicone adhesives from approximately RMB80.5 million to approximately RMB186.2 million; and (ii) an approximately 55.4% increase in revenue from sale of other miscellaneous products from approximately RMB83.3 million to approximately RMB129.5 million.

The increase in revenue of approximately 131.3% from sale of organic silicone adhesives primarily resulted from our acquisition of Sanvo Holdings in April 2018, which principally produced and sold organic silicone adhesives. For the year ended 31 December 2018, revenue from sale of organic silicone adhesives contributed approximately 24.2% of our total revenue, as compared to approximately 12.0% for the year ended 31 December 2017, which, to a certain degree, reduced our reliance on aerosols and broadened our customer base and source of revenue. We also plan to further expand our product portfolio for certain market sub-segments. For further details, please refer to the subsection headed “Business — Our business strategies” in this prospectus.

Revenue from sale of aerosols decreased by approximately 9.2% from approximately RMB426.8 million for the year ended 31 December 2017 to approximately RMB387.6 million for the year ended 31 December 2018, primarily due to the approximately 12.6% decrease in its sales volume from 27,448 tonnes to 23,998 tonnes, partially offset by the approximately 3.2% increase in its average selling price. Our Directors are of the view that the decrease in sales volume was primarily because the market has gradually adapted to the regulatory changes in 2018 and the market supply returned to a normal level, and the sales volume of our aerosols was normalized.

In view of the actual sales volume in 2018 and the dynamic changes of the market, our Group proposed in early 2019 an annual sales target which is to increase the sales by 15% for the year ended 31 December 2019 as compared to sales in 2018. Following the sales target, we generated revenue of approximately RMB371.4 million for the six months ended 30 June 2019, representing an approximately 16.6% increase as compared to the revenue for the same period in 2018, being approximately RMB318.6 million. Such increase was primarily due to an approximately 30.2% increase in revenue arising from the sale of aerosols, which amounted to

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approximately RMB153.2 million and RMB199.5 million for the six months ended 30 June 2018 and 2019, respectively, as a result of the increase in sales volume of aerosol. The approximately 30.2% increase in revenue from sale of aerosols corresponded to the approximately 29.1% increase in its sales volume from 9,507 tonnes for the six months ended 30 June 2018 to 12,276 tonnes for the six months ended 30 June 2019, reflecting our efforts of fulfillment of the annual target.

While we continuously strived to enlarge our distribution networks, we have also endeavored to diversify our sales channels by promoting sales through trading companies, direct sales and e-commerce platforms. The table below sets forth a breakdown of our revenue by sales channel for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Distributors in the PRC	412,545	80.6	515,007	76.9	692,421	90.0	276,410	86.8	350,946	94.5
Trading company/ OEM sales	29,883	5.8	51,475	7.7	52,724	6.9	24,145	7.6	15,365	4.1
Direct sales	69,153	13.5	94,159	14.1	15,968	2.1	12,595	3.9	3,683	1.0
E-commerce platforms	638	0.1	8,633	1.3	8,058	1.0	5,458	1.7	1,360	0.4
	<u>512,219</u>	<u>100.0</u>	<u>669,274</u>	<u>100.0</u>	<u>769,171</u>	<u>100.0</u>	<u>318,608</u>	<u>100.0</u>	<u>371,354</u>	<u>100.0</u>

Cost of Sales

Our cost of sales primarily comprised cost of raw materials and employee benefit expenses. The table below sets forth a breakdown of cost of sales for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Cost of sales	% of total cost of sales	Cost of sales	% of total cost of sales	Cost of sales	% of total cost of sales	Cost of sales	% of total cost of sales	Cost of sales	% of total cost of sales
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Cost of raw materials	352,931	93.2	487,095	94.3	550,191	94.3	241,112	94.1	237,077	91.8
Employee benefit expenses	16,582	4.4	19,875	3.9	20,724	3.6	9,357	3.7	11,949	4.6
Others ^{Note}	8,963	2.4	9,368	1.8	12,444	2.1	5,708	2.2	9,209	3.6
	<u>378,476</u>	<u>100.0</u>	<u>516,338</u>	<u>100.0</u>	<u>583,359</u>	<u>100.0</u>	<u>256,177</u>	<u>100.0</u>	<u>258,235</u>	<u>100.0</u>

Note: Primarily included utilities and electricity, rental expenses and amortisation and depreciation.

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The tables below set forth breakdowns of cost of sales by product type for the periods indicated:

	For the year ended 31 December											
	2016				2017				2018			
	Sales volume	Unit cost	% of total		Sales volume	Unit cost	% of total		Sales volume	Unit cost	% of total	
			Cost of sales	cost of sales			Cost of sales	cost of sales			Cost of sales	cost of sales
	<i>RMB'000</i>				<i>RMB'000</i>				<i>RMB'000</i>			
<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	
Aerosols	20,785.9	10.8	224,002	59.2	27,448.2	11.9	326,488	63.3	23,997.7	11.1	266,553	45.7
Organic silicone adhesives	6,021.3	10.1	60,957	16.1	6,179.1	11.6	71,875	13.9	13,350.9	12.8	171,012	29.3
Synthetic adhesives	3,520.4	11.7	41,319	10.9	4,179.3	13.2	55,294	10.7	3,580.1	13.2	47,187	8.1
Other miscellaneous products	6,655.0	7.8	52,198	13.8	6,317.4	9.9	62,681	12.1	9,575.1	10.3	98,607	16.9
			<u>378,476</u>	<u>100.0</u>			<u>516,338</u>	<u>100.0</u>			<u>583,359</u>	<u>100.0</u>

	For the six months ended 30 June								
	2018				2019				
	Sales volume	Unit cost	% of total		Sales volume	Unit cost	% of total		
			Cost of sales	cost of sales			Cost of sales	cost of sales	
	<i>RMB'000</i>				<i>RMB'000</i>				
<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%	<i>Tonne</i>	<i>per tonne</i>	<i>RMB'000</i>	%		
Aerosols		9,506.8	12.2	116,274	45.4	12,276.0	10.6	130,381	50.5
Organic silicone adhesives		6,325.0	12.0	76,127	29.7	6,065.9	9.9	60,197	23.3
Synthetic adhesives		1,514.8	14.8	22,494	8.8	1,706.4	13.2	22,608	8.8
Other miscellaneous products		3,658.4	11.3	41,282	16.1	4,031.2	11.2	45,049	17.4
				<u>256,177</u>	<u>100.0</u>			<u>258,235</u>	<u>100.0</u>

We procure various types of raw materials from our suppliers, which primarily include packaging materials, additives, pigments, fillers, color powder, metallic powder, resin, rubber and solvents. Cost of raw materials constituted a significant portion of our cost of sales during the Track Record Period, which amounted to approximately RMB352.9 million, RMB487.1 million, RMB550.2 million and RMB237.1 million, respectively, representing approximately 93.2%, 94.3%, 94.3% and 91.8% of our cost of sales for the respective periods.

Corresponding to the approximately 30.7% increase in revenue for the year ended 31 December 2017 compared to the revenue for the year ended 31 December 2016, our cost of sales increased by approximately 36.4% from approximately RMB378.5 million for the year ended 31 December 2016 to approximately RMB516.3 million for the year ended 31 December 2017, primarily due to the approximate 38.0% increase in cost of raw materials. The disproportionate

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increase between the revenue and the cost of raw materials resulted from overall increases in purchase prices of certain key materials for our production and packaging, including titanium dioxide, toluenes, tinplate and corrugated paperboard during 2017.

We believe that such increases in price for the key raw materials were primarily attributable to the more stringent environmental policy implemented in the PRC in 2017, during which the PRC government imposed various environmental protection policies including the forced shutdown of companies non-compliant with the relevant environmental laws and regulations in the PRC and imposition of considerably substantial amount of fines for the unlawful manufacture of relevant materials.

Our cost of sales further increased by approximately 13.0% or approximately RMB67.0 million from RMB516.3 million for the year ended 31 December 2017 to RMB583.4 million for the year ended 31 December 2018, primarily due to the increase in our sales volume. This was contributed by 13.0% increase in our cost of raw materials from approximately RMB487.1 million for the year ended 31 December 2017 to approximately RMB550.2 million for the year ended 31 December 2018.

According to the Frost & Sullivan Report, the price of key raw materials used in fine industrial chemical products manufacturing recorded a general trend of decline during 2018 to first quarter of 2019, mainly due to the decrease in demand from downstream manufacturing and trading industries as a result of trade war between the United States and the PRC and high stock level of the materials. Therefore, for the six months ended 30 June 2018 and 2019, our cost of sales remained stable at approximately RMB256.2 million and RMB258.2 million, respectively, despite the increases in our sales volume during the six months ended 30 June 2019 as compared to the same period in 2018.

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of gross profit and gross profit margin (calculated by dividing gross profit by revenue) by product type for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Aerosols	97,556	30.3	100,332	23.5	121,009	31.2	36,975	24.1	69,105	34.6
Organic silicone adhesives	8,167	11.8	8,639	10.7	15,233	8.2	11,980	13.6	25,393	29.7
Synthetic adhesives	13,600	24.8	23,318	29.7	18,722	28.4	5,333	19.2	8,927	28.3
Other miscellaneous products	14,420	21.6	20,647	24.8	30,848	23.8	8,143	16.5	9,694	17.7
	<u>133,743</u>	<u>26.1</u>	<u>152,936</u>	<u>22.9</u>	<u>185,812</u>	<u>24.2</u>	<u>62,431</u>	<u>19.6</u>	<u>113,119</u>	<u>30.5</u>

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Our gross profit increased by approximately 14.4% from approximately RMB133.7 million for the year ended 31 December 2016 to approximately RMB152.9 million for the year ended 31 December 2017, driven by the increase in gross profit generated by the sale of aerosols due to the growth of its sales volume. Over the same period, our overall gross profit margin decreased from approximately 26.1% to approximately 22.9%, primarily due to decrease in gross profit margin of aerosols products from approximately 30.3% to approximately 23.5%, which resulted from the increases in prices for key raw materials for the production of aerosols, while the average selling price of aerosol remained relatively stable. The increased price for key raw materials in 2017 was mainly due to, in our Directors' view, the stringent environmental policy imposed by PRC Government, which led to a limited supply of the raw materials. Our Group aimed to strengthen its market position and the relationship with customers by not shifting to customers the incremental cost in raw material price.

Our gross profit increased by approximately 21.5% from approximately RMB152.9 million for the year ended 31 December 2017 to approximately RMB185.8 million for the year ended 31 December 2018, primarily due to the approximately 20.6% increase in gross profit arising from the sale of aerosols from approximately RMB100.3 million for the year ended 31 December 2017 to approximately RMB121.0 million for the year ended 31 December 2018. Such 20.6% increase mainly resulted from the increase in gross profit margin of aerosols for the year ended 31 December 2018 as compared to the year ended 31 December 2017, while being partially offset by the decrease in its sales volume. Our overall gross profit margin remained stable at approximately 22.9% and approximately 24.2% for the years ended 31 December 2017 and 2018, respectively, while the gross profit margin of aerosols increased from approximately 23.5% to approximately 31.2%, due to the combined effect of the approximately 3.2% increase in average selling price of aerosols as well as the approximately 6.7% decrease in unit cost of sales of aerosols arising from the decrease in purchase price of raw materials as the market supply of the raw materials, in our Directors' view, returned to the normal level.

Our gross profit increased by approximately 81.2% from approximately RMB62.4 million for the six months ended 30 June 2018 to approximately RMB113.1 million for the six months ended 30 June 2019, primarily due to the approximately 86.9% increase in gross profit generated from the sale of aerosols from approximately RMB37.0 million for the six months ended 30 June 2018 to approximately RMB69.1 million for the six months ended 30 June 2019. The increase in gross profit of aerosols primarily resulted from the simultaneous increases in its sales volume and its gross profit margin.

The overall gross profit margin increased from approximately 19.6% for the six months ended 30 June 2018 to approximately 30.5% for the six months ended 30 June 2019. In particular, the gross profit margin of aerosols and organic silicone adhesives were approximately 34.6% and 29.7% for the six months ended 30 June 2019, as compared to the respective gross profit margin of 24.1% and 13.6% for the same period in 2018.

The gross profit margins of aerosols, organic silicone adhesives and synthetic adhesives experienced significant fluctuations during the six months ended 30 June 2018, 31 December 2018 and 30 June 2019 for various factors.

The gross profit margin of aerosols was 24.1%, 35.9% and 34.6% for the six months ended 30 June 2018, 31 December 2018 and 30 June 2019, respectively. The increase from 24.1% for the six months ended 30 June 2018 to 35.9% for the six months ended 31 December 2018 was primarily due to the decrease in purchase price of solvent, one of the key materials for the

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production of aerosols, while the average selling price of aerosols remained stable during the aforesaid periods. The gross profit margin remained stable at 35.9% and 34.6% for the six months ended 31 December 2018 and 30 June 2019, respectively.

The gross profit margin of organic silicone adhesives was 13.6%, 3.3% and 29.7% for the six months ended 30 June 2018, 31 December 2018 and 30 June 2019, respectively. The decrease from 13.6% for the six months ended 30 June 2018 to 3.3% for the six months ended 31 December 2018 was primarily due to the increase in purchase price of glue, one of the key raw materials of organic silicone adhesives, while the average selling price of organic silicone adhesives remained stable during the aforesaid periods, as our Group aimed to maintain its market position and relationship with customers by not shifting to customers the incremental cost in raw material price. The gross profit margin of organic silicone adhesives increased to 29.7% for the six months ended 30 June 2019, due to decrease in the purchase price of glue.

The gross profit margin of synthetic adhesives was 19.2%, 35.2% and 28.3% for the six months ended 30 June 2018, 31 December 2018 and 30 June 2019, respectively. The lower gross profit margin of 19.2% for the six months ended 30 June 2018 as compared to 35.2% for the six months ended 31 December 2018 was primarily due to, in our Directors' view, the temporal shortage in the first half of 2018 of the supply of certain raw materials for the production of synthetic adhesives, which, resulted from the environmental policy implemented by the PRC Government. Correspondingly, we substituted the locally-produced materials with the imported materials which had higher prices than local materials. During the second half of 2018, our Directors were of the view that the impact caused by the environment policy was alleviated and we resumed the procurement of domestic materials with lower price and therefore the unit cost of synthetic adhesives dropped. The gross profit margin decreased from 35.2% for the six months ended 31 December 2018 to 28.3% for the six months ended 30 June 2019, which resulted from the rebound of the price of the key raw materials for synthetic adhesives.

Partly due to decreases in purchase price of raw materials, our Group's gross profit margin increased from 19.6% for the six months ended 30 June 2018 to 30.5% for the six months ended 30 June 2019. However, the average selling prices of our products were not adjusted accordingly during the aforesaid periods for the following reasons.

The primary reason is because pursuant to the distribution agreements and our Group's pricing policy (with sales to our distributors in the PRC accounting for approximately 80.6%, 76.9%, 90.0% and 94.5% respectively of the total revenue during the Track Record Period), the selling prices of our Group's products are generally fixed and determined on an annual basis. Our Group's selling prices are applied to all of its distributors based on a uniform price list pursuant to which our Group provides products to its distributors.

In addition, while the cost of raw materials affects the determination of our Group's product selling prices, other factors are also taken into account, including (i) the demand for our Group's products, (ii) production costs, and (iii) the prices of our Group's competitors' or other similar products.

Furthermore, we take into consideration the profitability and purchasing power of distributors, subdistributors/downstream reseller of distributors and end-user, who, in our Directors' view, are considerably sensitive to fluctuations in purchase price, and may seek alternative products with lower selling prices or higher margin if we shift the incremental cost in raw material price by directly increasing the selling prices of our products.

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Therefore, pursuant to our Group’s pricing policy, fluctuations in the cost of the raw materials does not necessarily or inevitably lead to adjustments in the selling prices of our Group’s products. Please refer to the subsection headed “Business — Our sales network — Pricing policy” in this prospectus for more details of our pricing policy.

Other Income and Gains

During the Track Record Period, our other income and gains primarily comprised (i) bank interest income; (ii) non-recurring government subsidies which were unconditional; and (iii) rental income.

The following table sets forth a breakdown of our other income and gains for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Other income and gains	% of total other income and gains	Other income and gains	% of total other income and gains	Other income and gains	% of total other income and gains	Other income and gains	% of total other income and gains	Other income and gains	% of total other income and gains
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Bank interest income	201	23.6	318	23.4	260	9.0	104	30.6	151	30.5
Rental income	—	—	—	—	846	29.5	—	—	278	56.2
Government subsidies	237	27.9	876	64.4	1,555	54.0	174	51.2	10	2.0
Gain on disposal of financial assets at fair value through profit or loss	—	—	22	1.6	—	—	—	—	—	—
Gain on disposal of scraps and raw materials	280	32.9	48	3.5	47	1.6	16	4.7	—	—
Sundry income	133	15.6	97	7.1	170	5.9	46	13.5	56	11.3
	<u>851</u>	<u>100.0</u>	<u>1,361</u>	<u>100.0</u>	<u>2,878</u>	<u>100.0</u>	<u>340</u>	<u>100.0</u>	<u>495</u>	<u>100.0</u>

During the Track Record Period, our other income and gains amounted to approximately RMB0.9 million, RMB1.4 million, RMB2.9 million and RMB0.5 million, respectively.

The increase of approximately RMB0.5 million in other income and gains for the year ended 31 December 2017 compared to the year ended 31 December 2016 primarily resulted from the increase of approximately RMB0.6 million resulting from a non-recurring and unconditional government subsidy granted in the year ended 31 December 2017.

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Our other income and gains further increased from approximately RMB1.4 million for the year ended 31 December 2017 to approximately RMB2.9 million for the year ended 31 December 2018, primarily due to (i) a further non-recurring and unconditional government subsidy of approximately RMB0.7 million; and (ii) the rental income of approximately RMB0.8 million generated by Sanvo Holdings which was acquired by our Group in 2018.

Other income and gains remained stable at approximately RMB0.3 million and RMB0.5 million for the six months ended 30 June 2018 and 2019, respectively.

Gain from Bargain Purchase

For the year ended 31 December 2018, we had gain from bargain purchase of approximately RMB4.8 million in connection with the acquisition of Sanvo Holdings on 27 April 2018. Gain from bargain purchase was derived from the difference in net asset value of Sanvo Holdings between the date of determining the consideration and the acquisition date. Please refer to the subsection headed “Acquisition of Sanvo Holdings” in this section for more details for such acquisition.

Selling and Distribution Expenses

We place strong emphasis on the marketing and promotion of our brands and our products. We market and advertise our products through a variety of channels and methods to increase the penetration of our products in our target markets. During the Track Record Period, our selling and distribution expenses primarily comprised (i) freight charges, representing the cost incurred by the delivery of goods and products to our customers; (ii) advertisement fee; (iii) employee benefit expenses, representing the salary and commissions to our sales and marketing personnel; (iv) marketing and promotion expenses; and (v) transportation and travelling expenses, representing the travelling cost incurred by us when we visit our distributors and the cost of our participation in domestic and international exhibitions and trade fairs. The following table sets forth a breakdown of selling and distribution expenses for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Selling and distribution expenses	% of total selling and distribution expenses	Selling and distribution expenses	% of total selling and distribution expenses	Selling and distribution expenses	% of total selling and distribution expenses	Selling and distribution expenses	% of total selling and distribution expenses	Selling and distribution expenses	% of total selling and distribution expenses
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Freight charges	28,919	48.1	28,144	38.7	32,067	35.5	12,798	33.5	16,678	34.1
Advertisement fee	7,082	11.8	14,769	20.3	26,932	29.9	10,397	27.3	15,620	32.0
Employee benefit expenses	14,584	24.3	17,687	24.3	16,513	18.3	8,536	22.4	7,013	14.4
Marketing and promotion expenses	2,025	3.4	2,870	4.0	4,565	5.1	2,576	6.8	4,405	9.0
Transportation and travelling expenses	3,040	5.1	3,974	5.5	3,741	4.1	1,566	4.1	1,721	3.5
Others	4,400	7.3	5,267	7.2	6,420	7.1	2,262	5.9	3,406	7.0
	60,050	100.0	72,711	100.0	90,238	100.0	38,135	100%	48,843	100

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Our selling and distribution expenses increased by approximately 21.1% or RMB12.7 million from approximately RMB60.1 million for the year ended 31 December 2016 to approximately RMB72.7 million for the year ended 31 December 2017, primarily due to (i) an approximately 108.5% increase in advisement fee, from approximately RMB7.1 million for the year ended 31 December 2016 to approximately RMB14.8 million for the year ended 31 December 2017, as we made extensive advertisements to build up our market exposure during 2017 by placing commercials on television channels in the PRC and engaged a spokesperson to promote our brand image; and (ii) an approximately 21.3% increase in employee benefit expenses, from approximately RMB14.6 million for the year ended 31 December 2016 to approximately RMB17.7 million for the year ended 31 December 2017, due to an increase in our sales and marketing personnel. Freight expenses remained steady at approximately RMB28.9 million and approximately RMB28.1 million for the years ended 31 December 2016 and 2017 respectively, though our sales volume increased for the same period, because we have upgraded and centralised our logistic management during 2017.

Our selling and distribution expenses further increased by approximately 24.1% to approximately RMB90.2 million for the year ended 31 December 2018, primarily due to (i) an increase in advertisement fee of approximately 82.4% or RMB12.2 million from approximately RMB14.8 million to approximately RMB26.9 million, primarily because we placed advertisements on light box displays or television panels erected or set-up in various high speed rail stations in the PRC from early 2018; and (ii) an approximately 13.9% increase in freight expenses from approximately RMB28.1 million to approximately RMB32.1 million, which was generally in line with the approximately 14.9% increase in revenue for the same period.

Our selling and distribution expenses increased by approximately 28.1% from approximately RMB38.1 million to approximately RMB48.8 million for the six months ended 30 June 2018 and 2019, respectively, due to (i) an approximately 50.2% increase in advertisement fee from approximately RMB10.4 million to approximately RMB15.6 million, attributable to more advertisement activity we conducted during the six months ended 30 June 2019, as compared to the same period in 2018; and (ii) an approximately 30.3% increase in freight expenses from approximately RMB12.8 million to approximately RMB16.7 million, primarily due to the increase in our sales volume during the six months ended 30 June 2019 as compared to the same period in 2018.

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Our administrative expenses increased by approximately 23.9% from approximately RMB38.0 million for the year ended 31 December 2016 to approximately RMB47.1 million for the year ended 31 December 2017, primarily due to an approximate 67.9% increase in research and development expenses from approximately RMB10.5 million for the year ended 31 December 2016 to approximately RMB17.6 million for the year ended 31 December 2017.

We continuously place emphasis on research and development in order to enlarge our product portfolio and strengthen our competitiveness. We incurred research and development costs of approximately RMB17.6 million for the year ended 31 December 2017, representing an approximate 67.9% increase compared to approximately RMB10.5 million for the year ended 31 December 2016, primarily resulting from increases in material consumption and employee benefit expenses, due to the increase in our research and development activities during the same period.

Our administrative expenses further increased by approximately 32.0%, from approximately RMB47.1 million for the year ended 31 December 2017 to RMB62.2 million for the year ended 31 December 2018, primarily due to (i) an approximate 58.4% increase in research and development costs from approximately RMB17.6 million to approximately RMB27.9 million due to an increase in our research and development activities; and (ii) an approximate 6.9% increase in employee benefit expenses from RMB17.1 million for the year ended 31 December 2017 to RMB18.2 million for the year ended 31 December 2018.

Our administrative expenses increased by approximately 49.9% from approximately RMB25.1 million to approximately RMB37.6 million for the six months ended 30 June 2018 and 2019, respectively, due to (i) an approximate 59.5% increase in research and development costs from approximately RMB10.4 million for the six months ended 30 June 2018 to approximately RMB16.5 million for the six months ended 30 June 2019 due to the increase in our research and development activities; and (ii) an approximate 35.2% increase in employee benefit expenses from RMB8.9 million for the six months ended 30 June 2018 to RMB12.0 million for the six months ended 30 June 2019, due to the increase in unit employee benefit expenses per person during the six months ended 30 June 2019 compared to the same period in 2018.

Finance Costs

Our finance costs represented the interest incurred on bank borrowings minus capitalised interest. The table below sets out our finance costs for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Interest on interest-bearing bank borrowings	7,413	7,489	6,375	4,040	3,352
Interest on lease liabilities	—	—	—	—	209
Less: interest capitalised into property, plant and equipment ¹	—	(447)	(1,314)	(405)	(1,253)
	7,413	7,042	5,061	3,635	2,308

¹ During the years ended 31 December 2017 and 2018 and the six months ended 30 June 2018 and 2019, the finance costs have been capitalised at an effective interest rate of approximately 6.04%, 5.35%, 6.43% and 6.28% per annum respectively. No finance cost was capitalised during the year ended 31 December 2016.

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During the Track Record period, our finance cost amounted to approximately RMB7.4 million, RMB7.0 million, RMB5.1 million and RMB2.3 million, respectively. We have capitalised certain interest on bank borrowings since 2017 due to the ongoing construction of MV Production Site.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our total outstanding interest-bearing bank borrowings amounted to approximately RMB134.6 million, RMB114.4 million, RMB94.9 million and RMB109.0 million, respectively, whilst the interest rate was in the range of 5.2% to 5.9%, 5.2% to 7.8%, 5.9% to 6.8% and 5.9% to 6.5% for the respective periods. The fluctuation of our finance cost was generally in line with our outstanding borrowings balance and respective interest rate.

Income Tax Expense

The table below sets out income tax expense for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Current tax expense					
PRC Enterprise Income Tax	4,979	4,181	4,819	144	1,817
Deferred tax credit	(17)	(248)	(27)	116	(241)
Income tax expense	4,962	3,933	4,792	260	1,576

Our Group's entities operating in the PRC are subject to PRC enterprise income tax with a statutory tax rate of 25% charged against taxable profit, except four of our operating subsidiaries, Guangdong Sanvo, Sanvo Holdings Shunde Sanvo, Guangdong Fuvo which were entitled to a preferential income tax rate of 15% as HNTes. The preferential status of Guangdong Sanvo, Sanvo Holdings and Shunde Sanvo will be reviewed by PRC tax authorities in 2020.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we incurred income tax expense of approximately RMB5.0 million, RMB3.9 million, RMB4.8 million and RMB1.6 million, respectively, and over the same period, the effective income tax rate were approximately 17.0%, 16.2%, 17.4% and 8.6%, respectively. We had the effective income tax rate of approximately 8.6% for the six months ended 30 June 2019, being lower than previous years during the Track Record Period, primarily because (i) we incurred more research and developments expenses which were eligible for extra tax deduction for the six months ended 30 June 2019, as compared to the previous years, and (ii) we had four subsidiaries in the PRC which are entitled to the reduced income tax rate since November 2018, before which, we had three subsidiaries which were subject to such reduced tax rate.

Net Profit and Net Profit Margin

For the foregoing reasons, we generated net profit of approximately RMB24.2 million, RMB20.4 million, RMB22.7 million and RMB16.7 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Over the same period, our net profit margin remained relatively stable at approximately 4.7%, 3.0%, 3.0% and 4.5%, respectively.

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We incurred net loss of approximately RMB3.6 million for the six months ended 30 June 2018, due to, in our Directors' view, the lower gross profit for such period as compared to that of other periods during the Track Record Period, which resulted from (i) the lower gross profit margin during the same period as compared to that of other periods of the Track Record Period and (ii) the incurrence of listing expenses of RMB4.1 million during such period. Nevertheless, we had an overall net profit of approximately RMB22.7 million for the year ended 31 December 2018, due to the improvement in our financial performance during the six months ended 31 December 2018.

For the six months ended 31 December 2018, the revenue increased by 52.9% as compared to the revenue for the first half of 2018, primarily driven by the increase in sales volume of aerosols. Furthermore, for reasons elaborated under the subsection headed "Selected Historical Financial Information of Our Group - Gross Profit and Gross Profit Margin" in this section, the gross profit margin increased from 19.6% for the six months ended 30 June 2018 to 27.4% for the six months ended 31 December 2018.

Demand for our products may be affected by seasonality, with the period from January to June normally recording decreased levels of demand while the period from July to December normally records higher levels of demand. Our Directors believe, such trend follows the general trend of annual consumer spending in the PRC.

DESCRIPTION OF SELECTED BALANCE SHEET ITEMS

The following sets forth the consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	21,756	39,271	96,289	106,426
Prepaid lease payments	46,517	45,509	88,925	—
Right-of-use assets	—	—	—	96,409
Prepayments for acquisition of property, plant and equipment	5,477	6,201	3,636	9,510
Deferred tax assets	—	—	473	—
	<u>73,750</u>	<u>90,981</u>	<u>189,323</u>	<u>212,345</u>
Current assets				
Inventories	61,765	73,885	70,414	59,020
Trade and bills receivables, other receivables and prepayments	65,387	91,726	55,264	70,436
Amount due from a director	113,631	87,500	—	—
Financial assets at fair value through profit or loss	20,000	—	—	—
Pledged bank deposits	15,018	10,351	11,290	11,985
Cash and cash equivalents	21,272	40,405	18,818	45,857
	<u>297,073</u>	<u>303,867</u>	<u>155,786</u>	<u>187,298</u>

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	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities				
Trade and bills payables, accruals, contract liabilities and other payables	160,734	192,800	150,917	165,655
Lease liabilities	—	—	—	1,682
Interest-bearing bank borrowings	58,620	48,634	51,302	57,668
Amount due to a director	—	—	58,930	63,184
Tax payables	2,893	4,509	6,433	5,604
	<u>222,247</u>	<u>245,943</u>	<u>267,582</u>	<u>293,793</u>
Non-current assets/(liabilities)	<u>74,826</u>	<u>57,924</u>	<u>(111,796)</u>	<u>(106,495)</u>
Total assets less current liabilities	<u>148,576</u>	<u>148,905</u>	<u>77,527</u>	<u>105,850</u>
Non-current liabilities				
Lease liabilities	—	—	—	4,744
Interest-bearing bank borrowings	76,012	65,801	43,616	51,352
Deferred income	1,838	1,800	1,762	1,742
Deferred tax liabilities	596	348	4,376	3,662
	<u>78,446</u>	<u>67,949</u>	<u>49,754</u>	<u>61,500</u>
Net assets	<u><u>70,130</u></u>	<u><u>80,956</u></u>	<u><u>27,773</u></u>	<u><u>44,350</u></u>
Capital and reserves				
Share capital	—	—	—*	—*
Reserves	66,738	76,752	27,773	44,350
Equity attributable to owners of the Company	66,738	76,752	27,773	44,350
Non-controlling interests	<u>3,392</u>	<u>4,204</u>	<u>—</u>	<u>—</u>
Total equity	<u><u>70,130</u></u>	<u><u>80,956</u></u>	<u><u>27,773</u></u>	<u><u>44,350</u></u>

* *Less than RMB1,000*

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Property, Plant and Equipment

Our property, plant and equipment primarily comprised buildings, plant and machinery and constructions in progress. The following sets forth a breakdown of balances of our property, plant and equipment as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	3,670	3,451	29,229	32,642
Plant and machinery	11,496	14,047	21,240	22,766
Furniture, fixtures and office equipment	931	944	1,669	1,885
Motor vehicles	769	1,363	1,729	1,685
Leasehold improvements	26	24	878	876
Construction in progress	4,864	19,442	41,544	46,572
	21,756	39,271	96,289	106,426

Our property, plant and equipment increased from approximately RMB21.8 million as at 31 December 2016 to approximately RMB39.3 million as at 31 December 2017, primarily due to the commencement of construction of the MV Production Site, which further led to (i) an increase in plant and machinery from approximately RMB11.5 million as at 31 December 2016 to approximately RMB14.0 million as at 31 December 2017; and (ii) an increase in construction in progress from approximately RMB4.9 million as at 31 December 2016 to approximately RMB19.4 million as at 31 December 2017.

Our property, plant and equipment further increased to approximately RMB96.3 million as at 31 December 2018, primarily due to (i) the ongoing construction of the MV Production Site, which contributed an increase of approximately RMB22.1 million of construction in progress; and (ii) the acquisition of Sanvo Holdings on 27 April 2017, which carried the property, plant and equipment in fair value of approximately RMB29.0 million as at the acquisition date.

For the six months ended 30 June 2019, our property, plant and equipment increased by approximately RMB10.1 million, primarily due to the ongoing construction of MV Production Site during this period.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group's property, plant and equipment with net carrying amount of approximately RMB7.0 million, RMB6.4 million, RMB30.7 million and RMB28.3 million respectively were pledged for interest-bearing bank borrowings.

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Prepaid Lease Payments/Right-of-use Assets

Upon the initial application of IFRS 16 as at 1 January 2019, an opening adjustment was made as at the date of initial application to reclassify prepaid lease payments to right-of-use assets. The table below sets out a breakdown of the net carrying amount of prepaid lease payments and right-of-use assets as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2019</i>
				<i>RMB'000</i>
Prepaid lease payments				
Land use rights	47,525	46,517	91,288	—
Right-of-use assets				
Land use rights	—	—	—	93,141
Leased properties	—	—	—	3,268
	<u>47,525</u>	<u>46,517</u>	<u>91,288</u>	<u>96,409</u>

Our prepaid lease payments solely related to the self-owned land use rights with certain land use terms ranging from 40 to 60 years. The prepaid lease payments amounted to approximately RMB47.5 million, RMB46.5 million and RMB91.3 million as at 31 December 2016, 2017 and 2018, respectively. The increase of approximately RMB44.8 million from approximately RMB46.5 million as at 31 December 2017 to approximately RMB91.3 million as at 31 December 2018, was primarily due to (i) the acquisition of Sanvo Holdings which had land use rights at fair value of approximately RMB22.9 million as at the acquisition date on 27 April 2018; and (ii) the acquisition of land use rights of approximately RMB23.8 million in 2018.

As at 30 June 2019, our right-of-use assets included (i) land use rights which consisted of (a) the self-owned portion of approximately RMB90.7 million and (b) the leased portion from an independent third party of appropriately RMB2.5 million and (ii) leased properties which consisted of (a) the lease from the Controlling Shareholder of approximately RMB3.1 million and (b) the lease from an independent third party of approximately RMB0.2 million.

As at 31 December 2016, 2017 and 2018, and 30 June 2019 our Group's land use rights with net carrying amount of approximately RMB45.1 million, RMB44.1 million, RMB43.2 million and RMB90.7 million respectively were pledged for interest-bearing bank borrowings.

For more information relevant to the prepaid lease payments and right-of-use assets, please refer to notes 15 and 16 of section II of the Accountant's Report set out in Appendix I to this prospectus, respectively.

FINANCIAL INFORMATION

Inventories

Our inventories comprised raw materials, work in progress and finished goods. Since 2017, we have decided to improve the inventories level held in order to mitigate against the risk of raw materials shortage as a consequence of the transportation restriction imposed by PRC government which restricts the logistics and delivery of certain hazardous chemicals throughout the Chinese New Year. Therefore, the overall increase in inventories at the end of each year was mainly driven by the increase in raw materials which amounted to approximately RMB18.8 million, RMB25.3 million and RMB29.2 million as at 31 December 2016, 2017 and 2018, respectively. For the same reason, our inventories as at 30 June 2019 dropped to a lower level, being approximately RMB25.8 million, as compared to the balance as at 31 December 2018. The following sets forth a breakdown of the balance of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	18,845	25,262	29,241	25,758
Work in progress	2,579	3,021	4,156	4,449
Finished goods	40,341	45,602	37,017	28,813
	61,765	73,885	70,414	59,020

We conduct reviews on all inventories on a regular basis or at the request of the management to determine whether provisions should be made in respect of any obsolete and defective inventories identified. We make provisions for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. During the Track Record Period, we had not identified any material obsolete or damaged inventory and we did not experience any material shortage or delay of our major materials or components.

Our average inventory turnover days were approximately 41.3 days, 47.9 days, 45.1 days and 45.1 days for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our inventory turnover days was remained relatively stable during the Track Record Period. The inventory turnover days are calculated by the average of the beginning and ending inventory balances of each period divided by cost of sales for that corresponding period, multiplied by 365 days or 180 days.

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As at the Latest Practicable Date, approximately RMB55.5 million, representing approximately 94.0% of our inventories as at 30 June 2019, were utilised or sold.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group's inventories with carrying amount of approximately RMB3.9 million, RMB3.4 million, RMB2.6 million and RMB4.7 million, respectively, were pledged for interest-bearing bank borrowings.

Trade and Bills Receivables, Other Receivables and Prepayments

The table below sets forth a breakdown of our trade and bills receivables, other receivables and prepayments as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion				
Prepayments for acquisition of property, plant and equipment	5,477	6,201	3,636	9,510
Current portion				
Trade receivables	50,027	69,723	33,567	47,341
Bills receivables	—	250	304	1,035
Trade and bills receivables	50,027	69,973	33,871	48,376
Other receivables ¹	1,524	3,519	2,626	2,457
Prepayments	13,836	18,234	18,767	19,603
	<u>65,387</u>	<u>91,726</u>	<u>55,264</u>	<u>70,436</u>

1. Primarily included amounts in connection with sales of products through the e-commerce platform.

Trade and Bills Receivables

During the Track Record Period, we normally required upfront payment prior to the delivery of products to our customers, except for few customers primarily including GNG and Sanvo Holdings, to which we usually offer credit term of 90 days. Our trade and bills receivables amounted to approximately RMB50.0 million, RMB70.0 million, RMB33.9 million and RMB48.4 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, the fluctuations of which primarily resulted from the transaction amounts between our Group and GNG and Sanvo Holdings. Trade receivables due from Sanvo Holdings have been fully eliminated subsequent to the acquisition date of Sanvo Holdings, being 27 April 2018.

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The aging analysis of trade and bills receivables based on due date is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	19,863	48,632	26,982	47,478
Less than one month past due	6,724	11,290	6,889	898
Over one month but less than three months past due	23,440	10,051	—	—
	<u>50,027</u>	<u>69,973</u>	<u>33,871</u>	<u>48,376</u>

Our trade and bills receivable turnover days were approximately 40.4 days, 32.7 days, 24.6 days and 19.9 days for the years ended 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, which our Directors consider were in line with our credit policy. The trade and bills receivable turnover days are calculated by averaging the beginning and the ending balance of trade and bills receivables of each period divided by the revenue for that corresponding period multiplied by 365 days or 180 days.

All trade and bills receivables past due but not impaired during the Track Record Period represented the transactions with our customers for whom there was no recent history of default and have a good credit history with us. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

At each reporting date, our Group carries out impairment reviews of its trade receivables using a lifetime expected credit loss (“ECL”) model. The ECL on trade receivables are assessed for debtors with significant balances or collectively using a provision matrix based on appropriate groupings. As part of our Group’s credit risk management, our Group use debtors’ ageing to assess impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers’ ability to pay all amounts due in accordance with the contractual terms. The estimated ECL loss rates are estimated based on our Group’s estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by our management to ensure relevant information about specific debtors is updated. As at 31 December 2016, 2017 and 2018 and 30 June 2019, expected loss rate of trade receivables is assessed to be approximately 0.19%, 0.07%, 0.36% and 0.21%, respectively. Based on evaluation on ECL loss rates and gross carrying amount of trade receivables, our Directors determined that there are no material expected loss and therefore there has not been a loss allowance provision. Our Group does not hold any collaterals or other credit enhancements over the trade and bills receivables.

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As at the Latest Practicable Date, an aggregate amount of approximately RMB45.4 million, representing approximately 96.0% of our trade receivables outstanding as at 30 June 2019, has been collected.

Prepayments

The following table sets forth a breakdown of prepayments as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion				
Prepayments for acquisition of property, plant and equipment	5,477	6,201	3,636	9,510
Current portion				
Prepaid lease payments —				
current portion	1,008	1,008	2,363	—
Prepaid listing expenses	—	4,774	2,171	5,615
Prepayment for raw materials	9,673	7,028	4,619	7,545
Prepayment for freight charges	1,644	2,464	3,098	829
Prepayment for advertisement fee	482	744	1,824	2,296
Other prepayments	1,029	2,216	4,692	3,318
	<u>13,836</u>	<u>18,234</u>	<u>18,767</u>	<u>19,603</u>

The current portion of prepayments during the Track Record Period primarily comprised (i) prepaid lease payments related to the current portion of the land use rights, which amounted to approximately RMB1.0 million, RMB1.0 million and RMB2.4 million as at 31 December 2016, 2017 and 2018, respectively, (ii) prepaid listing expenses which amounted to approximately RMB4.8 million, RMB2.2 million and RMB5.6 million as at 31 December 2017 and 2018 and 30 June 2019, respectively, (iii) prepayment for raw materials, which amounted to approximately RMB9.7 million, RMB7.0 million, RMB4.6 million and RMB7.5 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively and (iv) prepayment for freight charges, which amounted to approximately RMB1.6 million, RMB2.5 million, RMB3.1 million and RMB0.8 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Prepayment of acquisition of property, plant and equipment increased by RMB5.9 million during the six months ended 30 June 2019, primarily due to our purchase of some machineries during this period for the establishment of MV Production Site.

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Financial Assets at Fair Value through Profit or Loss

As at 31 December 2016, we had wealth management products amounting to approximately RMB20.0 million measured at fair value, which was fully redeemed at approximately RMB20.0 million subsequently with gain on disposal of approximately RMB22,000 recognized as other income and gains for the year ended 31 December 2017.

No independent valuer was engaged to measure the fair value of the wealth management product, because the management considered that (i) the cost of the product only accounted for 5.4% of our Group's total assets as at 31 December 2016 and (ii) the transaction was relatively low risk for the following reasons:

- the product was invested in December 2016 and fully redeemed for cash in January 2017;
- the return of this investment was RMB22,000, which represented approximately 0.1% of the investment cost; and
- the principal of this investment was fully guaranteed by the issuer, an authorised bank in the PRC.

The management was in the opinion that the fair value of the financial asset was approximate to the acquisition cost, being RMB20.0 million, taking into account (i) the proximity between the investment date and the maturity date and (ii) that the principal was guaranteed by the issuer. Our Directors have reviewed the valuation performed by our management and considered that the valuation methodology, assumption and inputs adopted by the management were reasonable and the valuation was appropriate.

To assess the valuation made by the management and the Directors of our Group, the Reporting Accountants have, in accordance with Hong Kong Standards on Auditing, evaluated the competence of the management and the Directors and reviewed the valuation methodology, assumptions and inputs adopted by the management and the Directors. Taking into consideration (i) the short duration between the acquisition date (i.e. December 2016), the reporting date (i.e. 31 December 2016) and the disposal date (i.e. January 2017); (ii) that the redemption price was approximately to the acquisition cost; and (iii) that the principal of the investment was protected and guaranteed by an authorized bank in the PRC, the Reporting Accountants consider that the valuation methodology, assumptions and inputs adopted were reasonable, the valuation performed by the management and the Directors was appropriate and the management and the Directors are competent to perform such valuation. For the details of the fair value measurement of financial instruments, particularly the fair value hierarchy, please refer to note 34 of section II of the Accountant's Report set out in Appendix I to this prospectus prepared in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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In relation to the valuation analysis performed by the management, the Directors and the Reporting Accountants, the Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) inspected the underlying agreements, (ii) reviewed relevant notes in the Accountant's Report as contained in Appendix I to this prospectus, and (iii) discussed with our Company and the Reporting Accountants in respect of the key basis, the methodology, assumptions and the inputs adopted for the valuation. Having considered the work done by the management, the Directors and the Reporting Accountants and the relevant due diligence performed as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation as currently disclosed.

Our Directors confirm that our Group does not intend to invest in wealth management products in the foreseeable future.

Trade and Bills Payables, Accruals, Contract Liabilities and Other Payables

The table below sets forth a breakdown of our trade and bills payables, accruals, contract liabilities and other payables as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	56,704	100,673	88,732	98,591
Bills payables	19,276	10,291	8,990	11,436
Trade and bills payables	<u>75,980</u>	<u>110,964</u>	<u>97,722</u>	<u>110,027</u>
Accruals	8,761	12,518	11,580	15,429
Deferred income — current portion	38	38	38	38
Provision for a litigation claim	—	587	587	—
Contract liabilities	58,396	43,331	22,362	23,211
Utilities and rental deposits received	—	—	157	—
Other payables	17,559	25,362	18,471	16,950
	<u><u>160,734</u></u>	<u><u>192,800</u></u>	<u><u>150,917</u></u>	<u><u>165,655</u></u>

FINANCIAL INFORMATION

Trade and Bills Payables

Trade and bills payables primarily comprised amounts due to suppliers of raw materials, which amounted to approximately RMB76.0 million, RMB111.0 million, RMB97.7 million and RMB110.0 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

The ageing analysis of trade payables based on invoice date are as follow.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one month	32,272	70,334	72,204	73,428
Over one month but less than three months	16,476	17,682	13,912	20,137
Over three months but less than one year	5,900	4,198	1,343	3,345
Over one year	2,056	8,459	1,273	1,681
	<u>56,704</u>	<u>100,673</u>	<u>88,732</u>	<u>98,591</u>

Our trade payables over one year based on invoice date increased from approximately RMB2.1 million as at 31 December 2016 to approximately RMB8.5 million as at 31 December 2017, primarily because, (i) our trade payables to Sanvo Holdings increased by approximately RMB2.3 million for the year ended 31 December 2017, which were fully settled in April 2018 as we acquired the entire equity interests in Sanvo Holdings; and (ii) during 2017, we discovered minor quality issue in certain raw materials and packing materials in respect of their formula and design during the testing stage. These materials failed to fulfill the purposes for which they were acquired and consequently, our Group had deferred the relevant payments for these materials. The quality issue had been resolved and the relevant trade payables was settled in 2018.

Our trade payables turnover days were approximately 52.8 days, 56.0 days, 60.7 days and 65.3 days for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. The credit period provided by our suppliers ranged from 30 to 90 days for the Track Record Period. The overall increase of the trade payables turnover days during the Track Record Period was due to the increase in our procurement of raw materials. The trade payables turnover days are based on the average of the beginning and the ending balance of trade payables of each period divided by purchase of raw materials for that corresponding period multiplied by 365 days or 180 days.

As at the Latest Practicable Date, an aggregate amount of approximately RMB98.1 million, representing approximately 99.5% of our trade payables outstanding as at 30 June 2019 was repaid.

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Other Payables

Other payables during the Track Record Period primarily comprised (i) payables to forwarders and advertising service provider, (ii) payables for acquisition of property, plant and equipment, and (iii) other tax payables. The table below sets forth breakdown of other payables as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables to forwarders and advertising service provider	6,320	5,934	12,289	10,633
Payables for acquisition of property, plant and equipment	2,136	718	3,108	2,465
Other tax payables	8,121	17,959	2,315	2,675
Miscellaneous	982	751	759	1,177
	17,559	25,362	18,471	16,950

Other payables increased by approximately RMB7.8 million from approximately RMB17.6 million as at 31 December 2016 to approximately RMB25.4 million as at 31 December 2017, primarily due to the increase in other tax payables of approximately RMB9.8 million in 2017 mainly driven by the increase in value-added tax over the same period, being offset by the decrease of approximately RMB1.4 million in payables for acquisition of property, plant and equipment during 2017.

Other payables decreased by approximately RMB6.9 million from approximately RMB25.4 million as at 31 December 2017 to approximately RMB18.5 million as at 31 December 2018, primarily due to the decrease in other tax payables of approximately RMB15.6 million, principally attributable to the decrease in value-added tax in 2018, being offset by (i) the increase of approximately RMB2.4 million in payables for acquisition of property, plant and equipment during 2018 because we have invested in property, plant and equipment over such period as a part of our effort to enhance our production capacity; and (ii) the increase of approximately RMB6.4 million in payables to forwarders and advertising service provider due to the expansion of our business.

Other payables remained stable at approximately RMB18.5 million and RMB17.0 million as at 31 December 2018 and 30 June 2019, respectively.

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Accruals

Accruals primarily comprised accrued employee benefit expenses. The table below set out a breakdown of accruals as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued employee benefit expenses	8,761	12,518	10,199	12,300
Other accrued expenses ¹	—	—	792	844
Accrued listing expenses	—	—	589	2,285
	8,761	12,518	11,580	15,429

1. Primarily included accrued telecommunication fee and accrued utilities expenses.

The accruals increased by approximately RMB3.8 million for the year ended 31 December 2017, driven by the growth of accrued employee benefit expenses from approximately RMB8.8 million to approximately RMB12.5 million as at 31 December 2016 and 2017, respectively, which was in line with our business expansion. The accruals remained relatively stable as at 31 December 2017 and 2018, being approximately RMB12.5 million and RMB11.6 million, respectively. For the six months ended 30 June 2019, the accruals increased by approximately RMB3.8 million, primarily driven by the increases in accrued employee benefit expenses of approximately RMB2.1 million and accrued listing expenses of approximately RMB1.7 million.

Contract Liabilities

We had contract liabilities of approximately RMB58.4 million, RMB43.3 million, RMB22.4 million and RMB23.2 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, which represented the advances from customers as we normally required upfront payment prior to delivery of goods and products to our customers. Revenue will be recognised upon the fulfillment of our delivery which occurs when control of the products has transferred, being the time (i) when the products are delivered to the customers, (ii) when the customer has full discretion over channel and price to sell the products, and (iii) when there is no unfulfilled obligation that could affect the customer's acceptance of the products. For more information regarding revenue recognition, please refer to note 4.9 of section II of the Accountant's Report set out in Appendix I to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our growth principally from cash generated from the sale of our products and debt financings, and we had generated sufficient cash and cash equivalents to meet our capital requirements.

FINANCIAL INFORMATION

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment and intangible assets, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to issue debt securities or borrow from lending institutions. Please see “Risk Factors — Risks Relating to Our Business — Our Group Recorded Net Current Liabilities and High Gearing Ratio during the Track Record Period. Our Business May Be Adversely Affected If We Fail to Maintain Sufficient Working Capital and Liquidity”.

Banking Facilities

As at 31 October 2019, we had total banking facilities of RMB165.0 million, of which: (i) approximately RMB125.4 million was utilised for interest-bearing bank borrowings, (ii) approximately RMB12.9 million was utilised for non-revolving bank borrowings (which have been settled), (iii) approximately RMB1.2 million was utilised for bills payables, and (iv) approximately RMB25.5 million was unutilised banking facilities.

Net Current Assets/(Liabilities)

The following sets forth the breakdown of the net current assets as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>
Current assets					
Inventories	61,765	73,885	70,414	59,020	91,092
Trade and bills receivables, other receivables and prepayments	65,387	91,726	55,264	70,436	59,077
Amount due from a director	113,631	87,500	—	—	—
Financial assets at fair value through profit or loss	20,000	—	—	—	—
Pledged bank deposits	15,018	10,351	11,290	11,985	21,597
Cash and cash equivalents	21,272	40,405	18,818	45,857	11,986
	<u>297,073</u>	<u>303,867</u>	<u>155,786</u>	<u>187,298</u>	<u>183,752</u>
Current liabilities					
Trade and bills payables, accruals, contract liabilities and other payables	160,734	192,800	150,917	165,655	176,679
Lease liabilities	—	—	—	1,682	1,651
Interest-bearing bank borrowings	58,620	48,634	51,302	57,668	73,728
Amount due to a director	—	—	58,930	63,184	—
Tax payables	2,893	4,509	6,433	5,604	6,205
	<u>222,247</u>	<u>245,943</u>	<u>267,582</u>	<u>293,793</u>	<u>258,263</u>
Net current assets/(liabilities)	<u>74,826</u>	<u>57,924</u>	<u>(111,796)</u>	<u>(106,495)</u>	<u>(74,511)</u>

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We recorded net current assets of approximately RMB74.8 million and RMB57.9 million as at 31 December 2016 and 2017, respectively, and subsequently we recorded net current liabilities of approximately RMB111.8 million and RMB106.5 million as at 31 December 2018 and 30 June 2019.

Our net current assets decreased by approximately RMB16.9 million or 22.6% from approximately RMB74.8 million as at 31 December 2016 to approximately RMB57.9 million as at 31 December 2017. This was primarily due to our current assets remained stable at approximately RMB297.1 million and RMB303.9 million, while our current liabilities had increased from approximately RMB222.2 million to approximately RMB245.9 million, between 31 December 2016 and 2017 in each case, as a result of an increase in trade payables of approximately RMB44.0 million, being partially offset by (i) a decrease in bills payable of approximately RMB9.0 million; and (ii) a decrease in contract liabilities of approximately RMB15.1 million.

We had net current liabilities of approximately RMB111.8 million as at 31 December 2018, as compared to the net current assets of approximately RMB57.9 million as at 31 December 2017. This was primarily due to a significant decrease of our current assets from approximately RMB303.9 million to approximately RMB155.8 million, which was a result of a decrease in cash and cash equivalents of approximately RMB21.6 million primarily due to (i) the acquisition of Sanvo Holdings which held significant non-current assets as at the acquisition date on 27 April 2018; (ii) the investment in property, plant and equipment; (iii) the acquisition of land use right; and (iv) the payment of dividends of approximately RMB66.3 million, while our current liabilities remained relatively stable at approximately RMB245.9 million and RMB267.6 million, as at 31 December 2017 and 2018 respectively.

Net current liabilities remained stable at approximately RMB111.8 million and RMB106.5 million as at 31 December 2018 and 30 June 2019, respectively.

Net current liabilities decreased to approximately RMB74.5 million as at 31 October 2019, primarily due to the settlement of amount due to Mr. Ernest Chen, our Executive Director. Subsequent to 30 June 2019, part of the amounts due to Mr. Ernest Chen, being approximately RMB33.2 million was capitalised as a contribution from Mr. Ernest Chen in equity of our Group in October 2019, and the remaining RMB30 million has been settled with cash in August 2019, which further enhanced our liquidity and capital sufficiency. Please refer to the subsection headed “Indebtedness” in this section for more information relevant to the amount due to Mr. Ernest Chen.

Despite our net current liabilities position of approximately RMB74.5 million as at 31 October 2019, we have not experienced material financial difficulties with respect to our cash flow because (i) our revenue grew steadily and our net profits experienced an overall increase during the Track Record Period, which enabled us to obtain refinancing or to fund for repayment of debts when due; and (ii) our unutilised banking facilities amounted to approximately RMB25.5 million as at 31 October 2019.

To mitigate against the risk of that our cash flow from operation being insufficient to cover our debts as they become due, we closely monitor and predict our cash flow needs. In addition, we maintain a reasonable level of unrestricted cash on hand to cover any urgent cash outflows.

FINANCIAL INFORMATION

Cash Flow Information

The table below sets out a summary of the cash flows for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Operating profit/(loss) before working capital changes	39,465	34,754	35,933	(2,110)	26,859
Net cash generated from operating activities	77,623	25,796	1,614	7,151	32,810
Net cash (used in)/generated from investing activities	(92,038)	30,603	23,053	33,399	(19,641)
Net cash flows generated from/(used in) financing activities	468	(37,266)	(46,442)	(17,288)	13,969
Net (decrease)/increase in cash and cash equivalents	(13,947)	19,133	(21,775)	23,262	27,138
Cash and cash equivalents at the beginning of the year/period	35,219	21,272	40,405	40,405	18,818
Effect of foreign exchange rates changes	—	—	188	600	(99)
Cash and cash equivalents at the end of the year/period	21,272	40,405	18,818	64,267	45,857

Cash Flow Generated from Operating Activities

During the Track Record Period, we derived our cash inflow from our operating activities principally from sales of our goods and products. Our cash outflow was principally attributable to purchases of raw materials and other operating expenses such as employee benefit expenses.

For the six months ended 30 June 2019, we generated net cash inflows from operating activities of approximately RMB32.8 million, primarily representing the profit before income tax of approximately RMB18.3 million as (i) positively adjusted by the decrease in inventories of approximately RMB11.4 million; (ii) negatively adjusted by the decrease in trade and bills receivables, other receivables and prepayments of approximately RMB17.5 million; and (iii) positively adjusted by the increase of approximately RMB14.7 million in trade and bills payables, accruals, contract liabilities and other payables.

For the year ended 31 December 2018, we generated net cash inflows from operating activities of approximately RMB1.6 million, representing the profit before income tax of approximately RMB27.5 million as (i) positively adjusted by the decrease in inventories of approximately RMB28.9 million; (ii) positively adjusted by the decrease in trade and bills receivables, other receivables and prepayment of approximately RMB43.7 million; and (iii) negatively adjusted by the decrease of approximately RMB104.1 million in trade and bills payables, accruals, contract liabilities and other payables.

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For the year ended 31 December 2017, we had net cash inflow of approximately RMB25.8 million generated from operating activities, primarily representing the profit before income tax of approximately RMB24.3 million, as (i) negatively adjusted by the increase in inventories of approximately RMB12.1 million; (ii) negatively adjusted by the increase in trade and bills receivables, other receivables and prepayments of approximately RMB26.3 million; and (iii) positively adjusted by the increase in trade and bills payables, accruals, contract liabilities and other payables of approximately RMB32.1 million.

For the year ended 31 December 2016, we had net cash inflow of approximately RMB77.6 million generated from operating activities, primarily representing the profit before income tax of approximately RMB29.1 million, as (i) negatively adjusted by the increase in inventories of approximately RMB37.8 million; and (ii) positively adjusted by the increase in trade and bills payables, accruals, contract liabilities and other payables of approximately RMB81.3 million.

Cash Flow (Used in)/Generated from Investing Activities

For the six months ended 30 June 2019, we incurred net cash outflows of approximately RMB19.6 million used in investing activities, primarily comprising (i) the payments for acquisition of property, plant and equipment of approximately RMB12.3 million; and (ii) prepayments for acquisitions of property, plant and equipment of approximately RMB7.0 million.

For the year ended 31 December 2018, we generated net cash inflows from investing activities of approximately RMB23.1 million, primarily comprising (i) the payments of approximately RMB29.7 million for the acquisition of property, plant and equipment; (ii) acquisition of prepaid lease payments of approximately RMB23.8 million; (iii) net cash outflows of approximately RMB11.6 million arising from the acquisition of Sanvo Holdings; and (iv) repayment from a Director of approximately RMB87.5 million.

For the year ended 31 December 2017, we generated net cash inflows from investing activities of RMB30.6 million, primarily comprising (i) the repayment from a Director of approximately RMB26.1 million; (ii) the redemption of wealth management product of approximately RMB20.0 million; and (iii) the payments for acquisition of property, plant and equipment of approximately RMB15.5 million.

For the year ended 31 December 2016, we incurred net cash outflows of approximately RMB92.0 million used in investing activities, primarily comprising (i) the acquisition of wealth management product of RMB20.0 million; (ii) the payments for acquisition of property, plant and equipment of approximately RMB12.4 million; (iii) advance to a Director of approximately RMB44.7 million; and (iv) the increase in pledged bank deposits of approximately RMB13.7 million.

Cash Flow Generated from/(Used in) Financing Activities

For the six months ended 30 June 2019, we generated net cash inflows of approximately RMB14.0 million from financing activities, primarily comprising (i) proceeds from interest-bearing bank borrowings of approximately RMB43.0 million; and (ii) repayment of interest-bearing bank borrowings of approximately RMB28.9 million.

FINANCIAL INFORMATION

For the year ended 31 December 2018, we incurred net cash outflows of approximately RMB46.4 million used in financing activities, primarily comprising (i) the proceeds of approximately RMB12.6 million from issuance of shares arising from the Reorganisation; (ii) payments of approximately RMB22.0 million for acquisition of subsidiaries from the controlling shareholder arising from the Reorganisation; (iii) proceeds of approximately RMB88.3 million from interest-bearing bank borrowings; (iv) repayment of interest-bearing bank borrowings of approximately RMB107.8 million; (v) advances from a Director of approximately RMB55.6 million; (vi) dividends paid of approximately RMB66.3 million; and (vii) interest paid of approximately RMB6.4 million.

For the year ended 31 December 2017, we incurred net cash outflows of approximately RMB37.3 million used in financing activities, primarily comprising (i) the repayment of bank borrowings of approximately RMB63.2 million; (ii) the proceeds from bank borrowings of approximately RMB43.0 million; (iii) interest paid of approximately RMB7.5 million; and (iv) dividends paid of approximately RMB9.7 million.

For the year ended 31 December 2016, we generated net cash inflows of approximately RMB0.5 million from financing activities, primarily comprising (i) the proceeds from bank borrowings of approximately RMB131.5 million; (ii) the repayment of bank borrowings of approximately RMB124.1 million; and (iii) interest paid of approximately RMB7.4 million.

Capital Expenditures

Capital expenditures during the Track Record Period primarily comprised expenditures for property, plant and equipment and land use rights. We have financed our capital expenditures primarily through cash flow from operations and borrowings from financial institutions, the details of which are set out below:

	<u>For the year ended 31 December</u>			For the six months ended 30
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>June</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	12,768	20,258	65,855	14,597
Land use right	—	—	46,684	—
	<u>12,768</u>	<u>20,258</u>	<u>112,539</u>	<u>14,597</u>

Capital expenditures increased from approximately RMB20.3 million for the year ended 31 December 2017 to approximately RMB112.5 million for the year ended 31 December 2018, primarily due to the acquisition of the equity interest in Sanvo Holding and the ongoing construction of MV Production Site. Please refer to the subsections headed “Description of Selected Balance Sheet Items — Property, Plant and Equipment” and “Description of Selected Balance Sheet Items — Prepaid Lease Payments” in this section for more information relevant to property, plant and equipment and land use right, respectively.

FINANCIAL INFORMATION

We currently intend to apply 80.0% of the net proceeds, or HK\$60.1 million (assuming an Offer Price of HK\$1.3, being the mid-point of the indicative Offer Price Range, after deduction of underwriting commissions and other estimated expenses in connection with the Share Offer) in our new manufacturing facility at the MV Production Site. We expect to incur capital expenditures of approximately RMB58.2 million and RMB92.1 million for the year ending 31 December 2019 and 2020, respectively.

Working Capital Sufficiency

Taking into consideration the anticipated cash flows from our operations, the financial institution and banking facilities available to us and the estimated net proceeds from the Share Offer, our Directors confirm, and the Sole Sponsor concurs with our Directors that, we have sufficient working capital for the next 12 months from the date of this prospectus. Saved as disclosed in this prospectus, we currently have no other external financing plan.

INDEBTEDNESS

Bank Borrowings

The following sets forth our interest-bearing bank borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current					<i>(Unaudited)</i>
Interest-bearing bank borrowings					
— secured	58,620	48,634	51,302	57,668	73,728
Non-current					
Interest-bearing bank borrowings					
— secured	76,012	65,801	43,616	51,352	51,648
	134,632	114,435	94,918	109,020	125,376

Interest is charged in the range of approximately 5.22% to 5.88%, 5.22% to 7.77%, 5.88% to 6.75%, 5.88% to 6.47% and 5.57% to 6.47% for the years ended 31 December 2016, 2017 and 2018, the six months ended 30 June 2019 and the four months ended 31 October 2019, respectively.

FINANCIAL INFORMATION

The following sets forth the breakdown by maturity of our total bank borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>
Within one year	58,620	48,634	51,302	57,668	73,728
Over one year, but within two years	13,277	49,485	5,123	5,692	7,654
Over two years, but within five years	56,974	16,316	21,003	23,995	22,992
Over five years	5,761	—	17,490	21,665	21,002
	134,632	114,435	94,918	109,020	125,376

Our interest-bearing bank borrowings are secured by the following assets as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>
Property, plant and equipment	7,043	6,369	30,691	28,282	29,384
Prepaid lease payments	45,071	44,132	43,193	—	—
Right-of-use assets	—	—	—	90,662	89,284
Inventories	3,860	3,371	2,558	4,673	2,247
	3,860	3,371	2,558	4,673	2,247

At the end of each reporting period, our interest-bearing bank borrowings were also secured by properties of Mr. Ernest Chen and Mr. Leo Chen, and property, plant and equipment of Sanvo Holdings.

As at 31 December 2016, 2017 and 2018, 30 June and 31 October 2019, our interest-bearing bank borrowings of approximately RMB134.6 million, RMB114.4 million, RMB94.9 million, RMB109.0 million, and RMB125.4 million, respectively, were also guaranteed by certain subsidiaries. Mr. Ernest Chen, Mr. Leo Chen and a holder of non-controlling interest of Guangdong Sanvo.

All related parties guarantees and pledges will be released upon the Listing.

Our Directors confirm that as at the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirmed that our Group did not experience any difficulty or default the repayment of our borrowings.

FINANCIAL INFORMATION

Lease Liabilities

Our Group rents a number of properties and land under operating leases. Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments was remeasured and recognised as adjustments to the lease liabilities immediately after the date of initial application. The table below sets out the breakdown of the lease liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current					
Lease liabilities	—	—	—	1,682	1,651
Non-current					
Lease liabilities	—	—	—	4,744	4,209
	—	—	—	6,426	5,860

Off-balance Sheet Commitment

As at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019, our off-balance sheet commitments comprised (i) capital commitments; and (ii) operating lease commitments.

Capital Commitments

Capital commitments related to capital expenditures for acquisition and construction of property, plant and equipment which we have contracted for but not yet incurred, which amounted to approximately RMB5.8 million, RMB42.3 million, RMB28.0 million and RMB28.7 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. The increase of approximately RMB36.5 million for the year ended 31 December 2017 was primarily because we contracted for the construction of MV Production Site. Due to the ongoing construction of MV Production Site, our capital commitments subsequently decreased to approximately RMB28.0 million and RMB28.7 million as at 31 December 2018 and 30 June 2019, respectively.

FINANCIAL INFORMATION

Operating Lease Commitment

Operating lease commitments comprised (i) the future minimum lease payments, and (ii) the future minimum lease receivables under non-cancellable operating lease with our tenants which fall due.

Operating Lease Commitment as a Lessee

Operating lease commitments as a lessee represented the future minimum lease payments under non-cancellable operating lease in respect of our leased properties and land use rights, including our rights relating to the FV Production Site, XV Production Site and SV Production Site. Our operating lease commitment as a lessee amounted to approximately RMB13.5 million, RMB12.8 million, RMB15.6 million, RMB18,000 and RMB12,000 as at 31 December 2016, 2017 and 2018, and 30 June and 31 October 2019, respectively.

The table below sets out the breakdown of operating lease commitment as a lessee as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,151	1,346	2,098	18	12
Over 1 year but less than 5 years	1,747	1,000	3,284	—	—
Over 5 years	10,628	10,446	10,263	—	—
	<u>13,526</u>	<u>12,792</u>	<u>15,645</u>	<u>18</u>	<u>12</u>

(Unaudited)

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities immediately after the date of initial application. Operating lease commitments as at 30 June 2019 shown above only represents lease commitments of our Group for short-term leases. For more information relevant to the right-of-use assets, please refer to note 16 of section II of the Accountant's Report set out Appendix I to this prospectus.

Operating Lease Commitment as a Lessor

Operating lease commitment as a lessor represented the future minimum lease receivables under non-cancellable operating lease with our tenants, which amounted to approximately RMB256,000, RMB450,000 and RMB250,000 as at 31 December 2018, 30 June 2019 and 31 October 2019, arising from the acquisition of Sanvo Holdings in 2018, certain properties of which were leased to our current tenants.

FINANCIAL INFORMATION

Balances with Related Parties

The following sets out a breakdown of balances with related parties as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from a Director	113,631	87,500	—	—	—
Amount due to a Director	—	—	58,930	63,184	—

(Unaudited)

The amounts due from/to Mr. Ernest Chen, our Executive Director are non-trade in nature. The amounts are unsecured, interest-free and recoverable/(repayable) on demand. Subsequent to 30 June 2019, part of the amounts due to Mr. Ernest Chen, being approximately RMB33.2 million was capitalised as a contribution from Mr. Ernest Chen in equity of our Group in October 2019, and the remaining RMB30 million has been settled with cash in August 2019.

Except as disclosed herein and except for intra-group liabilities, as at 31 October 2019, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness since 30 June 2019 and up to the Latest Practicable Date.

FINANCIAL INFORMATION

Acquisition of Sanvo Holdings

We fully acquired the equity interest of Sanvo Holdings on 27 April 2019, since which Sanvo Holdings became an indirectly wholly owned subsidiary of our Company. The table below summarises the consideration paid for the acquisition of Sanvo Holdings, and the fair values of assets acquired and liabilities assumed at the acquisition date:

	As at acquisition date
	<i>RMB'000</i>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	28,997
Prepaid lease payments	22,912
Prepayments for acquisition of property, plant and equipment	2,293
Deferred tax assets	788
Inventories	25,462
Bills and other receivables and prepayments ¹	40,548
Cash and cash equivalents	1,668
Trade and other payables and accruals ⁵	(62,193)
Deferred tax liabilities	(4,370)
	56,105
Total identifiable net assets	56,105
Gain from bargain purchase ²	(4,847)
	51,258
Total consideration	51,258
Consideration:	
Cash consideration	13,237
Capital gain tax charged to LKD HK which is borne by our Group	3,375
Waiver of advances to the then ultimate controlling shareholder of Sanvo Holdings ³	34,646
	51,258
Total consideration	51,258
Net cash flow arising on acquisition:	
Cash consideration paid	13,237
Less: Cash and cash equivalents acquired	(1,668)
	11,569
Net cash outflow on acquisition	11,569

¹ The gross contractual undiscounted balances of bills and other receivables amounted to approximately RMB38.5 million. The fair values of these bills and other receivables at the acquisition date were estimated to be approximately RMB38.5 million, based on an assessment of the expected credit risks of the balances, which is estimated based on the estimated credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort.

FINANCIAL INFORMATION

- 2 Gain from bargain purchase was arising from the change of net asset value of Sanvo Holdings between the date of determining the consideration and the acquisition date.
- 3 Other than cash consideration of approximately RMB13.2 million and capital gain tax of approximately RMB3.4 million charged to LKD HK which is borne by us, we waived the advances of approximately RMB34.6 million previously provided by Sanvo Holdings to its then ultimate controlling shareholder of Sanvo Holdings.
- 4 The fair values of assets acquired and liabilities assumed at the acquisition date have been arrived at based on a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, an independent valuer not connected with our Group and Sanvo Holdings and a member of Hong Kong Institute of Surveyors.
- 5 Including in the balance, there were trade payables of approximately RMB46,659,000 that were due to our Group.

The acquired business contributed revenue of approximately RMB155.4 million and RMB33.7 million and net profit after tax of approximately RMB4.7 million and RMB1.9 million for the period from 27 April 2018 to 31 December 2018 and for the period from 27 April 2018 to 30 June 2018, respectively. If the acquisition had occurred on 1 January 2016, pro forma consolidated revenue for each of the three years ended 31 December 2018 and the six months ended 30 June 2018 would have been approximately RMB608.5 million, RMB779.3 million, RMB822.3 million and RMB371.7 million respectively, while pro-forma consolidated profit for each of the three years ended 31 December 2018 would have been approximately RMB28.3 million, RMB18.2 million and RMB25.8 million respectively, and pro forma consolidated loss for the six months ended 30 June 2018 would have been approximately RMB499,000 respectively.

KEY FINANCIAL RATIOS

The table below sets forth certain key financial ratios as at the dates or for the periods indicated:

	For the year ended 31 December /As at 31 December			For the six months ended 30 June/ As at 30 June
	2016	2017	2018	2019
Gross profit margin ¹	26.1%	22.9%	24.2%	30.5%
Net profit margin ²	4.7%	3.0%	3.0%	4.5%
Return on equity ³	41.9%	27.0%	41.8%	46.2%
Current ratio ⁴	1.3x	1.2x	0.6x	0.6x
Quick ratio ⁵	1.1x	0.9x	0.3x	0.4x
Gearing ratio ⁶	1.9x	1.4x	3.4x	2.5x

1 Gross profit margin is calculated by dividing gross profit by revenue. For underlying reasons for fluctuations of gross profit margin during the Track Record Period, please see subsection headed "Selected Historical Financial Information of our Group" in this section.

2 Net profit margin is calculated by dividing profit by revenue. For underlying reasons for fluctuations of net profit margin during the Track Record Period, please see subsection headed "Selected Historical Financial Information of our Group" in this section.

3 Return on equity is calculated by dividing profit by the average total equity at the beginning and the end of each year/period.

4 Current ratio is calculated by dividing current assets by current liabilities at the end of each year/period.

5 Quick ratio is calculated by dividing the result of current assets less inventories by current liabilities at the end of each year/period.

6 Gearing ratio is calculated by dividing total interest-bearing borrowings by equity at the end of each year/period.

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Return on Equity

Return on equity decreased from approximately 41.9% for the year ended 31 December 2016 to approximately 27.0% for the year ended 31 December 2017, primarily due to (i) the decrease in our net profit margin from approximately 4.7% to approximately 3.0% during the same period; and (ii) the decrease in our overall financial leverage from approximately 5.3 times as at 31 December 2016 to approximately 4.9 times as at 31 December 2017. We measure our overall financial leverage by dividing total assets by total equity.

Return on equity experienced a significant increase from approximately 27.0% for the year ended 31 December 2017 to approximately 41.8% for the year ended 31 December 2018, primarily driven by the increase in our operation efficiency over the same period, as evidenced by the increase in our overall financial leverage from approximately 4.9 times as at 31 December 2017 to approximately 12.4 times as at 31 December 2018.

Return on equity further increased to approximately 46.2% for the six months ended 30 June 2019 as compared to approximately 41.8% for the year ended 31 December 2018, primarily because our gross profit margin for the six months ended 30 June 2019 have been improved.

Current Ratio

Our current ratio experienced an overall decrease during the Track Record Period, which amounted to approximately 1.3 times, 1.2 times, 0.6 times and 0.6 times as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. The sharp decrease in our current ratio from approximately 1.2 times as at 31 December 2017 to approximately 0.6 times as at 31 December 2018, was primarily due to (i) the acquisition of Sanvo Holdings in 2018, which had significant non-current assets as at the acquisition date on 27 April 2018, at a consideration of approximately RMB51.3 million and (ii) the dividends paid in 2018 of approximately RMB66.3 million. Current ratio remained stable at 0.6 times and 0.6 times as at 31 December 2018 and 30 June 2019, respectively. For more information in relation to our liquidity, please refer to subsection headed “Liquidity and Capital Resources” in this section.

Quick Ratio

Our quick ratio experienced an overall decrease during the Track Record Period. The quick ratio amounted to approximately 1.1 times and 0.9 times as at 31 December 2016 and 2017, respectively, because during such period our current liabilities outgrew our current assets net of inventories.

It further decreased to approximately 0.3 times as at 31 December 2018, as compared to approximately 0.9 times as at 31 December 2017, which was driven by the combined effect of (i) the decrease in our current assets net of inventories and (ii) the increase in our current liabilities over such period.

Quick ratio increased to approximately 0.4 times as at 30 June 2019, as compared to approximately 0.3 times as at 31 December 2018, because the increase in quick assets (being current assets less inventories) outgrew the increase in current liabilities during the six months ended 30 June 2019.

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Gearing Ratio

Our gearing ratio experienced an overall increase during the Track Record Period, which amounted to approximately 1.9 times, 1.4 times, 3.4 times and 2.5 times at the end of each period, respectively, representing a general increase in our financial leverage. Please see “Risk Factors — Risks Relating to Our Business — Our Group Recorded Net Current Liabilities and High Gearing Ratio during the Track Record Period. Our Business May Be Adversely Affected If We Fail to Maintain Sufficient Working Capital and Liquidity”.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions with Related Parties

During the Track Record Period, we have entered into several transactions with related parties as follow:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Rental paid to					
Mr. Ernest Chen	<u>1,680</u>	<u>1,680</u>	<u>1,680</u>	<u>840</u>	<u>840</u>

We incurred rental expenses of approximately RMB1.7 million, RMB1.7 million, RMB1.7 million and RMB0.8 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, which primarily related to (i) the tenancy agreement between Guangdong Sanvo as tenant and Mr. Ernest Chen as landlord; and (ii) the tenancy agreement between Guangdong Fuvo as tenant and Mr. Ernest Chen (as landlord). For more information relevant to the transactions, please refer to the subsection headed “Continuing Connected Transaction — Exempt continuing connected transactions” in this prospectus.

Balances with Related Parties

Except as disclosed in the subsection headed “Indebtedness” in this section, we do not have any other balances with related parties as at 30 June 2019.

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Guarantees Provided by Related Parties

Part of our bank borrowings were guaranteed by Mr. Ernest Chen and Mr. Leo Chen, which will be released prior to the Listing. Details are set out as below:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2019</i>
Guarantees of interest-bearing bank borrowings provided by Mr. Ernest Chen	80,000	70,000	25,000	25,000
Guarantees of interest-bearing bank borrowings provided by Mr. Leo Chen	<u>80,000</u>	<u>70,000</u>	<u>25,000</u>	<u>25,000</u>

Part of our bank borrowings were also secured by properties of related parties, which will be fully released upon the Listing.

Our Directors confirm that each of the related party transactions set out in note 31 to the Accountant's Report in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's length basis with normal commercial terms between the relevant parties. Our Directors confirm that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance. Our Directors confirm that all related parties balances which are non-trade in nature and will be fully settled prior to Listing. For further details on related party balances and transactions, please refer to note 31 of section II of the Accountant's Report in Appendix I to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

We are exposed to a variety of market risks including interest rate risk, foreign currency risk, credit risk and liquidity risk through our use of financial instruments in the ordinary course of our operations and business. Our Directors monitor the financial risk management and take such measures as considered necessary from time to time to minimise such financial risks.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our Group's interest rate risk primarily arises from interest-bearing bank borrowings.

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Interest-bearing bank borrowings obtained at variable rates expose our Group to the cash flow interest rate risk. Interest-bearing bank borrowings obtained at fixed rates expose our Group to fair value interest rate risk. In general, our Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and our Group's internal requirements. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group's fixed rates borrowings and floating rates net borrowings are as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed rate borrowings:				
Interest-bearing bank borrowings	103,632	88,732	52,200	59,997
Floating rate borrowings:				
Interest-bearing bank borrowings	31,000	25,703	42,718	49,023
Less: pledged bank deposits	(15,018)	(10,351)	(11,290)	(11,985)
Less: bank balances	(20,024)	(39,460)	(18,087)	(45,718)
	<u>(4,042)</u>	<u>(24,108)</u>	<u>13,341</u>	<u>(8,680)</u>
	<u>99,590</u>	<u>64,624</u>	<u>65,541</u>	<u>51,317</u>

Sensitivity analysis

The following table illustrates the sensitivity of our Group's profit after income tax and retained earnings to a possible change in interest rates of +/- 1%, with effect from the beginning of each reporting period. The calculations are based on our Group's pledged bank deposits, bank balances and interest-bearing bank borrowings at floating rate held at the reporting date. All other variables are held constant. At positive/(negative) number below indicates an increase in profit after income tax and retained earnings where interest rates increase by 1%.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Impact arising from pledged bank deposits and bank balances	<u>286</u>	<u>413</u>	<u>235</u>	<u>493</u>
Impact arising from interest-bearing bank borrowings	<u>(234)</u>	<u>(193)</u>	<u>(320)</u>	<u>(379)</u>

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For a decrease in interest rate by 1%, there would be an equal but opposite impact on the profit after income tax and retained earnings.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the Historical Financial Information has been prepared on the same basis.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to our Group. Pledged bank deposits and bank balances of our Group are held with financial institutions of good standing. The carrying amount of trade and bills receivables, other receivables and amount due from a director represent our Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our Group has a certain concentration of credit risk as 97%, 77%, 67% and 25% respectively of trade receivables was due from our Group's largest debtor. This debtor is either Sanvo Holdings or an international trading company with good past credit repayment history and records with our Group.

Significant Increase in Credit Risk

Our Group considers the probability of default upon initial recognition of an asset as well as whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk our Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. The following indicators are considered in particular:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in our Group and changes in the operating results of the borrower.

Despite the aforementioned, our Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (i) it has a low risk of default (i.e. no default history); (ii) the borrower has strong capacity to meet its contractual cash flow obligations in the near term; and (iii) 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.

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Our Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of Default

Our Group considers that default has occurred when the instrument is more than 90 days past due or our Group ceases business with those debtors unless our Group has reasonable and supportable information to demonstrate that a different default criterion is more appropriate.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off Policy

Our Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under our Group's recovery procedure, taking into account legal advice where appropriate. Any recoveries made are recognised directly in profit or loss.

Liquidity Risk

Liquidity risk relates to the risk that our Group will not be able to meet obligations associated with its financial liabilities. Our Group is exposed to liquidity risk in respect of settlement of trade and bills payables, accruals and other payables, amount due to a director, interest-bearing bank borrowings and also in respect of its cash flow management. Our 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.

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The maturity profile of our Group's non-derivative financial liabilities at each reporting period, based on the contracted undiscounted payments, is as follows:-

	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	Over one year but within five years	Over five years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2016					
Trade and bills payables, accruals and other payables	102,300	102,300	102,300	—	—
Interest-bearing bank borrowings	134,632	145,867	62,652	77,269	5,946
	<u>236,932</u>	<u>248,167</u>	<u>164,952</u>	<u>77,269</u>	<u>5,946</u>
As at 31 December 2017					
Trade and bills payables, accruals and other payables	148,844	148,844	148,844	—	—
Interest-bearing bank borrowings	114,435	119,446	50,876	68,570	—
	<u>263,279</u>	<u>268,290</u>	<u>199,720</u>	<u>68,570</u>	<u>—</u>
As at 31 December 2018					
Trade and bills payables, accruals and other payables	127,930	127,930	127,930	—	—
Amount due to a director	58,930	58,930	58,930	—	—
Interest-bearing bank borrowings	94,918	108,998	54,930	33,922	20,146
	<u>281,778</u>	<u>295,858</u>	<u>241,790</u>	<u>33,922</u>	<u>20,146</u>
As at 30 June 2019					
Trade and bills payables, accruals and other payables	142,406	142,406	142,406	—	—
Lease liabilities	6,426	14,585	2,029	2,388	10,168
Amount due to a director	63,184	63,184	63,184	—	—
Interest-bearing bank borrowings	109,020	126,514	62,891	38,959	24,664
	<u>321,036</u>	<u>346,689</u>	<u>270,510</u>	<u>41,347</u>	<u>34,832</u>

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DIVIDENDS

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our shareholders. The Board may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time.

Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law and our Memorandum and Articles of Association, which indicate that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which the Board determine is no longer needed. Subject to the Companies Law and our Memorandum and Articles of Association of our Company, through a general meeting, we may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by the Directors. With the sanction of any ordinary resolution, dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorized for this purpose in accordance with the relevant law. Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of their after-tax profit, calculated in accordance with PRC accounting principles, which differ in some aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. Our PRC operating subsidiaries may only distribute their after-tax profit to us subsequent to setting aside relevant statutory reserve funds at a rate of at least 10% of their annual net profit until such fund reaches 50% of its registered capital. Such transfer to the statutory reserve and distribution to shareholders of funds are conducted through resolution of the board of directors or shareholders of the relevant PRC subsidiaries in accordance with their articles of association prepared in accordance with PRC laws.

There can be no assurance that we will be able to achieve profit for the year for each financial year after the Listing. Accordingly, we cannot assure that we will be able to declare or distribute any dividend. We currently do not have any pre-determined dividend payout ratio. Our Board has the absolute discretion to decide whether to recommend payment of dividends in any year.

During the Track Record Period (i) no dividend was declared or paid by our Company; and (ii) the subsidiaries of our Group had declared and paid dividends of approximately RMB76.0 million to the relevant shareholders of the subsidiaries. All dividends were funded by our internal resources. The Board considers that there is no material adverse impact on our Group's financial and liquidity position arising from the dividend payment.

DISTRIBUTABLE RESERVES

As at 30 June 2019, our Company had approximately RMB456,000 available for distribution to our shareholders.

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In accordance with the PRC Company Law, a company in the PRC is required to transfer 10% of its annual net profit (calculated under the PRC statutory accounting standards), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the company. Upon approval of the relevant authorities, to offset its accumulated losses or to increase its registered capital. The statutory surplus reserve can be utilised to increase registered capital, provided that such fund is maintained at a minimum of 25% of its registered capital. The statutory reserve is non-distributable as cash dividends and must be made before distribution of dividend to its equity owners.

The tables set out below the movement of the statutory surplus reserve during the Track Record Period:

	<u>As at 31 December</u>			<u>As at 30 June</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Paid-up capital for the subsidiaries incorporated in the PRC	5,320	5,420	28,284	28,284	28,284
Upper limit of statutory surplus reserve	<u>2,660</u>	<u>2,710</u>	<u>14,142</u>	<u>14,142</u>	<u>14,142</u>
				<u>Six months ended</u>	
	<u>Year ended 31 December</u>			<u>30 June</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Profit/(loss) for the year/period	24,181	20,406	22,734	(3,576)	16,676
Less: (profit)/loss not subject to statutory surplus reserve	<u>(21,163)</u>	<u>(18,238)</u>	<u>(16,304)</u>	<u>5,946</u>	<u>(7,465)</u>
Profit subject to statutory surplus reserve	<u>3,018</u>	<u>2,168</u>	<u>6,430</u>	<u>2,370</u>	<u>9,211</u>
At the beginning of the year/period	1,111	1,413	1,630	1,630	2,273
Appropriation for the year/period	<u>302</u>	<u>217</u>	<u>643</u>	<u>237</u>	<u>921</u>
At the end of the year/period	<u>1,413</u>	<u>1,630</u>	<u>2,273</u>	<u>1,867</u>	<u>3,194</u>

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LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Share Offer. Assuming an Offer Price of HK\$1.3, being the mid-point of the indicative Offer Price Range, the total amount of listing expenses in connection with the Share Offer is estimated to amount to approximately RMB40.2 million (equivalent to approximately HK\$46.4 million), of which approximately RMB4.1 million (equivalent to approximately HK\$4.6 million) will be borne by the Selling Shareholder. The listing expenses to be borne by us are estimated to be approximately RMB36.1 million (equivalent to approximately HK\$41.8 million), of which approximately RMB10.5 million is directly attributable to the issue of new Shares to the public and to be capitalised, and approximately RMB3.1 million, RMB8.5 million and RMB6.6 million have been reflected in our consolidated statements of comprehensive income for the year ended 31 December 2017 and 2018, and the six months ended 30 June 2019, respectively, and the remaining approximately RMB7.4 million, in conjunction with the listing expenses incurred during the six months ended 30 June 2019, is expected to be reflected in our consolidated statements of comprehensive income for the year ending 31 December 2019.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Share Offer on the audited consolidated net tangible assets of our Group attributable to owners of our Company as if the Share Offer had taken place on 30 June 2019.

The statement of unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of our Group had the Share Offer been completed on 30 June 2019 or at any future dates.

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The statement of unaudited pro forma adjusted consolidated net tangible assets of our Group is based on the audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019 derived from the Accountant's Report set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019 per Share	
	<i>RMB'000</i> <small>(Note 1)</small>	<i>RMB'000</i> <small>(Note 2)</small>	<i>RMB'000</i>	<i>RMB</i> <small>(Note 3)</small>	<i>HK\$</i> <small>(Note 4)</small>
Based on an Offer Price of HK\$1.20 per Offer Share	<u>44,350</u>	<u>77,390</u>	<u>121,740</u>	<u>0.28</u>	<u>0.32</u>
Based on an Offer Price of HK\$1.40 per Offer Share	<u>44,350</u>	<u>92,416</u>	<u>136,766</u>	<u>0.32</u>	<u>0.36</u>

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019 of approximately RMB44,350,000 is extracted from the Accountant's Report, as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 90,000,000 Shares to be issued under the Share Offer and the Offer Price of HK\$1.20 and HK\$1.40 per Offer Share, respectively, being the low-end and high-end of the stated Offer Price Range, after the deduction of the underwriting fees and other related expenses to be incurred by our Group (other than expenses of RMB18,261,000 already recognised in profit or loss up to 30 June 2019), but without taking into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Schemes or allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.8788, which was the rate prevailing on 30 June 2019. No representation is made that the HK\$ amounts have been, could have been or could be converted into RMB, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma of adjusted consolidated net tangible assets of the Group attributable to owners of our Company as at 30 June 2019 per Share is calculated based on 427,500,000 Shares assuming that the Capitalisation Issue Shares and the Share Offer had been completed on 30 June 2019, but without taking into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme or allotted and issued or repurchased by our Company pursuant to the general mandate as for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

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- (4) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is converted from RMB into HK\$ at an exchange rate of RMB0.8788 to HK\$1, which was the rate prevailing on 30 June 2019. No representation is made that the RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 June 2019 to reflect any trading result or other transaction of our Group entered into subsequent to 30 June 2019.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that they are not aware of any circumstances that would trigger a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our industry remained relatively stable after the Track Record Period and up to the Latest Practicable Date, and there were no material changes in the general economic and market conditions and regulatory environment in the industry in which we operate.

Based on the unaudited interim consolidated financial statements of our Group as at 31 October 2019, our profitability has remained stable as compared to the six months ended 30 June 2019. We expect that the gross profit margin for the year ending 31 December 2019 will be slightly lower than that for the six months ended 30 June 2019. For the year ending 31 December 2020, we expect that (i) the revenue will increase as compared to the revenue for the year ending 31 December 2019, due to the growth of sales volume of our products and (ii) the net profit will decrease compared to the year ending 31 December 2019, due to additional administrative and other operating expenses including Directors' emoluments and professional fees after the Listing.

Save as disclosed above, after the Track Record Period and up to the Latest Practicable Date, there have been no other material recent developments on our financial condition, and there were also no material changes to our business model. Our Directors have further confirmed that, save as disclosed above, there has been no material adverse change in our business operations or financial or trading position since the end of the Track Record Period and up to the date of this prospectus and no event has occurred that would materially affect the information shown in the Accountant's Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND PROPERTY VALUATION

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued certain of our property interests as at 30 September 2019. The full text of its letter, summary of valuations and valuation report in connection with such property interests are set out in Appendix III to this prospectus.

The table below sets forth the reconciliation between the net book value of the property interests as at 30 June 2019 that were valued by our Property Valuer and the revalued amount of our property interests as at 30 September 2019.

	<i>RMB'000</i>
Net book value of property interest as at 30 June 2019	121,668
Less: Depreciation for the three months ended 30 September 2019	<u>(1,961)</u>
Net book value of property interest as at 30 September 2019	119,707
Valuation surplus, before tax	<u>59,093</u>
Valuation as at 30 September 2019	<u><u>178,800</u></u>

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2019 (being the date of our latest audited financial statements) and up to the date of this prospectus and there has been no event since 30 June 2019 and up to the date of this prospectus which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any options which may be granted under the Share Option Scheme), our Company will be owned as to approximately 73.45% by Sanvo Fine Chemicals. Sanvo Fine Chemicals is wholly owned by Mr. Ernest Chen and hence Mr. Ernest Chen is deemed to be interested in the Shares held by Sanvo Fine Chemicals. For the purpose of the Listing Rules, Mr. Ernest Chen and Sanvo Fine Chemicals are our Controlling Shareholders upon Listing. Sanvo Fine Chemicals is an investment holding company wholly-owned by Mr. Ernest Chen, and as at the Latest Practicable Date, it had not commenced any business activities. Each of Mr. Ernest Chen and Sanvo Fine Chemicals has confirmed that, apart from the business operated by members of our Group, it or he and their close associates and/or companies controlled by any one of them do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group.

INDEPENDENCE OF OUR GROUP

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:

Management and administrative independence

The Board consists of six Directors, of whom three are Executive Directors and the remaining three are Independent Non-executive Directors. Mr. Ernest Chen, being the chief executive officer, an Executive Director and the chairman of the Board, is also the sole director of Sanvo Fine Chemicals. Save for Mr. Ernest Chen, none of our Directors or senior management serves any executive or management role in Sanvo Fine Chemicals.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his 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 judgment to the decision-making process of the Board.

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 "Directors and Senior Management" in this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial independence

We have our own independent accounting and finance team and make financial decisions according to our own business needs. During the Track Record Period and up to the Latest Practicable Date, our Group had banking facilities that were guaranteed by among others, Mr. Ernest Chen, one of our Controlling Shareholders, and Mr. Leo Chen, an associate of Mr. Ernest Chen, details of which are set out in the subsection headed “Financial Information — Balances with related parties — Guarantees provided by related parties” in this prospectus. Such guarantees have been released or will be released upon Listing and will be replaced by corporate guarantees from our Company. In addition, part of our bank borrowings secured by properties of related parties will also be fully released prior to the Listing. During the Track Record Period, our Group had certain amount due to Mr. Ernest Chen, one of our Controlling Shareholders, as detailed in Note 19 to Appendix I — Accountant’s Report in this prospectus, which are non-trade nature. Such amount will be fully settled before the Listing. Based on the above, we are financially independent of our Controlling Shareholders and their respective close associates.

Taking into account of our Group’s internal resources and the estimated net proceeds from the share offer, our Directors are of the view that we have sufficient capital to operate our business independently, and have a strong credit profile to support our daily operations. Further, our Directors believe that, upon Listing, our Group is capable of obtaining financing from third parties without the support of our Controlling Shareholders. Therefore, our Group will be financially independent from our Controlling Shareholders and/or any of their respective close associates.

Operational independence

Our Group has established our own organisational structure made of individual departments, each with specific areas of responsibilities. 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 control measures to facilitate the effective operation of its business.

Connected transactions with Controlling Shareholders

Save for the continuing connected transactions set out in the section headed “Continuing Connected Transactions” in this prospectus, (i) our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective associates upon or shortly after Listing; and (ii) none of our Controlling Shareholders and Directors or their respective close associates has been our major supplier or customer during the Track Record Period which provides or procures any critical services or materials for or from our business operation. Thus, the existence of the above continuing connected transactions will not materially affect our operational independence from our Controlling Shareholders after Listing and our Directors are of the view that our Group is able to operate independently from our Controlling Shareholders after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RULE 8.10 OF THE LISTING RULES

As set out earlier in this section, our Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business apart from our Group's business which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of our Company and our Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

- (a) our Directors will comply with our Articles of Association that a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates have a material interest, nor shall such Director be counted in the quorum present at the meeting;
- (b) 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 judgment 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; and
- (c) our Company has appointed VBG 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.

CONTINUING CONNECTED TRANSACTIONS

Our Group entered into certain agreements with certain connected person of our Company in the ordinary and usual course of business during the Track Record Period. Upon Listing, the following transactions will continue between our Group and the relevant connected person, which will constitute continuing connected transactions for our Company under the Listing Rules. Details of such transactions are set out below.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions below are fully exempt from Shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The Dacen Tenancy Agreements

Background

Guangdong Sanvo, an indirect wholly-owned subsidiary of our Company (as tenant) entered into a tenancy agreement dated 1 July 2018 and its supplemental agreement dated 16 April 2019 (the “**Dacen Tenancy Agreements**”) with Mr. Ernest Chen (as landlord and the authorised representative) pursuant to which Mr. Ernest Chen agreed to continue to lease to Guangdong Sanvo and Guangdong Sanvo agreed to continue to rent from Mr. Ernest Chen the building and land located at No.43, Chengye Avenue, Dacen Industrial Park, Huangpu Town, Zhongshan City, Guangdong, the PRC (the “**Dacen Premises**”) subject to the terms and conditions of the Dacen Tenancy Agreements. The Dacen Premises are for office, manufacturing, production and storage use. The site area of the Dacen Premises is 18,600 square metres and the gross floor area is 8,251.42 square metres. The Dacen Tenancy Agreements have a term commencing from 1 July 2018 to 30 June 2021 (both days inclusive) at an annual rental (exclusive of management fees and electricity and water charges) of RMB960,000, which is payable by way of bank transfer on a monthly basis. As Mr. Ernest Chen is one of the Controlling Shareholders and an Executive Director, Mr. Ernest Chen is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Dacen Tenancy Agreements will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

Pricing standard

The rental payable by Guangdong Sanvo to Mr. Ernest Chen was determined on arm's length basis with reference to the market rent of similar properties in similar locations as the Dacen Premises. The Property Valuer has reviewed the rental payable by Guangdong Sanvo under the Dacen Tenancy Agreements and issued a fair rent letter confirming that the annual rent under the Dacen Tenancy Agreements was fair and reasonable and consistent with the current market rents for similar premises in similar location. The Dacen Tenancy Agreements were entered into on normal commercial terms. The term of the tenancy under the Dacen Tenancy Agreements is 3 years and the rental payable for the Dacen Premises will be reviewed upon renewal of the tenancy of the Dacen Premises, taking into account the market conditions and the prevailing market rental at the relevant time. The terms for renting the Dacen Premises from Mr. Ernest Chen, a connected person of our Company should not be less favourable than those offered by independent third parties.

CONTINUING CONNECTED TRANSACTIONS

Historical figures and proposed annual caps

The Dacen Premises were leased by Mr. Ernest Chen to Guangdong Sanvo during the Track Record Period. For the three years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the annual rental paid by Guangdong Sanvo to Mr. Ernest Chen amounted to RMB960,000, RMB960,000, RMB960,000 and RMB480,000, respectively. Our Directors estimate that the maximum transaction amount under the Dacen Tenancy Agreements should not exceed RMB960,000, RMB960,000 and RMB480,000 for the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021, respectively.

Basis of determining the annual caps

The annual rental is determined with reference to the prevailing market rates of similar properties in the proximity. According to the Property Valuer, the annual rental payable under the Dacen Tenancy Agreements is fair, reasonable and is consistent with the prevailing market rates of similar properties in the proximity.

Reasons for entering into the Dacen Tenancy Agreements

The Dacen Premises were in use by our Group during the Track Record Period. The Directors believe that maintaining the Dacen Premises will avoid the incurrence of relocation costs and ensure smooth operations of our Group. The Directors consider that the transaction contemplated under the Dacen Tenancy Agreements is fair and reasonable, on normal commercial terms and in the interest of our Company and the Shareholders as a whole.

The Shangnan Tenancy Agreements

Background

Guangdong Fuvo, an indirect wholly owned subsidiary of our Company (as tenant) entered into a tenancy agreement dated 1 July 2018 and its supplemental agreements dated 16 April 2019 and 21 August 2019 (the “**Shangnan Tenancy Agreements**”) with Mr. Ernest Chen (as landlord) pursuant to which Mr. Ernest Chen agreed to continue to lease to Guangdong Fuvo and Guangdong Fuvo agreed to continue to rent from Mr. Ernest Chen the building and land located at Shangnan Village, Fusha Town, Zhongshan City, Guangdong, the PRC (the “**Shangnan Premises**”) subject to the terms and conditions of the Shangnan Tenancy Agreement. The Shangnan Premises are for office, manufacturing, production and storage use. The site area of the Shangnan Premises is 31,288.50 square metres and the gross floor area is 4,825.24 square metres. The Shangnan Tenancy Agreements have a term commencing from 1 July 2018 to 30 June 2021 (both days inclusive) at an annual rental (exclusive of management fees and electricity and water charges) of RMB960,000, which is payable by way of bank transfer on a monthly basis. As Mr. Ernest Chen is one of the Controlling Shareholders and an Executive Director, Mr. Ernest Chen is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Shangnan Tenancy Agreements will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

CONTINUING CONNECTED TRANSACTIONS

Pricing standard

The rental payable by Guangdong Fuvo to Mr. Ernest Chen was determined on arm's length basis with reference to the market rent of similar properties in similar locations as the Shangnan Premises. The Property Valuer of our Company has reviewed the rental payable by Guangdong Fuvo under the Shangnan Tenancy Agreements and issued a fair rent letter confirming that the annual rent under the Shangnan Tenancy Agreements was fair and reasonable and consistent with the current market rents for similar premises in similar location. The Shangnan Tenancy Agreements was entered into on normal commercial terms. The term of the tenancy under the Shangnan Tenancy Agreements is 3 years and the rental payable for the Shangnan Premises will be reviewed upon renewal of the tenancy of the Shangnan Premises, taking into account the market conditions and the prevailing market rental at the relevant time. The terms for renting the Shangnan Premises from Mr. Ernest Chen, a connected person of our Company should not be less favourable than those offered by independent third parties.

Historical figures and proposed annual caps

The Shangnan Premises were leased by Mr. Ernest Chen to Guangdong Fuvo during the Track Record Period. For the three years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the annual rental paid by Guangdong Fuvo to Mr. Ernest Chen amounted to RMB720,000, RMB720,000, RMB720,000 and RMB360,000, respectively. Our Directors estimate that the maximum transaction amount under the Shangnan Tenancy Agreements should not exceed RMB960,000, RMB960,000 and RMB480,000 for the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021, respectively.

Basis of determining the annual caps

The annual rental is determined with reference to the prevailing market rates of similar properties in the proximity. According to the Property Valuer, the annual rental payable under the Shangnan Tenancy Agreements is fair, reasonable and is consistent with the prevailing market rates of similar properties in the proximity.

Reasons for entering into the Shangnan Tenancy Agreements

The Shangnan Premises were in use by our Group during the Track Record Period. The Directors believe that maintaining the Shangnan Premises will avoid the incurrence of relocation costs and ensure smooth operations of our Group. The Directors consider that the transaction contemplated under the Shangnan Tenancy Agreements is fair and reasonable, on normal commercial terms and in the interest of our Company and the Shareholders as a whole.

The Listing Rules implications

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Dacen Tenancy Agreements and the Shangnan Tenancy Agreements (collectively, the "**Connected Tenancy Agreements**") should be aggregated as both of these agreements were entered into by our Group and Mr. Ernest Chen, and the nature of the transactions under both of these agreements are the same. Accordingly, the maximum aggregate transaction amount under the Connected Tenancy Agreements should not exceed RMB1,920,000, RMB1,920,000, and RMB960,000, for the years ending 31 December 2019 and 2020 and the six months ending 30 June 2021, respectively.

CONTINUING CONNECTED TRANSACTIONS

Since each of the percentage ratios (other than the profits ratios) for the transactions under the Connected Tenancy Agreements are less than 5% on an annual basis and each of the annual caps are less than HK\$3,000,000, the transactions under the Connected Tenancy Agreements are therefore exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

The Trademark License Agreement

Background

On 13 December 2019, our Company entered into a trademark license agreement (the "**Trademark License Agreement**") with Mr. Ernest Chen, pursuant to which Mr. Ernest Chen has granted a non-exclusive right to our Group to use certain trademarks owned by Mr. Ernest Chen (the "**Trademarks**") for the potential future expansion of our business operation in Hong Kong, for an initial term of 3 years commencing from the Listing Date for a nominal consideration of HK\$1.00. The term of the Trademark License Agreement can be continuously renewed upon written request by our Group for a further 3 years under the same terms and conditions upon its expiry to the extent permissible under the Listing Rules, relevant laws and regulations. For details of the Trademarks, please refer to the subsection headed "Statutory and General Information — B. Further information about the business — 2. Intellectual Property Rights" in Appendix V to this prospectus. As Mr. Ernest Chen is one of the Controlling Shareholders and an Executive Director, Mr. Ernest Chen is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Trademark License Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

Historical figures and annual caps

There was no historical transaction amount prior to the entering into of the Trademark License Agreement. Based on the terms and conditions under the Trademark License Agreement, there will be a nominal consideration of HK\$1.00 under the Trademark License Agreement.

Reasons for entering into the Trademark License Agreement

During the Track Record Period and up to the Latest Practicable Date, our Group did not sell any of its products or conduct any business directly in Hong Kong. As such, the Trademarks are currently not material to our Group's business. Our Group can still be able to operate independently from Mr. Ernest Chen without the Trademarks.

However, we consider that the Trademarks represent our consistent product quality and aspiration to help our customers achieve high standard, and that such existing Trademarks allow us to resonate with our customers and facilitate our market and business expansion in Hong Kong when required, as such, our Directors consider that the use of the Trademarks in our Group's business will provide leverage and enhance our corporate image when marketing our products in Hong Kong, when required. Our Directors are of the view that entering into the Trademark License Agreement is in the interest of our Company and the Shareholders as a whole, especially when we later on decide to expand our operation in Hong Kong, although we currently do not have any such plan to do so.

CONTINUING CONNECTED TRANSACTIONS

The Listing Rules implications

Since each of the percentage ratios (other than the profits ratio) for the Trademark License Agreement is less than 0.1% on an annual basis, the transaction under the Trademark License Agreement is exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

The Patent License Agreement

Background

On 13 December 2019, our Company entered into a patent license agreement (the "**Patent License Agreement**") with Mr. Ernest Chen, pursuant to which Mr. Ernest Chen has granted a non-exclusive right to our Group to use the patents owned by Mr. Ernest Chen and registered in the PRC (the "**Patents**") for our business operation in the PRC, for a term of three years commencing from the Listing Date for a nominal consideration of HK\$1.00. The term of the Patent License Agreement can be continuously renewed upon written request by our Group for a further 3 years under the same terms and conditions upon its expiry to the extent permissible under the Listing Rules, relevant laws and regulations. For details of the Patents, please refer to the subsection headed "Statutory and General Information — B. Further information about the business — 2. Intellectual Property Rights" in Appendix V to this prospectus. As Mr. Ernest Chen is one of the Controlling Shareholders and an Executive Director, Mr. Ernest Chen is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Patent License Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

Historical figures and annual caps

There was no historical transaction amount prior to the entering into of the Patent License Agreement. Based on the terms and conditions under the Patent License Agreement, there will be a nominal consideration of HK\$1.00 under the Patent License Agreement.

Reasons for entering into the Patent License Agreement

We consider that the Patents can be used in different types of products offered by our Group. The total value of our products derived from the Patents for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 were approximately RMB190.0 million, RMB276.0 million, RMB265.0 million and RMB132.4 million, respectively, representing approximately 37.1%, 41.2%, 34.5% and 35.6% of our total revenue. As such, our Directors consider that the use of the Patents can facilitate the manufacture of our Group's products. In light of the importance of the Patents to our Group, our Group has negotiated with Mr. Ernest Chen that the term of the Patent License Agreement can be continuously renewed upon written request by our Group for a further three years under the same terms and conditions upon its expiry, thereby removing the potential risk of not being able to renew such agreement upon expiry. Therefore, our Directors are of the view that entering into the Patent License Agreement is in the interest of our Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS

The Listing Rules implications

Since each of the percentage ratios (other than the profits ratio) for the Patent License Agreement is less than 0.1% on an annual basis, the transaction under the Patent License Agreement is exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

Compliance with the Listing Rules

If the material terms of the (i) Dacen Tenancy Agreement, (ii) Shangnan Tenancy Agreement, (iii) Trademark License Agreement, and (iv) Patent License Agreement are altered to the extent that it is no longer an exempt continuing connected transaction or if we enter into any new agreements or arrangements with any connected persons in the future under which the aggregate consideration paid or payable by us exceed the limits for exempt continuing connected transactions referred to in the Listing Rules, we will comply with the relevant requirements of the Listing Rules.

SHARE CAPITAL

The share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) will be as follows:

Authorised share capital:		HK\$
1,500,000,000 Shares of par value of HK\$0.01 each		15,000,000
Issued and to be issued, fully paid or credited as fully paid:		HK\$
100 Shares in issue as at the date of this prospectus		1
337,499,900 Shares to be issued pursuant to the Capitalisation Issue		3,374,999
90,000,000 Shares to be issued pursuant to the Share Offer		900,000
<u>427,500,000</u> Shares in total		<u>4,275,000</u>

ASSUMPTIONS

The above tables assume the Share Offer has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account (i) any options which have been or may be granted under the Share Option Scheme; or (ii) any Shares which may be allotted and issued or repurchased by our Company under the general mandate for the allotment and issue or the repurchase of Shares granted to our Directors as referred to below.

RANKING

The Offer Shares shall be ordinary shares and rank pari passu with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus save for entitlements under the Capitalisation Issue.

CAPITALISATION ISSUE

Conditional upon the share premium account of our Company having sufficient balance, or other being credited as a result of the Share Offer, a sum of HK\$3,374,999 standing to the credit of the share premium account of our Company will be capitalised by way of applying such sum in paying up in full an aggregate of 337,499,900 Shares for the Capitalisation Issue to Sanvo Fine Chemicals and Mr. Victor Heng in proportion to their respective shareholding immediately before the Share Offer.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme as further described in “Statutory and General Information — D. Share Option Scheme” 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.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

As a matter of the Cayman Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles of Association, a summary of which is set out in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUES SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted with a conditional mandate to allot, issue and deal with Shares with an aggregate number of not more than the sum of:

- (a) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue; and
- (b) the total number of Shares repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate number of the Shares which our Directors are authorised to allot and issue under this issuing mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue; (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association; (iii) any specific authority granted by the Shareholders in general meeting(s); or (iv) the exercise of options which may be granted under the Share Option Scheme or any arrangement which may be regulated under Chapter 17 of the Listing Rules.

This issuing mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or the Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this issuing mandate, please see “Statutory and General Information — A. Further Information about our Company — 3. Resolutions of our Shareholders passed on 13 December 2019” in Appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted with a general unconditional mandate to exercise all powers of our Company to repurchase Shares with an aggregate number of not more than 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue.

This repurchase mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares by our Company is set out in the subsection headed “Statutory and General Information — A. Further Information about our Company — 6. Repurchase of our Shares by our Company” in Appendix V to this prospectus.

This repurchase mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting;
- (b) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or the Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this repurchase mandate, please see the subsection headed “Statutory and General Information — A. Further Information about our Company — 3. Resolutions of our Shareholders passed on 13 December 2019” in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of 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 number of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in the Shares

Name of Shareholder	Capacity/nature of interest	As at date of this prospectus		Immediately following completion of the Capitalisation Issue and the Share Offer	
		Number of Shares ¹	Shareholding Percentage	Number of Shares ¹	Shareholding Percentage
Sanvo Fine Chemicals	Beneficial owner ²	96 (L)	96.00%	314,000,000(L)	73.45%
Mr. Chen Bingqiang ("Mr. Ernest Chen")	Interest in controlled corporation ²	96 (L)	96.00%	314,000,000(L)	73.45%
Ms. Liang Yinsheng	Interest of a spouse ³	96 (L)	96.00%	314,000,000(L)	73.45%

Notes:

¹ The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

² Sanvo Fine Chemicals is wholly owned by Mr. Ernest Chen. Mr. Ernest Chen is deemed, or taken to be interested, in all the Shares held by Sanvo Fine Chemicals for the purpose of the SFO.

³ Ms. Liang Yinsheng is the spouse of Mr. Ernest Chen. Under the SFO, Ms. Liang Yinsheng is deemed to be, or taken to be, interested in the same number of Shares in which Mr. Ernest Chen is interested.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of 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 number of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board consists of six Directors, including three Executive Directors and three Independent Non-executive Directors. The Directors and the members of the senior management are involved in the day-to-day management of our Company. The following table sets forth certain information of our Directors:

Name	Age	Date of joining our Group	Present position within our Group	Date of appointment as Director	Principal roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Chen Bingqiang (陳炳強) (“Mr. Ernest Chen”)	50	9 April 2002	Chief executive officer, Executive Director and chairman of the Board	12 April 2018 and re-designated as an Executive Director on 15 April 2019	Overall management, strategic planning and business development of our Group	Elder brother of Mr. Leo Chen
Mr. Chen Bingyao (陳炳耀) (“Mr. Leo Chen”)	46	1 August 2002	Executive Director and chief technical engineer	12 April 2018 and re-designated as an Executive Director on 15 April 2019	Overall management, research and development, quality control of the products offered by our Group	Younger brother of Mr. Ernest Chen
Mr. Ng Cheuk Lun, <i>HKICPA</i> (吳卓倫)	43	7 August 2018	Executive Director and company secretary	15 April 2019	Management of investor relationship, strategic planning, business development and company secretarial matters of our Group	Nil
Ir. Daniel Lai, <i>BBS, JP</i> (賴錫璋)	72	13 December 2019	Independent Non-executive Director	13 December 2019	Providing independent judgment and advice to the Board	Nil
Mr. Xu Kai (許凱)	54	13 December 2019	Independent Non-executive Director	13 December 2019	Providing independent judgment and advice to the Board	Nil
Mr. Yeung Chun Yue David (楊振宇)	38	13 December 2019	Independent Non-executive Director	13 December 2019	Providing independent judgment and advice to the Board	Nil

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chen Bingqiang (陳炳強) (“**Mr. Ernest Chen**”), aged 50, is the chief executive officer, an Executive Director, the chairman of the Board and a member of our remuneration committee. Mr. Ernest Chen is primarily responsible for overseeing our overall management, strategic planning and business development of our Group. He was appointed as a Director of our Company on 12 April 2018 and redesignated as an Executive Director on 15 April 2019.

Mr. Ernest Chen has over 17 years of experience in the chemicals industry. Mr. Ernest Chen worked as a director in Foshan City Shunde District Sanvo Industrial Co., Ltd.* (佛山市順德區三和實業有限公司) (“**Foshan Sanvo**”), a company engaged in the manufacture of plastic products, textiles, knitwear, auto parts and interior decoration materials from March 1995 to June 2007, where he was mainly responsible for the overall management of the company. He joined our Group in April 2002. Mr. Ernest Chen graduated from the China Pharmaceutical University in Jiangsu province with a bachelor’s degree in science, majoring in chemical pharmaceuticals in July 1991, and from the Chinese University of Hong Kong with a master’s degree in business administration in November 2016.

Mr. Ernest Chen also holds the following positions in the members of our Group:

Name	Position held	Date of Appointment
Zhongshan Minhe	Director	24 January 2013
Guangdong Sanvo	Executive director	9 April 2002
Guangdong Fuvo	Director	6 June 2018
Guangdong Fullteam	Executive director and manager	8 December 2014
Shunde Sanvo	Executive director	28 March 2007
Integrity Knights	Director	25 April 2018
American Sanvo	Director	25 May 2018
French Fullteam	Director	25 May 2018

Mr. Ernest Chen has been a registered pharmacist as recognised by the Shunde City Science and Technology Bureau* (順德市科技局) in the PRC since July 1993. He has also been accredited as an intermediate engineer by the Guangdong Coating Industry Association (廣東省塗料行業協會) in the PRC since July 2015. Mr. Ernest Chen was also co-awarded with Mr. Leo Chen the accredited patent award of Zhongshan for a product named “nano mildew neutral silicone sealant” in July 2012. Mr. Ernest Chen is the elder brother of Mr. Leo Chen.

Mr. Ernest Chen has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ernest Chen was a legal representative of Foshan Sanvo, a company established in the PRC which was deregistered in accordance with PRC laws in June 2007. Mr. Ernest Chen was also a supervisor of Beijing Shangshan Zhiyuan Chemical Technology Research Institute Co., Ltd.* (北京上繕致遠化工技術研究院有限公司), a company established in the PRC and engaged in engineering and technology research and experimental development, which was deregistered in accordance with PRC laws in August 2015. He was also an executive director and manager of Zhongshan Fullteam Chemical Co., Ltd.* (中山芙田化學有限公司), a company established in the PRC and engaged in production, sales and research of among other things, water based paint and water based high performance resin which was deregistered in accordance with PRC Laws in March 2019.

Mr. Ernest Chen confirmed that there was no wrongful act on his part leading to the above deregistrations and the deregistrations of such companies did not result in any liability or obligation being imposed against him and the relevant companies were solvent at the time of deregistration.

Mr. Chen Bingyao (陳炳耀) (“Mr. Leo Chen”), aged 46, is an Executive Director of our Company and a member of the nomination committee. He is also the chief technical engineer of our Group. Mr. Leo Chen is primarily responsible for overseeing our overall management, research and development, quality control of the products offered by our Group. He was appointed as a Director of our Company on 12 April 2018 and redesigned as an Executive Director on 15 April 2019.

Mr. Leo Chen has over 16 years of experience in the chemicals industry. Prior to joining our Group, he worked in Guangdong Mediworld Pharmaceutical Co., Ltd., a company engaged in research, development, manufacture, and sale of Chinese medicines, as a technician from July 1997 to May 1999, where he was responsible for production and technical guidance of drug manufacture. He then worked as an engineer at Foshan Sanvo, from June 1999 to July 2002. Since August 2002, he has been a senior engineer in charge of supervision of the technology development at Guangdong Sanvo and was subsequently promoted to person-in-charge of project development (all-purpose adhesives and paints and coatings) in July 2005. Mr. Leo Chen graduated from the China Pharmaceutical University in Jiangsu province with a diploma in chemical pharmaceuticals in July 1997.

Mr. Leo Chen also holds the following positions in the members of our Group:

<u>Name</u>	<u>Position held</u>	<u>Date of Appointment</u>
Zhongshan Minhe	Director	6 June 2018
Sanvo Holdings	Director	26 January 2018
Guangdong Sanvo	Chairman, director and supervisor	18 April 2011
Guangdong Fuvo	Director	1 January 2012
Guangdong Fullteam	Supervisor	4 December 2014
Shunde Sanvo	Supervisor	18 April 2007

DIRECTORS AND SENIOR MANAGEMENT

Mr. Leo Chen has been a senior chemical engineer as recognised by the Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) in the PRC since November 2014. He was appointed as the committee member of the Chemical Engineering Testing Specialised Committee of the Shenzhen Analytical and Testing Committee* (深圳市分析測試協會理事會化工測試技術專業委員會) from May 2013 to May 2016. In March 2015, Mr. Leo Chen was appointed as a member of the Energy Testing Solutions Professional Working Group of the National Committee of Standard Product Quality Testing Monitoring Methods* (全國產品質量監管重點產品檢驗方法標準化技術委員會能源檢驗方法專業工作組). Mr. Leo Chen was also co-awarded with Mr. Ernest Chen the accredited patent award of Zhongshan for a product named “nano mildew neutral silicone sealant” in July 2012. Mr. Leo Chen is the younger brother of Mr. Ernest Chen.

Mr. Leo Chen has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Mr. Ng Cheuk Lun (吳卓倫), aged 43, is an Executive Director and the company secretary of our Company. Mr. Ng is primarily responsible for management of investor relationship, strategic planning, business development and company secretarial matters of our Group. He has been appointed as our company secretary since 7 August 2018 and an Executive Director of our Company since 15 April 2019. Mr. Ng has been a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants since July 2011 as well as a Certified Practising Accountant of CPA Australia since August 2004.

Mr. Ng has over 12 years of experience in finance and audit. He has been a director of MN CPA Limited, Certified Public Accountants since May 2012, and a director of MN Corporate Services Limited since July 2011, a company engaged in providing business consultancy services, where he is responsible for overall management.

From August 2007 to January 2011, Mr. Ng worked in Grant Thornton, an auditing firm where his last position was Senior Manager in the Assurance Division. Due to a merger between Grant Thornton and BDO Limited, he was transferred to BDO Limited and employed as Senior Manager from January 2011 to July 2011.

From July 2011 to November 2015, Mr. Ng was employed in various positions in Asian Citrus Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 0073), including as the company secretary from July 2013 to November 2015, chief financial officer from March 2014 to November 2015 and executive director from November 2014 to November 2015. From October 2014 to September 2017, Mr. Ng was an independent non-executive director at Mayer Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1116) (“**Mayer**”).

On 5 April 2017, The Market Misconduct Tribunal (“**MMT**”) fined Mayer and nine of the former senior executives of Mayer a total of HK\$10.2 million after they were found to have failed to disclose inside information as soon as reasonably practicable as required under the SFO during the period between April 2012 and January 2013. The MMT found that Mayer breached the disclosure requirement pursuant to section 307B(1) of the SFO and that the relevant senior executives had not taken all reasonable measures to ensure that proper safeguards exist to prevent the breach of the disclosure requirements under section 307G(2) of the SFO (the “**Mayer Incident**”).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ng joined Mayer in October 2014 as part of a group of new directors nominated by certain shareholders of Mayer at the time to replace the previous directors. Mr. Ng was not involved in the above-mentioned MMT hearing or the Mayer Incident.

Taking into account that: (1) the Mayer Incident occurred between April 2012 and January 2013, more than one year prior to Mr. Ng joining Mayer; (2) Mr. Ng is not one of the nine former senior executives who were involved in the Mayer Incident that breached the disclosure requirement pursuant to section 307B(1) of the SFO; and (3) as at the Latest Practicable Date, Mr. Ng remains as a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants as well as a Certified Practising Accountant of CPA Australia, and the relevant licenses have never been revoked or suspended by these professional bodies, our Directors and the Sole Sponsor are of the view that in relation to the abovementioned Mayer Incident, there is nothing, which casts doubts on Mr. Ng's suitability to act as our Director under rules 3.08 and 3.09 of the Listing Rules.

Save as disclosed above, Mr. Ng has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Mr. Ng was the director of the following companies which were incorporated in Hong Kong and were deregistered pursuant to section 291AA of the Predecessor Companies Ordinance or section 751 of the Companies Ordinance which provides that a defunct, solvent company may be dissolved by way of deregistration. The deregistration of all the following companies were voluntary by way of submitting an application to the Companies Registry of Hong Kong because these companies had either never commenced business or operation or ceased to carry on business or operation for more than three months immediately before the relevant application. The relevant details are as follows:

<u>Name of company</u>	<u>Nature of business</u>	<u>Date of deregistration</u>
S&M Global Media Limited	No substantive business	19 September 2013
Pop Wedding Magazine Limited	No substantive business	5 September 2014

Mr. Ng confirmed that there was no wrongful act on his part leading to the above deregistrations and deregistrations of such companies did not result in any liability or obligation being imposed against him and the relevant companies were solvent at the time of deregistration.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Ir. Daniel Lai (賴錫璋), *BBS, JP*, aged 72, was appointed as our Independent Non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. Ir. Lai is also the chairman of the remuneration committee as well as a member of the audit committee and the nomination committee.

Ir. Lai has over 40 years of experience in the information technology sector. Ir. Lai has also been a director of PRD IT Cooperation and Exchange Centre Company Limited, a company engaged in fostering collaboration between information technology professionals in Hong Kong and the Greater Bay Area since October 2015. He has been a director of Digital Technology and Consultancy Company Limited since March 2016, a company engaged in information technology consultancy, education and advisory services. He has also been a member of the governing council of the Hong Kong Quality Assurance Agency, an organisation established by the Hong Kong Government to help industry and commence in the development of quality, environmental, safety, hygiene, social and other management systems standards since November 2017. From June 1978 to January 1999, he has held various positions at The Hong Kong Jockey Club (formerly known as The Royal Hong Kong Jockey Club) and Hong Kong Jockey Club Systems (Australia) Pty. Ltd., respectively, with his last position as the IT facilities management controller. From February 1999 to December 2011, he was the head of information technology of MTR Corporation Limited (a company listed on the Main board of the Stock Exchange, stock code: 0066). From January 2012 to January 2015, Ir. Lai was the Government Chief Information Officer of the Hong Kong Government. From March 2015 to September 2015, he was the interim vice president (administration) in the office of the president of the Hong Kong Polytechnic University. From September 2015 to September 2017, he was the professor of practice (computing) in the department of computing of the Hong Kong Polytechnic University. Ir. Lai graduated from the Hong Kong Polytechnic University with a diploma in management studies (commercial) in November 1975 and from the Griffith University in Australia with a master's degree in technology management in March 1995.

Ir. Lai has been a distinguished fellow member of the Hong Kong Computer Society since February 2005, a fellow of The Hong Kong Institute of Engineers since July 2012, a fellow of The Hong Kong Institute of Directors since August 2015, and a full member of the Hong Kong Management Association since March 1995. In July 2004, Ir. Lai was awarded the bronze bauhinia star and he was appointed a justice of peace in July 2001. Further, he has held various public service positions such as the president of the Hong Kong Computer Society from 1988 to 2004, and the chairman of the Department of Computing Advisory Committee of the Hong Kong Polytechnic University from April 2012 to April 2014.

From October 2015 to June 2018, Ir. Lai served as an independent non-executive director of Digital China Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 861).

Save as disclosed above, Ir. Lai has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Ir. Lai was a director of WWW10 Limited, a company incorporated in Hong Kong which was a non-profit company and was dissolved by way of members' voluntary winding up in June 2006. He confirmed that there was no wrongful act on his part leading to the above dissolution and the dissolution of such company did not result in any liability or obligation being imposed against him and the relevant company was solvent at the time of dissolution.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Kai (許凱), aged 54, was appointed as our Independent Non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. Mr. Xu is also the chairman of the nomination committee and a member of the audit committee and the remuneration committee.

Mr. Xu has over 24 years of experience in the field of chemistry. He has been a Professor of Polymer Chemistry and Physics, researcher and deputy head of the Guangdong Specialised Laboratory of Electronic Organic Polymer Materials* (廣東省電子有機聚合物材料重點實驗室) under the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences since May 2009, where he was responsible for management of the laboratory. From May 1997 to December 2001, he was the head of the Department of Technology of the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences* (中國科學院廣州化學研究所科技處), where he was responsible for management of the laboratory. From March 1995 to December 1996, he was the secretary of the Specialised Laboratory of Cellulose Chemistry* (纖維素化學重點實驗室) under the Chinese Academy of Sciences where he was responsible for administration of the laboratory. Mr. Xu graduated from the Guangzhou Chemical Laboratory of the Chinese Academy of Sciences in Beijing with a doctoral degree in polymer chemistry and physics and a master's degree in polymer chemistry and physics in March 2005 and June 1991, respectively.

Mr. Xu has been a member of the Specialised Committee of Coating* (塗料專業委員會) under the Chemical Industry and Engineering Society of Guangdong since September 2008. He is also the deputy head of the Centre of Functional High Polymer Materials and Fine Chemicals of Foshan City* (佛山市功能高分子材料與精細化學品專業中心) under the Chinese Academy of Sciences and has been the reviewer of various international academic journals since 2005. Mr. Xu was awarded the Silver Award for Science and Technology Progress in Guangdong* (廣東省科技進步二等獎) in July 2009.

Mr. Xu has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Mr. Yeung Chun Yue David (楊振宇), aged 38, was appointed as our Independent Non-executive Director on 13 December 2019, and is responsible for providing independent advice and judgment to the Board. He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee.

Mr. Yeung has over 14 years of experience in accounting and tax advisory. Mr. Yeung has been a director and the managing partner of D & Partners CPA Limited since September 2017. From July 2004 to September 2017, Mr. Yeung worked in Cheng & Cheng Limited, Certified Public Accountants with his last position as a director. Mr. Yeung graduated from the City University of Hong Kong with a bachelor of business administration in accountancy in November 2004.

Mr. Yeung has been an independent non-executive director of Aeso Holding Limited (a company listed on GEM of the Stock Exchange, stock code: 8341) since 12 April 2019. From December 2014 to March 2017, Mr. Yeung served as an independent non-executive director of Mega Expo Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1360 and currently known as NOVA Group Holdings Limited).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yeung is currently a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a Certified Tax Advisor of The Taxation Institute of Hong Kong. He was also appointed as a member of the 14th Committee Member of the Guangzhou City Panyu District Chinese People's Political Consultative Conference in October 2016.

Save as disclosed above, Mr. Yeung has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

GENERAL

Save as disclosed herein, each of our Directors confirms with respect to him that: (i) there is no other information that should be disclosed for him pursuant to Rule 13.51(2) of the Listing Rules; and (ii) to the best knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters with respect to their appointment that need to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

The senior management of our Group consists of our head of finance, our head of logistics and operations, our head of administration, and our head of production.

Name	Age	Date of joining our Group	Present position within our Group	Principal roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Yang Lingzhen (楊凌振)	51	8 June 2015	Head of finance	Daily management of our financial matters	Nil
Mr. Han Wanyu (韓萬煜)	46	10 March 2014	Head of logistics and operations	Daily management of logistical and operational matters	Nil
Ms. Zhong Ruiqin (鍾瑞琴)	41	11 March 2013	Head of administration	Daily management of administrative and human resource matters	Nil
Mr. Ai Shuyi (艾書毅)	38	31 January 2004	Head of production	Daily management of production related matters	Nil

Mr. Yang Lingzhen (楊凌振), aged 51, was appointed as the head of finance on 8 June 2015, and is responsible for the daily management of financial matters of our Group.

Mr. Yang has over 30 years of experience in the financial accounting sector. From August 1988 to July 1991, he was an auditing officer of the Bureau of Audit of Tianhe District of Guangzhou municipality* (廣州市天河區審計局). From December 1991 to January 1999, he was the deputy head of the finance department of the Guangzhou Haizhu Shopping Centre* (廣州市海珠購物中心), an entity engaged in the business of retail sales, where he was responsible for financial management. From February 2000 to May 2002, he was the manager overseeing the IT and logistics departments of Guangzhou Dongze Electronic Appliances Limited* (廣州東澤電器有限公司), a company engaged in the sale and installation of electrical appliances. From June 2002 to October 2005, Mr. Yang was a consultant of Dongguan Nanhua Printing Factory*

DIRECTORS AND SENIOR MANAGEMENT

(東莞南華印刷廠), a company engaged in the printing business, where he was responsible for enterprise resource planning consulting. From October 2005 to June 2015, he was the project manager of Chuangrui Software Technology (Shenzhen) Limited* (創銳軟件科技(深圳)有限公司), a company engaged in software development, sales and related services, where he was responsible for project management. Mr. Yang joined Guangdong Sanvo as the head of finance in June 2015. Mr. Yang graduated from the Guangdong Radio and TV University (廣東廣播電視大學) in the PRC with a certificate in auditing in July 1988 and obtained the qualification certificate of specialty and technology in accounting conferred by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 1997.

Mr. Yang has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Mr. Han Wanyu (韓萬煜), aged 46, was appointed as the head of logistics and operations on 1 January 2017, and is responsible for the daily management of logistical and operational matters of our Group.

Mr. Han has over 20 years of experience in the logistics and operational management sector. From July 1997 to February 2008, he worked at Haixin Kelong Electronic Appliance Company Limited* (海信科龍電器股份有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 0921 and currently known as Hisense Home Appliances Group Co., Ltd.), a company engaged in the manufacture of refrigerators, air conditioners, cooling cabinets and other white goods with his last position as a logistics manager. From February 2008 to May 2009, he was the director of logistics of the logistics department of Guangdong Zhida Textile and Decorations Limited* (廣東志達紡織裝飾有限公司), a company engaged in curtains and bedding manufacturing. From June 2009 to February 2014, Mr. Han was the director of logistics of Guangdong Xinyao Photoelectric Limited* (廣東新耀光電股份有限公司), a company engaged in auxiliary battery receiver components and power generation systems. Mr. Han joined Guangdong Sanvo in March 2014 and has been the head of logistics and operations since January 2017. Mr. Han graduated from the Foshan University (佛山科學技術學院) in Guangdong Province in the PRC with a certificate in law in January 2009.

Mr. Han has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

Ms. Zhong Ruiqin (鍾瑞琴), aged 41, was appointed as the head of administration on 1 March 2016, and is responsible for the daily management of administrative and human resources matters of our Group.

Ms. Zhong has over 21 years of working experience. From July 1997 to December 2007 she worked at Haixin Kelong Electrical Appliance Company Limited* (海信科龍電器股份有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 0921 and currently known as Hisense Home Appliances Group Co., Ltd.), a company engaged in the manufacture of refrigerators, air conditioners, cooling cabinets and other white goods, as a quality control team leader, where she was responsible for managing product quality. Ms. Zhong joined Guangdong Sanvo in March 2013 as a member of the factory office and has been our head of administration since 1 March 2016. Ms. Zhong studied human resources at the Peking University in Beijing in the PRC and graduated with a diploma in June 2017.

Ms. Zhong has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhong was a legal representative of Foshan Shunde District Daliang Yiying Food Store* (佛山市順德區大良藝營食品店), a company established in the PRC and engaged in the sale of food and beverages which was deregistered in accordance with PRC laws in July 2010. She confirmed that there was no wrongful act on her part leading to the above deregistration and the deregistration of such company did not result in any liability or obligation being imposed against her and the relevant company was solvent at the time of deregistration.

Mr. Ai Shuyi (艾書毅), aged 38, was appointed as our head of production in October 2011 and is responsible for the daily management of our factories and production related matters of our Group.

Mr. Ai has over 20 years of experience in the production and manufacturing sector. From October 1998 to December 1999, he served as the maintenance technician of Sichuan Chongzhou City Pearl Water-proof Building Materials Company Limited* (四川崇州市明珠防水建築材料有限公司), a company engaged in glass asbestos tiles and asbestos fibers. From February 2000 to August 2002, he was the head of maintenance of Sichuan Chengdu Qianfeng Water Heater Company Limited* (四川成都前鋒熱水器有限公司), a company engaged in household electric and gas water heaters where he was responsible for overseeing installation works. From December 2002 to October 2003, he was the head of electronics installation and engineering of Sichuan Mechanical and Electrical Installation Engineering Company Limited* (四川機電安裝工程有限公司), a company engaged in electrical equipment installation where he was responsible for overseeing installation works. From January 2004 to September 2011, Mr. Ai worked at Guangdong Sanvo with his last position as the production manager where he was responsible for production management. Mr. Ai joined Guangdong Fuvo as the head of production in October 2011 and since August 2018 he has been a director of Guangdong Fuvo where he responsible for factory and production management. Mr. Ai graduated from Shunde Polytechnic* (順德職業技術學院) in Guangdong Province in the PRC with a diploma in business administration in June 2011.

In recognition of his contribution and achievement in the industrial chemical production sector, Mr. Ai was awarded the Top 10 Excellent Staff Model* (十佳優秀員工標兵) by the municipal government of Zhongshan in September 2010.

Mr. Ai has not been a director in any public company, the securities of which are listed on any securities market in Hong Kong or overseas over the past three years.

COMPANY SECRETARY

Mr. Ng Cheuk Lun was appointed as the company secretary of our Company on 8 August 2018.

Please refer to the subsection headed “Directors — Executive Directors” in this section for Mr. Ng’s biography.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration, including salaries, fees, discretionary bonuses and other allowances and benefits in kind, from our Group. Such remuneration of our Directors and senior management is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of emoluments (including salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 to those persons who have been or were our Directors was approximately RMB349,000, RMB458,000, RMB577,000 and RMB436,000, respectively.

The aggregate amount of emoluments (including salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 to the five highest paid individuals was approximately RMB678,000, RMB961,000, RMB1,016,000 and RMB730,000, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. During the Track Record Period, no compensation was paid by us to, or received by, our Directors or past Directors for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. No Director has waived or agreed to waive any emoluments during the Track Record Period.

Save as disclosed above, no other payments have been made or are payable in respect of the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 by any member of our Group to any of our Directors or the five highest paid individuals. Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending 31 December 2019 to be approximately RMB2,070,000.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the subsection headed “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus. The purpose of the Share Option Scheme is to enable us to grant options to selected participants to reward or incentivise their contribution to our Company. Our Directors believe that the Share Option Scheme would enable us to reward the selected participants and recognise their contributions to us.

BOARD COMMITTEES

Our Company currently has three committees under the Board, which are the audit committee, the remuneration committee, and the nomination committee. These committees operate in accordance with their respective terms of reference established by the Board.

Audit committee

We have established an audit committee pursuant to Board resolutions passed on 13 December 2019 with its written terms of reference in compliance with the requirements under 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 system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The audit committee of our Company consists of three members, namely Ir. Daniel Lai, Mr. Xu Kai and Mr. Yeung Chun Yue David. Mr. Yeung Chun Yue David currently serves as the chairman of the audit committee.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration committee

We have established a remuneration committee pursuant to Board resolutions passed on 13 December 2019 with its written terms of reference in compliance with the requirements under the Listing Rules. The primary duties of the remuneration committee are to make recommendations on the human resource management of our Group and review policies and structure of the remuneration of our Directors and management.

The remuneration committee of our Company consists of four members, namely Ir. Daniel Lai, Mr. Xu Kai, Mr. Yeung Chun Yue David and Mr. Ernest Chen. Ir. Daniel Lai currently serves as the chairman of the remuneration committee.

Nomination committee

We have established a nomination committee pursuant to Board resolutions passed on 13 December 2019 with its written terms of reference in compliance with the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management and succession planning for Directors in particular the chairman of the Board.

The nomination committee of our Company consists of four members, namely Ir. Daniel Lai, Mr. Xu Kai, Mr. Yeung Chun Yue David and Mr. Leo Chen. Mr. Xu Kai currently serves as the chairman of the nomination committee.

Board Diversity Policy

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

With regards to gender diversity on our Board, our Board diversity policy further provides that our Board shall take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments so as to achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing our Board to gender parity. Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant code governing Board diversity under the Corporate Governance Code. After Listing, our Nomination Committee will review our policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our policy on annual basis.

Our Group has intended to offer all-rounded trainings to female senior management who have experience in our operation and business, including but not limited to accounting and finance, legal, secretary and compliance and research and development, and our Board has planned to appoint at least one female member to our Board within three years after Listing. Our Directors are of the view that such strategy will offer chances for our Board to identify capable

DIRECTORS AND SENIOR MANAGEMENT

female senior management to be nominated as a member of the Board with an aim to providing our Board with a pipeline of female candidates to achieve gender diversity in our Board in the long run.

Our Board comprises six Directors, including three executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of educational background and experience, including overall management and strategic development, engineering, information technology, finance, accounting, tax advisory and company secretarial experiences in addition to manufacturing experiences. Furthermore, our Board has members with a wide range of age, ranging from 38 to 72 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Group, including but without limitation at the Board and the management levels of our Company. As at the Latest Practicable Date, we had one female member in the senior management team of our Group. While we recognise that the gender diversity at the Board level can be improved given its current composition of all male directors, such as to promote the female member of our senior management to a member of the Board at the appropriate time, we will continue to apply the principle of appointments based on merits with reference to our diversity policy as a whole.

Our nomination committee is responsible for ensuring the diversity of our Board. After the Listing, our nomination committee will review our board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of our board diversity policy in our corporate governance report on an annual basis.

COMPLIANCE ADVISER

We have appointed VBG Capital Limited to serve as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser is engaged to provide advice to us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Share Offer in a manner that is different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecasts, estimates or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares or any other matters.

The terms of appointment of the compliance adviser will commence on the Listing and end on the date when our Company distributes the annual report of its financial results for the first full financial year commencing after the Listing.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Except for the deviation from provision A.2.1 of the Corporate Governance Code, our Company has no material deviation from the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules as at the Latest Practicable Date. Provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ernest Chen is the chairman of the Board and the chief executive officer of our Company. In view that Mr. Ernest Chen has been assuming day-to-day responsibilities in operating and managing our Group, the Board believes that with the support of Mr. Ernest Chen's extensive experience and knowledge in the business of our Group, vesting the roles of both chairman and chief executive officer of our Company in Mr. Ernest Chen strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to our Group.

The Directors consider that the deviation from provision A.2.1 of the Corporate Governance Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for our Group's operations, and sufficient checks and balances are in place. The Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders as a whole. The Directors are aware that upon Listing, they are expected to comply with such code provisions. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in our Company's interim report and annual report in respect of the relevant period. Save as disclosed above, our Company will comply with the code provisions set out in the Corporate Governance Code after Listing.

EMPLOYEES

Please refer to the subsection headed "Business — Employees" in this prospectus for further details.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND BUSINESS STRATEGIES

Please refer to the subsection headed “Business — Our business strategies” in this prospectus for a detailed description of our Group’s business objectives and strategies and future plans.

USE OF PROCEEDS

The table below sets out the estimate of the net proceeds of the Share Offer which we will receive (after deduction of underwriting commissions and other estimated expenses in connection with the Share Offer payable by our Company) (the “**Net Proceeds**”):

Assuming an Offer Price of HK\$1.2 (being the low end of the indicative Offer Price Range)	Approximately HK\$66.6 million
Assuming an Offer Price of HK\$1.3 (being the mid-point of the indicative Offer Price Range)	Approximately HK\$75.2 million
Assuming an Offer Price of HK\$1.4 (being the high end of the indicative Offer Price Range)	Approximately HK\$83.7 million

We currently intend to apply the Net Proceeds (assuming an Offer Price of HK\$1.3, being the mid-point of the indicative Offer Price Range, after deduction of underwriting commissions and other estimated expenses in connection with the Share Offer) in the following manner:

- (i) approximately 80.0%, or HK\$60.2 million (equivalent to approximately RMB51.6 million), will be used for investment in our new manufacturing facility at the MV Production Site, including:
 - (a) *Purchase of production machinery and equipment*: installation of 22 new aerosol production lines and purchase of related new machinery and equipment, accounting for approximately 58.0%, or HK\$43.7 million (equivalent to approximately RMB37.4 million);
 - (b) *Land development*: in order to further develop and prepare the land on which our MV Production Site will be situated for construction and other purposes, we will need to carry out or procure the implementation of, primarily, phase two of our civil engineering projects, for example, land back-filling and road surface hardening, accounting for approximately 11.7%, or HK\$8.8 million (equivalent to approximately RMB7.5 million);
 - (c) *Setting up of new factory/construction*: in order to house our new machinery and equipment for production at our new manufacturing facility, we will need to carry out construction and renovation improvements, install necessary fittings (such as rainwater system, electrical wiring system and lightning protection facilities) and conduct surveying, accounting for approximately 5.6%, or HK\$4.2 million (equivalent to approximately RMB3.6 million);

FUTURE PLANS AND USE OF PROCEEDS

- (d) *Environmental engineering*: conducting of environmental assessment and installation and implementation of various environmental protection measures in accordance with PRC national and local environmental laws and regulations, accounting for approximately 3.3%, or HK\$2.5 million (equivalent to approximately RMB2.1 million); and
- (e) *Other miscellaneous uses*: implementation or carrying out of other actions ancillary to and necessary for the development and setting up of our MV Production Site, such as engagement of site designers and construction advisory services, accounting for approximately 1.3%, or HK\$1.0 million (equivalent to approximately RMB0.9 million).

For further details on and reasons for our relocation and expansion plan, please refer to the subsection headed “Business — Our operations — Manufacturing — Relocation to the MV Production Site and expansion plans” in this prospectus;

- (ii) approximately 10.0%, or HK\$7.5 million (equivalent to approximately RMB6.4 million), will be used for sales and marketing activities to enhance our brand recognition in the PRC and overseas. To this end, we intend to invest:
 - (a) approximately 7.1%, or HK\$5.3 million (equivalent to approximately RMB4.6 million) on placement of advertisements, including on television channels, in highspeed rail stations and on the internet;
 - (b) approximately 1.6%, or HK\$1.2 million (equivalent to approximately RMB1.0 million) on engagement of spokespersons for our brands; and
 - (c) approximately 1.3%, or HK\$1.0 million (equivalent to approximately RMB0.87 million) on participation in domestic and overseas exhibitions and promotions;
- (iii) the remaining amount of approximately HK\$7.5 million (equivalent to approximately RMB6.4 million), representing no more than 10.0% of the Net Proceeds, will be used for working capital and other general corporate purposes.

IMPLEMENTATION PLAN

The estimated amount of total capital expenditures to be expended in relation to our MV Production Site is approximately RMB235.0 million. As at the Latest Practicable Date, we had already expended an initial aggregate amount of approximately RMB92.2 million towards the development of the MV Production Site. We plan to use the Net Proceeds to finance the remaining capital expenditures in relation to our expansion plans, namely investing approximately HK\$60.2 million (equivalent to approximately RMB51.6 million) (representing approximately 80% of the Net Proceeds) in our new manufacturing facility at the MV Production Site.

FUTURE PLANS AND USE OF PROCEEDS

In relation to the intended application of the Net Proceeds described in paragraph (i) under the subsection headed “Use of proceeds” above, the following table sets out the intended amount and nature of our implementation plan for our MV Production Site:

Intended use	Further particulars	Approximate estimated total costs (RMB'million)	Approximate amount of costs settled as at the Latest Practicable Date (RMB'million)	Approximate amount of costs expected to be settled using the Net Proceeds (RMB'million)	Completion / Expected completion timing
Purchase of production machinery and equipment	<i>Area of MV Production Site</i> Production workshops				Second quarter of 2020
	<i>Type of machinery or equipment</i> Integrated production lines ^(Note)	18.7	0.0	18.7	
	Kettle equipment and related systems	9.3	0.0	0.0	
	Colouring machines	8.8	0.0	11.6	
	Sand mills and other related machinery	7.8	0.0	0.0	
	Racking machines	2.9	0.0	1.9	
	Air compressor and other related machinery	2.1	0.0	0.0	
	Platform and systems	1.7	0.0	3.4	
	Cooling systems	1.0	0.0	1.0	
	Air system	0.4	0.0	0.4	
	Warehouses				
	Transformers	3.5	0.0	0.0	
	Platform and systems	0.8	0.0	0.4	
	Other areas				
	Kettle and storage tank equipment	15.1	0.0	0.0	
	Piping systems	5.9	0.0	0.0	
	Sub-total	78.0	0.0	37.4	
Land development	Land costs and related tax expenses	47.0	47.0	0.0	Fourth quarter of 2014
	Land filling	3.9	2.6	0.0	Fourth quarter of 2019
	Phase one civil engineering projects	50.0	28.4	0.0	Fourth quarter of 2019
	Phase two civil engineering projects	20.0	8.9	0.0	Fourth quarter of 2019
	Land back-filling and road surface hardening	7.5	0.0	7.5	Second quarter of 2020
	Sub-total	128.4	86.9	7.5	

Note: The integrated production lines shall comprise machinery and equipment such as can unscramblers, ink jet printers, filling machines, inflator pumps, valve fitting machines, labelling machines and automatic packaging machines.

FUTURE PLANS AND USE OF PROCEEDS

Intended use	Further particulars	Approximate estimated total costs (RMB'million)	Approximate amount of costs settled as at the Latest Practicable Date (RMB'million)	Approximate amount of costs expected to be settled using the Net Proceeds (RMB'million)	Completion / Expected completion timing
Setting up of new factory/ construction	Surveying fees	0.6	0.4	0.0	Fourth quarter of 2019
	Supervisory services	0.5	0.2	0.0	Fourth quarter of 2019
	Construction and planning approvals	0.5	0.3	0.2	Second quarter of 2020
	Lightning protection facilities	0.4	0.0	0.0	Fourth quarter of 2019
	Electrical supply system	7.5	0.9	0.2	Fourth quarter of 2019 to second quarter of 2020
	Other miscellaneous renovation and improvements (including purchase of office furniture)	0.4	0.2	0.2	Second quarter of 2020
	Rainwater and other water-related systems	3.0	0.0	3.0	Second quarter of 2020
	Installation works	0.3	0.4	0.0	
	Sub-total		13.2	2.4	3.6
Environmental engineering	Environmental assessment	2.1	0.7	1.6	Second quarter of 2020
	Fire-fighting related equipment and facilities	6.0	1.1	0.0	Fourth quarter of 2019
	Environmental protection related equipment and facilities	4.0	0.0	0.0	Fourth quarter of 2019
	Safety and insurance	0.5	0.1	0.0	Fourth quarter of 2019
	Landscape engineering	0.5	0.0	0.5	Second quarter of 2020
Sub-total		13.1	1.9	2.1	
Others miscellaneous uses	Planning approval fees	0.5	0.2	0.0	Fourth quarter of 2019
	Site design	1.5	0.7	0.9	Second quarter of 2020
	Surveillance equipment	0.3	0.1	0.0	Fourth quarter of 2019
	Construction advisory	0.1	0.1	0.0	Second quarter of 2019
Sub-total		2.4	1.0	0.9	
Total		235.0	92.2	51.5	

FUTURE PLANS AND USE OF PROCEEDS

As at the Latest Practicable Date, the remaining capital expenditure to be spent towards the MV Production Site is in the amount of approximately RMB142.8 million. Of this, approximately HK\$60.2 million (equivalent to approximately RMB51.6 million) will be funded from the Net Proceeds, whereas the remaining amount will be funded by bank borrowings and our internally generated funds and resources.

The above allocation of proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the proposed Offer Price range.

To the extent that the Net Proceeds are not sufficient to fund the purposes of the Listing as set forth above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowings, as appropriate. Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/ or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the Net Proceeds are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we may hold such funds in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

We estimate that the Net Proceeds to the Selling Shareholder from the Sale Shares will be approximately HK\$8.4 million (equivalent to approximately RMB7.1 million) (to be received upon Listing and assuming the Offer Price is fixed at the mid-point of the indicative Offer Price range), after deducting the underwriting commissions and other estimated expenses in connection with the Share Offer payable by the Selling Shareholder. Our Company will not receive any proceeds from the Sale Shares in the Share Offer.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

VBG Capital Limited

SPDB International Capital Limited

Wealth Link Securities Limited

Great Roc Capital Securities Limited

Conrad Investment Services Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering 10,000,000 Public Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Subject to, among other matters:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus pursuant to the Share Offer (including any additional Shares that may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Public Offer Underwriting Agreement (including but not limited to the Offer Price being agreed upon between our Company and VBG (for itself and on behalf of the Underwriters),

the Public Offer Underwriters have agreed severally, and not jointly, to subscribe for or procure subscribers subscribe for, on the terms and conditions of this prospectus, the Application Forms relating thereto and the Public Offer Underwriting Agreement, their respective applicable portions of the Public Offer Shares now being offered for subscription under the Public Offer and which are not taken up under the Public Offer. If, for any reason, the Offer Price is not agreed between our Company and VBG (for itself and on behalf of the Underwriters), the Share Offer will not proceed and will lapse.

The Public Offer Underwriting Agreement is conditional upon and subject to, among others, the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares will be subject to termination by notice in writing to our Company from the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters, the Joint Lead Managers, the Co-Manager and the Sole Sponsor) with immediate effect if any of the following events occur at or before 8:00 a.m. (Hong Kong time) on the Listing Date:

- (i) there has come to the notice of the Sole Sponsor or the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters, the Joint Lead Managers and the Co-Manager) that:
 - (a) any statement contained in any of this prospectus, the Application Forms, and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation contained in any of the Relevant Documents, are not, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Underwriters), in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (b) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or
 - (c) any of the representations and warranties given by our Company or the Warranting Shareholders in this Agreement or the Placing Underwriting Agreement is (or would when repeated be) was or has become untrue, inaccurate or misleading or having been breached and which is considered by the Sole Sponsor to be material in the context of the Share Offer; or
 - (d) any breach of any of the obligations or undertaking imposed or to be imposed upon any party (other than the Sole Sponsor, the Joint Bookrunners or any of the Underwriters) to any of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
 - (e) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or is qualified (other than subject to customary conditions), or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (f) our Company withdraws any of the Relevant Documents or the Share Offer; or

UNDERWRITING

- (g) any matter, act or omission which gives or is likely to give rise to any liability of any of our Company or the Controlling Shareholders (the “**Warrantors**”) pursuant to the indemnities contained in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (h) any of the experts in relation to the Share Offer as set out under the subsection headed “Appendix V — Statutory and General Information — E. Other Information — 7. Consents of experts” in this prospectus has withdrawn its respective consent to being named in this prospectus or to the issue of this prospectus with the inclusion of their reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which they respectively appears; or
- (i) contravention by our Company of the Listing Rules or applicable Laws; or
- (j) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer for subscription and issue of the Shares) or any aspect of the Share Offer with the Listing Rules or any other applicable Laws or regulation; or
- (k) any change or development involving a prospective material adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“**Group Company**”); or
- (l) any material breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the warranties, indemnities, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Public Offer Underwriting Agreement; or
- (m) a significant portion of the orders in the bookbuilding process, which is considered by the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) in their absolute opinion to be material, at the time the Placing Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Bookrunners, in their sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or

UNDERWRITING

- (ii) there shall develop, occur, exist or come into effect:
 - (a) any change or development involving a prospective change in or any event or series of events resulting or likely to result in or representing any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock markets, money and foreign exchange markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any of the Relevant Jurisdictions; or
 - (b) any new laws(s), rule(s), statute(s), ordinance(s), regulation(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Relevant Jurisdictions; or
 - (c) any local, national, regional, international event or circumstance, or series of events or circumstances, in the nature of force majeure (including, without limitation, acts of government or orders of any courts, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of God, acts of terrorism (whether or not responsibility has been cleared), epidemic, outbreaks of diseases (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A(H5N1), Swine Flu(H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation) in or affecting any of Hong Kong, the PRC, BVI, Cayman Islands or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**”); or
 - (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (e) any moratorium, suspension or restriction or limitation in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq Global Market, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
 - (f) any general moratorium on commercial banking activities on any of the Relevant Jurisdictions declared by the relevant authorities, or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

UNDERWRITING

- (g) any change or development or event involving a prospective change in or affecting taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in or affecting any of the Relevant Jurisdictions or affecting an investment in the Shares; or
- (h) any material adverse change or development or event involving a prospective material adverse change in our Group's business, assets, liabilities, profit, losses, financial, trading performance, condition, position or prospects; or
- (i) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (j) other than with the approval or prior written consent of the Joint Bookrunners, the issue or requirement to issue by our Company of any supplement or amendment to the Prospectus (or to any other documents used in connection with the contemplated offer for subscription and issue of the Shares) pursuant to the Companies Ordinance, 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
- (k) an order or petition for the winding up or liquidation 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; or
- (l) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (m) any material litigation or claim being threatened or instigated against any Group Company or any of the Warrantors; or
- (n) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (o) a Director as set out in the section headed "Directors and Senior Management" in this prospectus 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
- (p) the chairman or chief executive officer of our Company vacating his or her office; or

UNDERWRITING

- (q) any governmental, regulatory or political body or organisation commencing any investigation or other action, announcing an intention to investigate or take other action, against any members of our Group; or
- (r) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer; or
- (s) a government or regulatory prohibition on our Company and/or the Selling Shareholder for whatever reason from allotting or issuing or selling the Shares pursuant to the terms of the Share Offer; or
- (t) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (u) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or

which, individually or in aggregate, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operation, position or condition, financial or otherwise, or performance of our Group as a whole; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing and/or make it impracticable or inadvisable for any part of the Public Offer Underwriting Agreement, the Public Offer or the Share Offer to be performed or implemented as envisaged or for the Share Offer to proceed or to market the Share Offer; or
- (c) has or will or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof in any material respect.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has irrevocably and unconditionally by undertaken to the Stock Exchange that, except pursuant to the Share Offer and the Share Option Scheme, no further 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 or arrangement 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 in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have irrevocably and unconditionally undertaken to the Stock Exchange and our Company that except pursuant to the Share Offer (including the sale of the Sale Shares) and the Share Option Scheme, it shall not, and shall procure that our close associates or companies controlled by us or our nominees or trustees (as the case may be) who is/are the registered holder(s) of the Shares as referred below shall not:

- (a) in the period commencing on the date by reference to which disclosure of his or her or its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, 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 Shares or securities of our Company in respect of which he or she or it is shown by this prospectus to be the beneficial owner(s) (the “**Relevant Securities**”); or
- (b) at any time during the period of six months commencing from the date on which the period referred to in paragraph (a) above 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, he or she or it would cease to be our Controlling Shareholder. Or would together with the other Controlling Shareholders cease to be, or regarded as, a group of Controlling Shareholders.

Each of our Controlling Shareholders have further irrevocably and unconditionally undertaken to us and the Stock Exchange that he or she or it will, within a period of commencing on the date by reference to which disclosure of his or her or 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) when it pledges or charges any Shares or securities of our Company beneficially owned by it, whether directly or indirectly, in favor of an authorized institution (as defined in the Banking Ordinance Chapter 155 of the Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or charge that any of our pledged or charged Shares or securities of our Company will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

UNDERWRITING

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the other Public Offer Underwriters that except pursuant to the Share Offer and the exercise of any options granted or to be granted under the Share Option Scheme, during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell 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 or create a pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; 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 any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

UNDERWRITING

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, 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, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken jointly and severally to each of the Stock Exchange, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager the other Public Offer Underwriters and our Company that, in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) shall not,
 - (a) offer, pledge, charge (other than any pledge or charge of our Company’s issued share capital after the Share Offer 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), 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 or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any of the Shares in respect of which such Shareholder is shown by this prospectus to be the beneficial owner (whether direct or indirect) (the “**Relevant 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 any Relevant Securities, or any interest in any Relevant Securities (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Relevant Securities); or

UNDERWRITING

- (c) enter into any transaction with the same economic effect as any transactions specified in sub-paragraphs (a) or (b) above; or
 - (d) agree or contract to, or announce any intention to effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he/she would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company;
 - (iii) in the event that it/he/she enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
 - (iv) it/he/she shall and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of the Stock Exchange, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager the other Public Offer Underwriters and our Company that, within the period from the date by reference to which disclosure of heir shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company 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
- (ii) when it/he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

UNDERWRITING

Underwriters' Interests in our Company

As at the Latest Practicable Date and save for their interests and obligations under the Underwriting Agreements, none of the Public Offer Underwriters was interested, directly or indirectly, in any shares or securities in any member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of our Group.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Public Offer Underwriting Agreement and Placing Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Placing

Placing

In connection with the Placing, we expect to enter into the Placing Underwriting Agreement on the Price Determination Date with, among others, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the Placing Shares or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. See the subsection headed "Structure of the Share Offer — The Placing" in this prospectus for further details.

Total Commission and Expenses

Our Company will pay VBG (for itself and on behalf of the other Underwriters) an underwriting commission at the rate of 10.0% on the aggregate Offer Price in respect of all the Public Offer Shares. The Joint Bookrunners may receive an additional incentive fee (which is only payable at the sole discretion at the Company) to be agreed between the Company and VBG (on behalf of the Public Offer Underwriters). For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners and the relevant Placing Underwriters, but not the Public Offer Underwriters.

Assuming an Offer Price of HK\$1.3 (being the mid-point of the Offer Price Range between HK\$1.2 and HK\$1.4), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Share Offer, to be borne by us are estimated to amount in aggregate to approximately HK\$41.8 million in total.

The Selling Shareholder will bear listing expenses of HK\$4.6 million in respect of the Sale Shares.

UNDERWRITING

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters (for themselves and on trust for their directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, 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 in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

STRUCTURE OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer comprises:

- (a) the Public Offer of initially 10,000,000 Offer Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the subsection headed “The Public Offer” of this section; and
- (b) the Placing of initially 90,000,000 Offer Shares, comprising 80,000,000 new Shares being initially offered by us for subscription and 10,000,000 Sale Shares being offered by the Selling Shareholder for Sale (subject to reallocation) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in reliance on Regulation S, as described in the subsection headed “The Placing” in this section.

Investors may either:

- apply for the Public Offer Shares under the Public Offer; or
- apply for or indicate an interest for the Placing Shares under the Placing,

but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

The 100,000,000 Offer Shares will represent approximately 23.4% of the enlarged issued share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account the shares which may be issued pursuant to the Share Option Scheme).

THE PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering 10,000,000 new Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the number of Offer Shares offered under the Public Offer will represent approximately 2.3% of the enlarged issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

STRUCTURE OF THE SHARE OFFER

Completion of the Public Offer is subject to the conditions as set out in the subsection headed “Conditions of the Share Offer” in this section.

Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based on the level of valid applications received under the Public Offer. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by applicants. We may, if necessary, allocate the Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Public Offer (after taking into account of any reallocation of Offer Shares between the Public Offer and the Placing) is to be divided equally into two pools:

- **Pool A:** The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon); and
- **Pool B:** The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy).

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 the Public Offer Shares in one (but not both) of the pool are under-subscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Public Offer Shares initially available under pool A or pool B will be rejected.

Multiple or suspected multiple applications and any application for more than 5,000,000 Public Offer Shares (being 50% of the Public Offer Shares initially available under the Public Offer) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation, in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules:

- (a) if the number of the Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to

STRUCTURE OF THE SHARE OFFER

be reallocated to the Public Offer from the Placing will be increased, so that the total number of the Offer Shares available under the Public Offer will be 30,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Share Offer;

- (b) if the number of the Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of the Offer Shares available under the Public Offer will be 40,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Share Offer; and
- (c) if the number of the Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then the number of Offer Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of the Offer Shares available under the Public Offer will be 50,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Share Offer.

In each case, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as VBG (for itself and on behalf of the Joint Bookrunners) deems appropriate.

In addition, VBG (for itself and on behalf of the Joint Bookrunners) shall have the discretion to reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered. According to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if (a) the Placing is undersubscribed and the Public Offer is fully subscribed or oversubscribed or (b) the Placing is fully subscribed or oversubscribed and the Public Offer is oversubscribed by less than 15 times of the total number of Offer Shares initially available under the Public Offer, then VBG (for itself and on behalf of the Joint Bookrunners) may only reallocate Offer Shares from the Placing to the Public Offer other than pursuant to Practice Note 18 of the Listing Rules on the following conditions in accordance with Guidance Letter HKEX-GL91-18 (the “**Allocation Cap**”):

- (i) the maximum total number of Shares that may be reallocated from the Placing to the Public Offer shall be not more than double the number of Public Offer Shares initially available under the Public Offer (i.e. 20,000,000 Offer Shares); and
- (ii) the final Offer Price shall be fixed at the bottom of the Offer Price Range stated in this prospectus.

If the Public Offer Shares are not fully subscribed, VBG (for itself and on behalf of the Joint Bookrunners) has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as VBG (for itself and on behalf of the Joint Bookrunners) deems appropriate. The Allocation Cap will not be triggered.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of VBG (for itself and on behalf of the Joint Bookrunners), subject to the clawback requirements set forth on Practice Note 18 of the Listing Rules and the Allocation Cap (as applicable).

STRUCTURE OF THE SHARE OFFER

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has 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 Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Placing Shares under the Placing.

Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.4 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$2,828.22 for every board lot of 2,000 Shares. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in "Pricing and Allocation", is less than the maximum price of HK\$1.4 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

THE PLACING

Number of Offer Shares initially offered

The number of the Offer Shares to be initially offered for subscription by our Company under the Placing will consist of 90,000,000 Offer Shares (comprising 80,000,000 new Shares and 10,000,000 Sale Shares), representing 90% of the total Offer Shares under the Share Offer. The Placing is subject to the Public Offer becoming unconditional.

Allocation

The Placing Shares will conditionally be offered to selected institutional, professional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to the Price Determination Date.

Allocation of the Placing Shares pursuant to the Placing will be determined by VBG (for itself and on behalf of the Joint Bookrunners) and will be based on a number of factors, including the level and timing of demand, the 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 buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole.

VBG (for itself and on behalf of the Underwriters) may require any investor who has been offered Placing Shares, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any applications of the Public Offer Shares under the Public Offer.

STRUCTURE OF THE SHARE OFFER

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described in the subsection headed “The Public Offer — Reallocation” in this section and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Wednesday, 8 January 2020, and in any event on or before Friday, 10 January 2020, by agreement between VBG (for itself and on behalf of the Underwriters), and our Company (for ourselves and on behalf of the Selling Shareholder) and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$1.4 per Offer Share and is expected to be not less than HK\$1.2 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.4 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share amounting to a total of HK\$2,828.22 for one board lot of 2,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.4, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refund amounts. See the section headed “How to Apply for the Public Offer Shares” in this prospectus for further details.

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the Price Determination Date.

VBG (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Public Offer and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the website of our Company (www.sanvo.com) and the website of the Stock Exchange (www.hkexnews.hk) a notice of the reduction. Upon issue of such a notice, the revised number of Offer Shares offered in the Public Offer and/or the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by VBG (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range.

STRUCTURE OF THE SHARE OFFER

As soon as practicable after such reduction in the number of Offer Shares and/or of the Offer Price range, we will (i) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Share Offer, including the change in the Offer Price and period of the Public Offer and the impact of such change on the sufficiency of working capital and use of proceeds; and (ii) extend the offer period to allow potential investors to have sufficient time to consider and to confirm their applications under an opt-in approach, that is, to positively confirm their applications for the Offer Shares in light of the change in the Offer Price.

If the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will not be allowed to subsequently withdraw their applications. However, if the number of Offer Shares and/or the Offer Price Range is reduced, applicants 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.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Public Offer and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offer. Such notice will also confirm or revise, as appropriate, the working capital statement, the Share Offer 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 such notice so published, the Offer Price, if agreed upon with our Company and VBG (for itself and on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event there is a reduction in the Offer Shares, VBG (for itself and on behalf of the Joint Bookrunners) may, at its discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer.

The final Offer Price, the indications of interest in the Placing, the results of applications and the basis of allotment of the Public Offer Shares available under the Public Offer, and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer are expected to be made available in a variety of channels in the manner described in the section headed “How to Apply for the Public Offer Shares — 11. Publication of Results” in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

- (a) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus (including the additional Offer Shares which may be made available pursuant to the exercise of the options which may be granted under the Share Option Scheme);
- (b) the Offer Price having been fixed on or about the Price Determination Date between our Company (for ourselves and on behalf of the Selling Shareholder) and VBG (for itself and on behalf of the Underwriters);
- (c) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and

STRUCTURE OF THE SHARE OFFER

- (d) the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement and the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Public Offer Underwriting Agreements and/or the Placing Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and VBG (for itself and on behalf of the Underwriters) on or before Friday, 10 January 2020, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by our Company on the website of our Company (www.sanvo.com) and the website of the Stock Exchange (www.hkexnews.hk) on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Public Offer Shares — 13. Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to, among other conditions, our Company (for ourselves and on behalf of the Selling Shareholder) and VBG (for itself and on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

We expect to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Certain terms of the underwriting arrangements, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement, are summarised in the section headed “Underwriting” in this prospectus.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 16 January 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 16 January 2020.

The Shares will be traded in board lots of 2,000 Shares each and the stock code is 301.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

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 Joint Bookrunners, 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

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form 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 apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

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 authorized 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 Joint Bookrunners may accept it at its discretion and on any conditions it thinks 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 Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For 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, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 December 2019 to 12:00 noon on Tuesday, 7 January 2020 from:

- (a) any of the following addresses of the Public Offer Underwriters:

VBG Capital Limited
18th Floor, Prosperity Tower
39 Queen's Road Central
Hong Kong

SPDB International Capital Limited
33/F, SPD Bank Tower
One Hennessy
1 Hennessy Road
Hong Kong

Wealth Link Securities Limited
Suite 1504, 15/F Bangkok Bank Building
28 Des Voeux Road Central
Central
Hong Kong

Great Roc Capital Securities Limited
44/F, Convention Plaza Office Tower
1 Harbour Road
Wanchai
Hong Kong

Conrad Investment Services Limited
23/F Tung Hip Commercial Building
244-248 Des Voeux Road Central
Sheung Wan
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) any of the following branches of CMB Wing Lung Bank Limited, the receiving bank for the Public Offer:

	Branch name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Central District Branch	189 Des Voeux Road Central
	North Point Branch	361 King's Road
Kowloon	Tsim Sha Tsui Branch	4 Carnarvon Road
	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 27 December 2019 until 12:00 noon on Tuesday, 7 January 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "CMB WING LUNG (NOMINEES) LIMITED — SANVO PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 27 December 2019: 9:00 a.m. to 5:00 p.m.
- Saturday, 28 December 2019: 9:00 a.m. to 1:00 p.m.
- Monday, 30 December 2019: 9:00 a.m. to 5:00 p.m.
- Tuesday, 31 December 2019: 9:00 a.m. to 5:00 p.m.
- Thursday, 2 January 2020: 9:00 a.m. to 5:00 p.m.
- Friday, 3 January 2020: 9:00 a.m. to 5:00 p.m.
- Saturday, 4 January 2020: 9:00 a.m. to 1:00 p.m.
- Monday, 6 January 2020: 9:00 a.m. to 5:00 p.m.
- Tuesday, 7 January 2020: 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 7 January 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" of this section.

The application for the Public Offer Shares will commence on Friday, 27 December 2019 through Tuesday, 7 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (a) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Sponsor and/or the Joint Bookrunners (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 Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) 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;
- (e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (f) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) 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 Offer Shares under the Placing nor participated in the Placing;
- (h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, 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;
- (i) 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 Joint Bookrunners 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 and the Application Form;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the 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 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;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorize 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 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 application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (p) 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;
- (q) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (s) (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 on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the 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 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 authorize 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.

Time for Submitting Applications under the White Form eIPO

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 Friday, 27 December 2019 until 11:30 a.m. on Tuesday, 7 January 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 7 January 2020 or such later time under the subsection headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, 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 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** 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.

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.

Section 40 of the 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 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).

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 “SANVO Fine Chemicals Group Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the 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 Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (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 you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct 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 Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners (or their agents or nominees) and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HKSCC Nominees will do the following things on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) HKSCC Nominees will do the following things on your behalf:
- agree that the 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 Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - 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 authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors, the Sole Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under 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/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, 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 Joint Bookrunners, the Underwriters and/or their respective advisers and agents;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 before the fifth day after the time of the opening of the application lists (excluding any day which is 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 Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is 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 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 gives a public notice under that section 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 Public Offer results;
- 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 the giving electronic application instructions to apply for Public Offer Shares;
- agree with our Company, for itself and on behalf 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 Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC 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, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following date⁽¹⁾:

Friday, 27 December 2019: 9:00 a.m. to 8:30 p.m.

Saturday, 28 December 2019: 8:00 a.m. to 1:00 p.m.

Monday, 30 December 2019: 8:00 a.m. to 8:30 p.m.

Tuesday, 31 December 2019: 8:00 a.m. to 8:30 p.m.

Thursday, 2 January 2020: 8:00 a.m. to 8:30 p.m.

Friday, 3 January 2020: 8:00 a.m. to 8:30 p.m.

Saturday, 4 January 2020: 8:00 a.m. to 1:00 p.m.

Monday, 6 January 2020: 8:00 a.m. to 8:30 p.m.

Tuesday, 7 January 2020: 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, 27 December 2019 until 12:00 noon on Tuesday, 7 January 2020 (24 hours daily, except on Tuesday, 7 January 2020, the last application day).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, 7 January 2020, the last application day or such later time as described in the subsection headed “10. Effect of bad weather on the opening of the application lists” in this section.

Note:

- (1) The time 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.

The application for the Public Offer Shares will commence on Friday, 27 December 2019 through Tuesday, 7 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Wednesday, 15 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Thursday, 16 January 2020.

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 Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of 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 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.

Section 40 of the 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 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).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, 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.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for 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, the Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Public Offer Shares.

HOW TO APPLY FOR THE 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 either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, 7 January 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC 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). 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 our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, 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 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).

For further details on the Offer Price, see the section headed “Structure of the Share Offer” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above; or
- 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 Tuesday, 7 January 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or announcements 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 Tuesday, 7 January 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal 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 Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 15 January 2020 (i) on our Company’s website at www.sanvo.com; and (ii) 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 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.sanvo.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 15 January 2020;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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” function on a 24-hour basis from 8:00 a.m. on Wednesday, 15 January 2020 to 12:00 mid-night on Tuesday, 21 January 2020;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 15 January 2020 to Saturday, 18 January 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 15 January 2020 to Friday, 17 January 2020 at all the receiving bank’s designated branches.

If our Company accepts your offer to purchase (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 Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure of the Share Offer” 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 Public Offer Shares will not be allotted to you:

(a) *If your application is revoked:*

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider, 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 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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.

(b) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor and the Joint Bookrunners, 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.

(c) If the allotment of Public Offer Shares is void:

The allotment of 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.

(d) 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) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- 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 or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Sponsor or the Joint Bookrunners believe 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% Public Offer Shares initially offered under the Public Offer.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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\$1.4 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the subsection headed “Structure of the Share Offer — Conditions of the Public Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 15 January 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS 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. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 15 January 2020. 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Share certificates will only become valid at 8:00 a.m. on Thursday, 16 January 2020 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section of 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

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or 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 Wednesday, 15 January 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 15 January 2020, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 15 January 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and 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 credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Wednesday, 15 January 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant’s stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 15 January 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(c) *If you apply through the White Form eIPO service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect 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 Wednesday, 15 January 2020, or such other date as notified by our Company in the newspapers 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 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 15 January 2020 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.

(d) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Public Offer Shares

For the purposes of allocating 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 Wednesday, 15 January 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 Public Offer in the manner specified in “Publication of Results” above on Wednesday, 15 January 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 15 January 2020 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 Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of 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 Wednesday, 15 January 2020. Immediately following the credit of the 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 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, SFC 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 Wednesday, 15 January 2020.

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 business 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 sole purpose of inclusion in this prospectus, from the independent reporting accountant, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong:

**Moore Stephens CPA Limited**

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moore.hk

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ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SANVO FINE CHEMICALS GROUP LIMITED AND VBG CAPITAL LIMITED**Introduction**

We report on the historical financial information of SANVO Fine Chemicals Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-83, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, the statement of financial position of the Company as at 31 December 2018 and 30 June 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 (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-4 to I-83 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 27 December 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2.2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's 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 accountant's judgement, 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 accountant considers 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 preparation and presentation set out in Note 2.2 to the Historical Financial Information 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, 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 purposes of the accountant's report, a true and fair view of the Group's consolidated financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the Company's financial position as at 31 December 2018 and 30 June 2019 and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2.2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub

Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2.2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub 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 Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2.2 to the Historical Financial Information.

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-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by subsidiaries of the Company and states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Moore Stephens CPA Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number: P05035
Hong Kong, 27 December 2019

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 accountant's report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Moore Stephens CPA Limited under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the 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 Comprehensive Income

	Notes	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	7	512,219	669,274	769,171	318,608	371,354
Cost of sales		(378,476)	(516,338)	(583,359)	(256,177)	(258,235)
Gross profit		133,743	152,936	185,812	62,431	113,119
Other income and gains	7	851	1,361	2,878	340	495
Gain from bargain purchase	37	—	—	4,847	4,847	—
Selling and distribution expenses		(60,050)	(72,711)	(90,238)	(38,135)	(48,843)
Administrative expenses		(37,988)	(47,076)	(62,163)	(25,106)	(37,628)
Listing expenses		—	(3,129)	(8,549)	(4,058)	(6,583)
Finance costs	8	(7,413)	(7,042)	(5,061)	(3,635)	(2,308)
Profit/(loss) before income tax	9	29,143	24,339	27,526	(3,316)	18,252
Income tax expense	11	(4,962)	(3,933)	(4,792)	(260)	(1,576)
Profit/(loss) for the year/period		24,181	20,406	22,734	(3,576)	16,676
Other comprehensive income/(loss)						
Item that will not be reclassified subsequently to profit or loss:						
Exchange differences arising on translation		—	—	188	600	(99)
Total comprehensive income/(loss) for the year/period		24,181	20,406	22,922	(2,976)	16,577
Profit/(loss) for the year/period attributable to:—						
Owners of the Company		23,145	19,189	24,333	(1,977)	16,676
Non-controlling interests		1,036	1,217	(1,599)	(1,599)	—
		24,181	20,406	22,734	(3,576)	16,676
Total comprehensive income/(loss) for the year/period attributable to:—						
Owners of the Company		23,145	19,189	24,521	(1,377)	16,577
Non-controlling interests		1,036	1,217	(1,599)	(1,599)	—
		24,181	20,406	22,922	(2,976)	16,577

Consolidated Statements of Financial Position

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	14	21,756	39,271	96,289	106,426
Prepaid lease payments	15	46,517	45,509	88,925	—
Right-of-use assets	16	—	—	—	96,409
Prepayments for acquisition of property, plant and equipment	18	5,477	6,201	3,636	9,510
Deferred tax assets	27	—	—	473	—
		<u>73,750</u>	<u>90,981</u>	<u>189,323</u>	<u>212,345</u>
Current assets					
Inventories	19	61,765	73,885	70,414	59,020
Trade and bills receivables, other receivables and prepayments	18	65,387	91,726	55,264	70,436
Amount due from a director	20	113,631	87,500	—	—
Financial assets at fair value through profit or loss	21	20,000	—	—	—
Pledged bank deposits	22	15,018	10,351	11,290	11,985
Cash and cash equivalents	22	21,272	40,405	18,818	45,857
		<u>297,073</u>	<u>303,867</u>	<u>155,786</u>	<u>187,298</u>
Current liabilities					
Trade and bills payables, accruals, contract liabilities and other payables	23	160,734	192,800	150,917	165,655
Lease liabilities	24	—	—	—	1,682
Interest-bearing bank borrowings	25	58,620	48,634	51,302	57,668
Amount due to a director	20	—	—	58,930	63,184
Tax payables		2,893	4,509	6,433	5,604
		<u>222,247</u>	<u>245,943</u>	<u>267,582</u>	<u>293,793</u>
Net current assets/(liabilities)		<u>74,826</u>	<u>57,924</u>	<u>(111,796)</u>	<u>(106,495)</u>
Total assets less current liabilities		<u>148,576</u>	<u>148,905</u>	<u>77,527</u>	<u>105,850</u>
Non-current liabilities					
Lease liabilities	24	—	—	—	4,744
Interest-bearing bank borrowings	25	76,012	65,801	43,616	51,352
Deferred income	26	1,838	1,800	1,762	1,742
Deferred tax liabilities	27	596	348	4,376	3,662
		<u>78,446</u>	<u>67,949</u>	<u>49,754</u>	<u>61,500</u>
Net assets		<u>70,130</u>	<u>80,956</u>	<u>27,773</u>	<u>44,350</u>

Consolidated Statements of Financial Position (Continued)

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
CAPITAL AND RESERVES					
Share capital	28	—	—	—*	—*
Reserves	29	66,738	76,752	27,773	44,350
Equity attributable to owners of the Company		66,738	76,752	27,773	44,350
Non-controlling interests		3,392	4,204	—	—
Total equity		70,130	80,956	27,773	44,350

* Less than RMB1,000

Statement of Financial Position of the Company

		As at 31 December 2018	As at 30 June 2019
	<i>Notes</i>	<u>RMB'000</u>	<u>RMB'000</u>
ASSETS AND LIABILITIES			
Non-current asset			
Investment in subsidiaries	17	1,228	1,228
Current assets			
Prepayments	18	241	5,615
Amounts due from subsidiaries	20	9,241	13,316
Cash and cash equivalents	22	5	8
		<u>9,487</u>	<u>18,939</u>
Current liabilities			
Accruals	23	589	2,285
Amount due to a director	20	2,880	17,304
Amount due to a subsidiary	20	1	1
		<u>3,470</u>	<u>19,590</u>
Net current assets/(liabilities)		<u>6,017</u>	<u>(651)</u>
Net assets		<u>7,245</u>	<u>577</u>
CAPITAL AND RESERVES			
Share capital	28	—*	—*
Reserves	29	7,245	577
Total equity		<u>7,245</u>	<u>577</u>

* Less than RMB1,000

Consolidated Statements of Changes in Equity

	Equity attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Translation reserve	Other reserves	Retained earnings			
	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000			
Balance at 1 January 2016	—	—	4,507	—	2,403	36,206	43,116	2,303	45,419
Profit and total comprehensive income for the year	—	—	—	—	—	23,145	23,145	1,036	24,181
Capital injection to subsidiaries by the controlling shareholder and a holder of non-controlling interest	—	—	477	—	—	—	477	53	530
Appropriation to safety reserve (Note 29)	—	—	—	—	1,383	(1,383)	—	—	—
Appropriation to statutory surplus reserve (Note 29)	—	—	—	—	302	(302)	—	—	—
Balance at 31 December 2016 and 1 January 2017	—	—	4,984	—	4,088	57,666	66,738	3,392	70,130
Profit and total comprehensive income for the year	—	—	—	—	—	19,189	19,189	1,217	20,406
Capital injection to a subsidiary by the controlling shareholder and a holder of non-controlling interest	—	—	90	—	—	—	90	10	100
Interim dividends (Note 12)	—	—	—	—	—	(9,265)	(9,265)	(415)	(9,680)
Appropriation to safety reserve (Note 29)	—	—	—	—	703	(703)	—	—	—
Appropriation to statutory surplus reserve (Note 29)	—	—	—	—	217	(217)	—	—	—
Balance at 31 December 2017	—	—	5,074	—	5,008	66,670	76,752	4,204	80,956

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Translation reserve	Other reserves	Retained earnings			Total
	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000			RMB'000
Balance at 1 January 2018	—	—	5,074	—	5,008	66,670	76,752	4,204	80,956
Profit/(loss) for the year	—	—	—	—	—	24,333	24,333	(1,599)	22,734
Other comprehensive income: Exchange differences arising on translation	—	—	—	188	—	—	188	—	188
Total comprehensive income/ (loss) for the year	—	—	—	188	—	24,333	24,521	(1,599)	22,922
Acquisition of interests in subsidiaries from non-controlling interests arising from the reorganisation	—	—	346	—	—	(2,573)	(2,227)	1,241	(986)
Consideration received from a shareholder for acquisition of subsidiaries arising from the reorganisation	—	—	—	—	—	667	667	—	667
Consideration paid to the controlling shareholder for acquisition of subsidiaries arising from the reorganisation	—	—	(5,420)	—	—	(16,616)	(22,036)	—	(22,036)
Issuance of share upon incorporation (Note 28(b))	—*	—	—	—	—	—	—	—	—
Issuance of shares arising from the reorganisation (Note 28(c))	—*	12,560	—	—	—	—	12,560	—	12,560
Interim dividends (Note 12)	—	—	—	—	—	(62,464)	(62,464)	(3,846)	(66,310)
Appropriation to safety reserve (Note 29)	—	—	—	—	6,162	(6,162)	—	—	—
Utilisation of safety reserve (Note 29)	—	—	—	—	(847)	847	—	—	—
Appropriation to statutory surplus reserve (Note 29)	—	—	—	—	643	(643)	—	—	—
Balance at 31 December 2018	—*	12,560	—	188	10,966	4,059	27,773	—	27,773

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Translation reserve	Other reserves	Retained earnings			Total
	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000			RMB'000
Balance at 1 January 2019	—*	12,560	—	188	10,966	4,059	27,773	—	27,773
Profit for the period	—	—	—	—	—	16,676	16,676	—	16,676
Other comprehensive loss: Exchange differences arising on translation	—	—	—	(99)	—	—	(99)	—	(99)
Total comprehensive (loss)/ income for the period	—	—	—	(99)	—	16,676	16,577	—	16,577
Appropriation to safety reserve (Note 29)	—	—	—	—	4,042	(4,042)	—	—	—
Utilisation of safety reserve (Note 29)	—	—	—	—	(928)	928	—	—	—
Appropriation to statutory surplus reserve (Note 29)	—	—	—	—	921	(921)	—	—	—
Balance at 30 June 2019	—*	12,560	—	89	15,001	16,700	44,350	—	44,350

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Translation reserve	Other reserves	Retained earnings			Total
	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000 (Note 29)	RMB'000			RMB'000
Balance at 1 January 2018	—	—	5,074	—	5,008	66,670	76,752	4,204	80,956
Loss for the period (unaudited)	—	—	—	—	—	(1,977)	(1,977)	(1,599)	(3,576)
Other comprehensive income: Exchange differences arising on translation (unaudited)	—	—	—	600	—	—	600	—	600
Total comprehensive income/(loss) for the period (unaudited)	—	—	—	600	—	(1,977)	(1,377)	(1,599)	(2,976)
Acquisition of interests in subsidiaries from non-controlling interests arising from the reorganisation (unaudited)	—	—	243	—	—	(1,007)	(764)	169	(595)
Consideration received from a shareholder for acquisition of subsidiaries arising from the reorganisation (unaudited)	—	—	—	—	—	270	270	—	270
Consideration paid to the controlling shareholder for acquisition of subsidiaries arising from the reorganisation (unaudited)	—	—	(5,317)	—	—	(3,397)	(8,714)	—	(8,714)
Issuance of share upon incorporation (unaudited) (Note 28(b))	—*	—	—	—	—	—	—	—	—
Issuance of shares arising from the reorganisation (unaudited) (Note 28(c))	—*	12,560	—	—	—	—	12,560	—	12,560
Interim dividends (unaudited) (Note 12)	—	—	—	—	—	(62,464)	(62,464)	(3,846)	(66,310)
Appropriation to safety reserve (unaudited) (Note 29)	—	—	—	—	4,373	(4,373)	—	—	—
Appropriation to statutory surplus reserve (unaudited) (Note 29)	—	—	—	—	237	(237)	—	—	—
Balance at 30 June 2018 (unaudited)	—*	12,560	—	600	9,618	(6,515)	16,263	(1,072)	15,191

* Less than RMB1,000

Consolidated Statements of Cash Flows

	Notes	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities						
Profit/(loss) before income tax		29,143	24,339	27,526	(3,316)	18,252
Adjustments for:—						
Amortisation of prepaid lease payments	9	1,008	1,008	1,913	681	—
Amortisation of deferred income	26	(38)	(38)	(38)	(19)	(20)
Bank interest income	7	(201)	(318)	(260)	(104)	(151)
Depreciation of property, plant and equipment	9	2,140	2,743	6,152	1,860	4,363
Depreciation of right-of-use assets	9	—	—	—	—	2,131
Net loss/(gain) on disposal of property, plant and equipment	9	—	—	1	—	(24)
Written off of property, plant and equipment	9	—	—	425	—	—
Gain on disposal of financial assets at fair value through profit or loss	7	—	(22)	—	—	—
Interest expense	8	7,413	7,042	5,061	3,635	2,308
Gain from bargain purchase	37	—	—	(4,847)	(4,847)	—
Operating profit/(loss) before working capital changes		39,465	34,754	35,933	(2,110)	26,859
(Increase)/decrease in inventories		(37,845)	(12,120)	28,933	8,503	11,394
Decrease/(increase) in trade and bills receivables, other receivables and prepayments		5,178	(26,339)	43,719	55,332	(17,535)
Increase/(decrease) in trade and bills payables, accruals, contract liabilities and other payables		81,336	32,066	(104,076)	(49,498)	14,738
Cash generated from operations		88,134	28,361	4,509	12,227	35,456
Income tax paid		(10,511)	(2,565)	(2,895)	(5,076)	(2,646)
Net cash generated from operating activities		77,623	25,796	1,614	7,151	32,810

Consolidated Statements of Cash Flows (Continued)

	Notes	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Cash flows from investing activities						
Bank interest received		201	318	260	104	151
Proceeds from disposal of property, plant and equipment		—	—	2,259	—	121
Receipts of deferred income (Acquisition)/redemption of financial assets at fair value through profit or loss	26	1,914	—	—	—	—
Payments for acquisition of property, plant and equipment (Note (i))		(20,000)	20,022	—	—	—
Payments for acquisition of prepaid lease payments	15	—	—	(23,772)	(23,772)	—
Net cash outflow arising on acquisition of Sanvo Holdings (Advance to)/repayment from a director	37	—	—	(11,569)	(11,569)	—
(Increase)/decrease in pledged bank deposits		(44,748)	26,131	87,500	87,500	—
Prepayments for acquisition of property, plant and equipment		(13,715)	4,667	(939)	(2,906)	(695)
		(3,252)	(5,019)	(971)	(1,258)	(6,961)
Net cash (used in)/generated from investing activities		(92,038)	30,603	23,053	33,399	(19,641)
Cash flows from financing activities						
Capital injection to subsidiaries by the controlling shareholder and a holder of non-controlling interests		530	100	—	—	—
Payments for acquisition of interests in subsidiaries from non-controlling interests arising from the reorganisation		—	—	(986)	(595)	—
Proceeds for acquisition of subsidiaries from a shareholder arising from the reorganisation		—	—	667	270	—
Payments for acquisition of subsidiaries from the controlling shareholder arising from the reorganisation		—	—	(22,036)	(8,714)	—
Proceeds from issuance of shares arising from the reorganisation		—	—	12,560	12,560	—
Proceeds from interest-bearing bank borrowings		131,461	43,045	88,315	81,616	42,953
Repayment of interest-bearing bank borrowings		(124,110)	(63,242)	(107,832)	(90,976)	(28,851)
Advances from a director		—	—	55,555	58,901	4,254
Payment of lease liabilities	24	—	—	—	—	(1,035)
Interest paid		(7,413)	(7,489)	(6,375)	(4,040)	(3,352)
Dividends paid		—	(9,680)	(66,310)	(66,310)	—
Net cash generated from/(used in) financing activities		468	(37,266)	(46,442)	(17,288)	13,969

Notes	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net (decrease)/increase in cash and cash equivalents	(13,947)	19,133	(21,775)	23,262	27,138
Cash and cash equivalents at beginning of the year/period	35,219	21,272	40,405	40,405	18,818
Effect of foreign exchange rate changes	—	—	188	600	(99)
Cash and cash equivalents at end of the year/period	<u>21,272</u>	<u>40,405</u>	<u>18,818</u>	<u>64,267</u>	<u>45,857</u>

* Less than RMB1,000

Non-cash transaction:

- (i) During the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, additions of property, plant and equipment of approximately RMB330,000, RMB4,295,000, RMB5,829,000, RMB3,340,000 and RMB1,087,000, respectively were prepaid in prior years respectively and the amounts were transferred from prepayments for acquisition of property, plant and equipment.

II. NOTES TO HISTORICAL FINANCIAL INFORMATION OF THE GROUP**1. Corporate information**

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 12 April 2018. The registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company's principal place of business is located at Dacen Industrial Park, Huangpu District, Zhongshan City, Guangdong, the PRC.

The Company is an investment holding company. The principal activity of the Group is researching, developing, manufacturing and sales of hardware and building materials and automotive maintenance industrial chemical products in the People's Republic of China (the "PRC").

Immediately after the reorganisation (the "Reorganisation") described in Note 2.1, in the opinion of the directors of the Company, the ultimate holding company is changed to SANVO Fine Chemicals Limited ("Sanvo Fine Chemicals"), a company incorporated in the British Virgin Islands (the "BVI"). Mr. Chen Bingqiang ("Mr. Ernest Chen"), being the controlling shareholder of all the subsidiaries before the Reorganisation, other than Guangdong Sanvo Holdings Co., Limited* (廣東三和控股有限公司) ("Sanvo Holdings") which was acquired by the Group on 27 April 2018 (the "Acquisition"), and is the sole shareholder of the ultimate holding company after the Reorganisation, is the ultimate controlling shareholder during the Track Record Period and before and after the Reorganisation.

As at the end of each reporting period, no statutory financial statements have been prepared for the Company since its date of incorporation as it has not been involved in any significant business transactions except for the Reorganisation described in Note 2.1.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are companies with limited liability. The particulars of which are set out as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Particulars of issued and fully paid-up share capital/registered capital	Attributable equity interest of the Group			Principal activities and place of operation	
			At 31 December				At 30 June
			2016	2017	2018		2019
Directly held:							
Olive Woods Investments Limited ("Olive Woods") (Note (a))	The BVI 12 December 2017	United States Dollar ("US\$") 1	N/A	100%	100%	100	Investment holding
Integrity Knights Group Limited ("Integrity Knights") (Note (a))	The BVI 25 April 2018	US\$100	N/A	N/A	100%	100	Investment holding
Indirectly held:							
Guangdong Sanvo Chemical Industry Technology Limited* (廣東三和化工科技有限公司) ("Guangdong Sanvo") (Note (b))	The PRC 9 April 2002	RMB1,380,000	94%	94%	100%	100	Researching, developing, manufacturing and sales of chemical products in the PRC
Guangdong Fuvo Industrial Co., Limited* (廣東阜和實業有限公司) ("Guangdong Fuvo") (Note (b))	The PRC 28 October 2001	RMB1,380,000	100%	100%	100%	100	Researching, developing, manufacturing and sales of chemical products in the PRC
Guangdong Shunde Sanvo Chemical Industry Technology Limited* (廣東順德三和化工有限公司) ("Shunde Sanvo") (Note (b))	The PRC 20 March 2003	RMB500,000	90%	90%	100%	100	Researching, developing, manufacturing and sales of chemical products in the PRC
Zhongshan Minhe Chemical Industry Technology Limited* (中山市珉和化工科技有限公司) ("Zhongshan Minhe") (Note (c))	The PRC 24 January 2013	RMB1,030,000	90%	90%	100%	100	Manufacturing and sales of chemical products in the PRC
Guangdong Fullteam Chemicals Limited* 廣東美田化學有限公司 ("Guangdong Fullteam") (Note (d))	The PRC 8 December 2014	RMB1,130,000	90%	90%	100%	100	Dormant
Zhongshan Fullteam Chemicals Limited* 中山美田化學有限公司 ("Zhongshan Fullteam") (Notes (d) and (f))	The PRC 6 February 2018	RMB5,040,000	N/A	N/A	100%	N/A	Investment holding
Sanvo Holdings (Note (b))	The PRC 2 June 2000	RMB22,864,000	0% (Note (e))	0% (Note (e))	100% (Note (e))	100	Researching, developing, manufacturing and sales of chemical products in the PRC
OWHK Limited ("OWHK") (Note (d))	Hong Kong 29 December 2017	Hong Kong Dollar ("HK\$") 1	N/A	100%	100%	100	Investment holding
American Sanvo Chemical Technology Holdings Limited ("American Sanvo") (Note (d))	Hong Kong 25 May 2018	HK\$10,000	N/A	N/A	100%	100	Investment holding
French Fullteam Chemicals Group Limited ("French Fullteam") (Note (d))	Hong Kong 25 May 2018	HK\$10,000	N/A	N/A	100%	100	Dormant

* The English names of the subsidiaries established in the PRC represent management's best effort at translating the Chinese names of such subsidiaries as no English name have been registered.

Notes:

- (a) No audited financial statements have been prepared for these companies since their respective dates of incorporation as they are not subject to statutory audit requirements under their places of incorporation.
- (b) The statutory financial statements of these companies for the year ended 31 December 2016 were audited by Zhongshan City Zhongzheng Union CPA Co., Ltd. (中山市中正聯合會計師事務所有限公司), a firm of certified public accountants registered in the PRC, while the statutory financial statements of these companies for the years ended 31 December 2017 and 2018 were audited by Guangdong New Xianghe Certified Public Accountants Co., Ltd. (廣東新祥和會計師事務所有限公司), a firm of certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with relevant accounting principles and accounting rules applicable to enterprises established in the PRC.
- (c) No audited financial statements have been prepared for this company for the year ended 31 December 2016 in accordance with statutory audit requirements under its place of incorporation as it was not involved significant business transactions. The statutory financial statements of this company for the years ended 31 December 2017 and 2018 were audited by Guangdong New Xianghe Certified Public Accountants Co., Ltd. (廣東新祥和會計師事務所有限公司), a firm of certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with relevant accounting principles and accounting rules applicable to enterprises established in the PRC.
- (d) No audited financial statements have been prepared for these companies since their respective dates of incorporation.
- (e) Entire equity interest in Sanvo Holdings was acquired by the Group on 27 April 2018 (Note 37).
- (f) Zhongshan Fullteam was deregistered on 26 March 2019 and its impact to the audited financial statements is insignificant.

2. Group reorganisation and basis of preparation and presentation**2.1 Group reorganisation**

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing of the shares of the Company on the Stock Exchange. Immediately prior to the Reorganisation and during the Track Record Period, the business of the Group was operated by Guangdong Sanvo, Guangdong Fuvo, Shunde Sanvo and Zhongshan Minhe (collectively, the "Existing Operating Subsidiaries"). On 27 April 2018, the Group further expanded its business by acquisition of entire equity interest in Sanvo Holdings. The Reorganisation involved the followings:

Acquisition of Guangdong Fullteam by Guangdong Fuvo

On 2 February 2018, Mr. Ernest Chen and Mr. Chen Bingyao ("Mr. Leo Chen") transferred their interests of 89% and 10% respectively in Guangdong Fullteam to Guangdong Fuvo, at a consideration of RMB1,006,000 and RMB113,000 respectively, which was determined based on the then unaudited net asset value of Guangdong Fullteam as at 31 December 2017. Subsequent to such transfer, Guangdong Fullteam was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.

Acquisition of Shunde Sanvo by Guangdong Sanvo

On 2 February 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their interests of 90% and 10% respectively in Shunde Sanvo to Guangdong Sanvo, at a consideration of RMB745,000 and RMB83,000 respectively, which was determined based on the then unaudited net asset value of Shunde Sanvo as at 31 December 2017. Subsequent to such transfer, Shunde Sanvo was wholly owned by Guangdong Sanvo.

Acquisition of Zhongshan Fullteam by Guangdong Fullteam

On 3 May 2018, Mr. Ernest Chen and Mr. Leo Chen transferred their interests of 90% and 10% respectively, in Zhongshan Fullteam to Guangdong Fullteam, at a consideration of RMB1 and RMB1 respectively. Subsequent to such transfer, Zhongshan Fullteam was wholly owned by Guangdong Fullteam.

Acquisition of Guangdong Sanvo by Guangdong Fuvo

On 15 May 2018, Mr. Ernest Chen and Ms. Liang Yinqi ("Ms. Liang") transferred their interests of 93.2% and 5.8% respectively in Guangdong Sanvo to Guangdong Fuvo, at a consideration of approximately RMB6,416,000 and RMB399,000 respectively, which was determined based on the then unaudited net asset value of Guangdong Sanvo as at 31 December 2017. Subsequent to such transfer, Guangdong Sanvo was owned as to 99% by Guangdong Fuvo and 1% by Mr. Ernest Chen.

Incorporation of Sanvo Fine Chemicals

On 16 April 2015, Sanvo Fine Chemicals was incorporated as a limited liability company under the laws of BVI with authorized shares of US\$1.00 each. The business of Sanvo Fine Chemicals is investment holding. On 16 April 2015, one share in Sanvo Fine Chemicals was allotted and issued to Mr. Ernest Chen at par value. After such allotment, Sanvo Fine Chemicals was wholly owned by Mr. Ernest Chen.

Incorporation of Olive Woods

On 12 December 2017, Olive Woods was incorporated as a limited liability company under the laws of BVI with 50,000 authorized shares of US\$1.00 each. The business of Olive Woods is investment holding. On 20 December 2017, one share in Olive Woods was allotted and issued to Mr. Victor Heng at par value. After such allotment, Olive Woods was wholly owned by Mr. Victor Heng.

Incorporation of OWHK

On 29 December 2017, OWHK was incorporated as a limited liability company under the laws of Hong Kong. The business of OWHK is investment holding. On 21 December 2017, one share in OWHK was allotted and issued to Olive Woods. After such allotment, OWHK was wholly owned by Olive Woods.

Acquisition of Guangdong Fuvo and Zhongshan Minhe by OWHK

On 26 June 2018, Mr. Ernest Chen transferred his 10% interest in Guangdong Fuvo to OWHK at a consideration of RMB277,000, which was determined based on the valuation report of Guangdong Fuvo as at 30 April 2018. Subsequent to such transfer, Guangdong Fuvo was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Guangdong Fuvo became a sino-foreign joint venture enterprise.

On 5 July 2018, Mr. Leo Chen transferred his 10% interest in Zhongshan Minhe to OWHK at a consideration of RMB390,000, which was determined based on the valuation report of Zhongshan Minhe as at 30 April 2018. Subsequent to such transfer, Zhongshan Minhe was owned as to 90% by Mr. Ernest Chen and 10% by OWHK and Zhongshan Minhe became a sino-foreign joint venture enterprise.

Incorporation of the Company as a listing vehicle

On 12 April 2018, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of par value of HK\$0.01 each. At the time of the incorporation, Reid Services Limited subscribed for one share in the capital of the Company. On the same date, the said issued one share in the capital of the Company was transferred to Sanvo Fine Chemicals at par value. Further, on the same date, 95 shares and 4 shares in the capital of the Company were subscribed for and allotted to Sanvo Fine Chemicals and Mr. Victor Heng at par value, respectively. Upon such transfer and allotment, the Company was owned as to 96% and 4% respectively by Sanvo Fine Chemicals and Mr. Victor Heng.

Incorporation of Integrity Knights, American Sanvo and French Fullteam

On 25 April 2018, Integrity Knights was incorporated as a company with limited liability under the laws of BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each of a single class. The business of Integrity Knights is investment holding. On 25 April 2018, 100 share in Integrity Knights was allotted and issued to the Company at par value. After such allotment, Integrity Knights was wholly owned by the Company.

On 15 May 2018, American Sanvo was incorporated as a limited liability company under the laws of Hong Kong. The business of American Sanvo covers the trading business regarding the sale of fine industrial chemical products on an OEM basis. On the same day, one share in American Sanvo was allotted and issued to Integrity Knights. After such allotment, American Sanvo was wholly owned by Integrity Knights.

On 25 May 2018, French Fullteam was incorporated as a limited liability company under the laws of Hong Kong. The business of French Fullteam is investment holding. On the same day, one share in French Fullteam was allotted and issued to Integrity Knights. After such allotment, French Fullteam was wholly owned by Integrity Knights.

Acquisition of Olive Woods by the Company

On 23 July 2018, Mr. Victor Heng transferred his entire interest in Olive Woods to the Company at a consideration of RMB1,277,000, which was determined after arm's length negotiation between the parties and as part of the arrangement under the investment by Mr. Victor Heng. Subsequent to such transfer, Olive Woods was wholly-owned by the Company.

Acquisition of Guangdong Fuvo and Zhongshan Minhe by American Sanvo

On 10 August 2018 and 7 August 2018 respectively, as part of the Reorganisation, Mr. Ernest Chen transferred his 90% interest in each of Guangdong Fuvo and Zhongshan Minhe to American Sanvo at an aggregate consideration of RMB11,300,000. Subsequent to such transfers, Guangdong Fuvo and Zhongshan Minhe were each owned as to 90% by American Sanvo.

2.2 Basis of preparation and presentation

The Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related interpretations issued by the International Accounting Standards Board ("IASB"). The Historical Financial Information also comply with the applicable disclosure requirements of the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Historical Financial Information has been prepared on the historical cost basis except for financial assets at fair value through profit or loss ("FVTPL").

The Group has net current liabilities of approximately RMB106,495,000 as at 30 June 2019. Besides, the Group's total current interest-bearing bank borrowings as at 30 June 2019 amounted to approximately RMB57,668,000, while its cash and cash equivalents amounted to approximately RMB45,857,000 as at the same date.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. As at 30 June 2019, the Group had unutilised banking facilities of approximately RMB31,210,000 and the Group obtained a letter of intent from a financial institution which is willing to make available a line of credit of HK\$150,000,000 (equivalent to approximately RMB131,813,000) to the Group subsequent to 30 June 2019. Also, other than the amount due to Mr. Ernest Chen of RMB30,000,000 which was settled with cash in August 2019, the remaining amount due to Mr. Ernest Chen of RMB33,184,000 was capitalised on 31 October 2019 as a contribution from Mr. Ernest Chen in equity of the Group subsequent to 30 June 2019.

Taking into account the unutilised facilities, capitalisation of amount due to Mr. Ernest Chen as a contribution from an ultimate controlling shareholder and after assessing the Group's current and future cash flow positions, the directors of the Company are satisfied that the Group will be able to meet their financial obligations when they fall due. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the Historical Financial Information 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 write down the carrying amounts of assets to their estimated recoverable amounts, to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, and to provide for any further liabilities which may arise. The effects of these adjustments have not been reflected in the Historical Financial Information.

Immediately prior to the Reorganisation and during the Track Record Period, the business of the Group was conducted mainly through the Existing Operating Subsidiaries.

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 3 August 2018. The Reorganisation is merely a reorganisation of the business of the Group with no change in management and the ultimate owners of the business remain substantially the same. The Group is regarded as a continuing entity resulting from the Reorganisation since the insertion of the Company and immediate holding companies as the new holding companies at the top of the Existing Operating Subsidiaries has no commercial substance and does not form a business combination. Accordingly, the Historical Financial Information has been prepared using the principles of merger accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence except for the acquisition of Sanvo Holdings.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of companies within the Group as if the current group structure had been in existence throughout the Track Record Period, or since their date of establishment, incorporation or acquisition, where applicable. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates taking into account the respective date of establishment, incorporation or acquisition, where applicable.

Except for the acquisition of Sanvo Holdings by the Group which is using the acquisition method of accounting which is described in Note 4.2, the assets and liabilities of the companies comprising the Group are consolidated using their existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the Reorganisation.

All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

Non-controlling interests represent the equity in the subsidiaries not attributable directly or indirectly to the owner of the Company and are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owner of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income between non-controlling interests and the owner of the Company.

It should be noted that accounting estimates and assumptions have been used in preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are set out in Note 5 "Significant accounting judgements and estimates".

3. Adoption of new and revised IFRSs

(a) New and revised IFRS not yet adopted

At the date of this report, certain new and revised IFRSs have been issued but are not yet effective, and have not been applied early by the Group.

		Effective for annual reporting periods beginning on or after
IFRS 10 and IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined*
IAS 1 and IAS 8 Amendments	Definition of Material	1 January 2020
IFRS 3 Amendments	Definition of a Business	1 January 2020
Conceptual Framework Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

* On 17 December 2015, the IASB issued "Effective Date of Amendments to IFRS 10 and IAS 28". This update defers the effective date of the amendments in "*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*" that the IASB issued in September 2014. Early application of these amendments continues to be permitted.

The Group has already commenced an assessment of the related impact of adopting the above new and revised IFRSs. So far, it has concluded that the above new and revised IFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group.

The IASB has issued a number of new and revised IFRSs which were relevant to the Group and became effective during the Track Record Period. In preparing the Historical Financial Information, the Group has applied all these new and revised IFRSs which are effective for the Group's accounting period beginning on 1 January 2019, consistently throughout the Track Record Period to the extent required or allowed by transitional provisions in the IFRSs, except that the Group adopted IFRS 16 *Lease* on 1 January 2019 and applied IAS 17 *Lease* prior to 1 January 2019.

(b) Changes in accounting policy

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance of equity at 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 were ranging from 5.3% to 6.7%.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018 (<i>Note 30(b)</i>)	15,645
Discounted using the lessees' incremental borrowing rates at the date of initial application	(8,368)
Less: short-term leases recognised on a straight-line basis as expense	<u>(25)</u>
Lease liability recognised as at 1 January 2019	<u>7,252</u>
Of which are:	
Current lease liabilities	1,679
Non-current lease liabilities	<u>5,573</u>
	<u>7,252</u>

The associated right-of-use assets for properties and land were measured at the amount equal to the lease liability, adjusted by the amounts of any prepaid lease payments relating to the land leases recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position. This includes the land use rights recognised previously under prepaid lease payments of approximately RMB91,288,000 as at 31 December 2018 that were reclassified to right-to-use assets upon the adoption of IFRS 16 for the presentation purpose.

As at 1 January 2019, the right-of-use assets were remeasured as follow:

	<i>RMB'000</i>
Lease liabilities at 1 January 2019	7,252
Prepaid lease payments as at 31 December 2018	<u>91,288</u>
Right-of-use assets at 1 January 2019	<u>98,540</u>

As at 1 January 2019, the recognised right-of-use assets relate to the following types of assets:

	<i>RMB'000</i>
Properties	4,157
Land	<u>94,383</u>
	<u>98,540</u>

Under the transition methods chosen, the Group has recognised cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance of equity at 1 January 2019. Comparative information is not restated. Line items that were not affected by the changes have not been included in the following table. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The change in accounting policy affected the following items in the consolidated statement of financial position as at 1 January 2019:

	At 31 December 2018 RMB'000	Impact of initial application of IFRS 16 RMB'000	At 1 January 2019 RMB'000
Prepaid lease payments	88,925	(88,925)	—
Right-of-use assets	—	98,540	98,540
Total non-current assets	189,323	9,615	198,938
Trade and bills receivables, other receivables and prepayments	55,264	(2,363)	52,901
Total current assets	155,786	(2,363)	153,423
Lease liabilities	—	(1,679)	(1,679)
Total current liabilities	(267,582)	(1,679)	(269,261)
Net current liabilities	(111,796)	(4,042)	(115,838)
Total assets less current liabilities	77,527	5,573	83,100
Lease liabilities	—	(5,573)	(5,573)
Total non-current liabilities	(49,754)	(5,573)	(55,327)

The initial application of IFRS 16 does not have impact on reserves.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Accounting policies resulting from application of IFRS 16 are disclosed in Note 4.6.

4. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the Historical Financial Information are summarised below. These policies have been consistently applied to all the years/periods presented unless otherwise stated.

4.1 Basis of consolidation and subsidiaries

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Track Record Period. As explained in Note 2.2 above, the Reorganisation is accounted for using merger basis of accounting.

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Historical Financial Information. 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.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the owners of the Company.

4.2 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in the consolidated statements of comprehensive income as a bargain purchase gain.

After initial recognition, goodwill is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statements of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating units (group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of cash-generating units) and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

4.3 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

Depreciation is provided on the straight-line method, based on the estimated economic useful life of the individual asset, as follows:—

Buildings	2% to 5% per annum, or over the term of leases if shorter
Leasehold improvements	10% to 33% per annum, or over the term of the leases if shorter
Plant and machinery	9% to 25% per annum
Furniture, fixtures and office equipment	10% to 33% per annum
Motor vehicles	18% to 25% per annum

No depreciation is provided for construction in progress until such time as the relevant assets are completed and available for intended use. Construction in progress are transferred to the relevant categories of property, plant and equipment upon the completion of their respective construction.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statements of comprehensive income in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation methods, estimated useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.4 Financial instruments

Financial assets

(a) Classification

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

Management determines the classification of its financial assets at initial recognition. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held.

If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's financial assets comprise of trade and bills receivables, other receivables, amount due from a director, financial assets at FVTPL, pledged bank deposits and cash and cash equivalents. The Company's financial assets comprise of amount due from a subsidiary and cash and cash equivalents.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and gains. Impairment losses are recognised directly in profit or loss and presented in administrative expenses.
- FVTPL: Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(d) *Impairment of financial assets*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of trade receivables is described in Note 18.

Financial liabilities

The Group's financial liabilities include trade and bills payables, accruals and other payables, amount due to a director and interest-bearing bank borrowings. The Company's financial liabilities include accruals and amounts due to a director and subsidiaries. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, net of transactions costs incurred and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expired.

4.5 Impairment of non-financial assets

Where an indication of impairment exists (other than inventories), the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of the value in use of the asset or cash-generating unit to which it belongs and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in the consolidated statements of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the consolidated statements of comprehensive income in the year/period in which it arises.

4.6 Leased assets

Leased assets from 1 January 2019

The Group leases properties and land for its operations. Rental contracts are typically made for fixed period of 1 to 49 years. Lease terms are negotiated on an individual basis and do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation is recorded in the consolidated statements of comprehensive income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. The lease liabilities are recognised separately in current and non-current liabilities in the consolidated statement of financial position.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, lease payment made at or before the commencement date and any initial direct cost.

Leased assets prior to 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges

Where the Group has use of assets held under operating leases, payments made under the leases are charged to the profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated statements of comprehensive income as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to the profits or loss in the accounting period in which they are incurred.

4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

4.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average cost basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4.9 Revenue recognition

Revenue from sales of hardware and building materials and automotive maintenance industrial chemical products

Timing of recognition: The Group manufactures and sells hardware and building materials and automotive maintenance industrial chemical products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been transported to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group offers the right to return defective products within one month. A contract liability is recorded as advances from customers for the cash received from the customers before the delivery of goods.

Sales discounts are offered to the customers when the customers meet the predetermined annual sales target. The sales discounts are recognised and net off against the sales amount when sales are recognised. The customers can utilise these sales discounts by future purchases from the Group.

Measurement of revenue: Revenue from sales is based on the price specified in the sales contracts and is shown net of value-added tax, sales discounts, sales return and after eliminating sales within the Group. No element of financing is deemed present as the sales are made with a credit term up to 30 to 90 days. A receivables is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Accumulated experience is used to estimate the likelihood and provide for sales discounts and sales return for the goods sold at the time of sale.

Rental income

Rental income is recognised on a time proportion basis over the lease terms.

4.10 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statements of comprehensive income by way of a reduced depreciation charge.

4.11 Income taxes

Income tax represents the sum of current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:—

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in a subsidiary, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:—

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investment in a subsidiary, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4.12 Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The consolidated financial statements are presented in RMB (the “presentation currency”), while the functional currency of the Company is HK\$. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Historical Financial Information.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statements of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group’s net investment of a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item. The functional currencies of certain subsidiaries are currencies other than the presentation currency. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period, and their income and expense items are translated into the presentation currency at the weighted average exchange rates for the year/period.

The resulting exchange differences are recorded in other comprehensive income and the cumulative balance is included in translation reserve in the consolidated statements of changes in equity. On disposal of a foreign operation, the deferred cumulative amount recognised in translation reserve relating to that particular foreign operation is recognised in the consolidated statements of comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of the Company and certain subsidiaries are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and these subsidiaries which arise throughout the year/period are translated into the presentation currency at the weighted average exchange rates for the year/period.

4.13 Employee benefits

(i) *Short-term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees.

(ii) *Defined contribution retirement plan obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the subsidiaries within the Group which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified by the local municipal government. The contributions are charged to the consolidated statements of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

There were no forfeited contributions utilised by the Group to reduce existing level of contributions for each of the years/periods.

4.14 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

When 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, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.15 Finance costs

Finance costs comprise borrowing costs, which are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

4.16 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks and financial institutions on behalf of subsidiaries to secure interest-bearing bank borrowings and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to interest-bearing bank borrowings of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

4.17 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:—
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Group's parent;
- (b) An entity is related to the Group 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) both entities 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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Company.

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 and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4.18 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the chief operating decision makers ("CODM") are determined following the Group's major operations.

The measurement policies the Group uses for reporting segment results under IFRS 8 "*Operating Segments*" are the same as those used in its financial statements prepared under IFRSs.

5. Significant accounting judgements and estimates

The preparation of the Historical Financial Information requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following items are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that non-financial assets with definite lives may be impaired. If any such indication exists, the Group estimates the recoverable amount of the assets in accordance with the accounting policy stated in Note 4.5. In assessing whether there is any indication that non-financial assets may be impaired, the Group considers indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions and economic environment. These assessments are subjective and require management's judgements and estimations.

Depreciation and amortisation

Property, plant and equipment and prepaid lease prepayments are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The estimated useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

Provision for expected credit loss on financial assets

The Group determines the provision for expected credit loss on financial assets resulting from the inability of the customers/debtors to make the required payments. A considerable amount of estimate and judgement is required in assessing the ultimate realisation of these receivables which is based on the ageing of the receivable balance, customer/debtor credit-worthiness, and historical write-off experience. If the financial conditions of customers/debtors deteriorate, additional provision for expected credit loss may be required.

Provision for income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. Significant judgement is required in determining the tax liabilities to be recognised. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for tax based on estimates of the taxes that are likely to become due. The Group believes that its provision for tax is adequate for the Track Record Period based on its assessment of many factors including past experience and interpretations of tax law. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

6. Segment information

The Group has three reportable segments which are the Group's strategic business units, as follows:

Aerosols	— Sales of spray paints and automotive care products, including spray paint, carburetor cleaner, spray wax, anti-rust spray lubricant, polyurethane foam, cleaning spray and spray refrigerant for automobile air-conditioners
Organic silicone adhesives	— Sales of product series, which are all silicone-based adhesives
Synthetic adhesive	— Sales of several product series, which are all multi-purpose contact adhesives

Information about strategic business units of other operating segments that are not reportable in accordance with IFRS 8 "Operating Segments" are consolidated and disclosed in "All other segments".

These strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chairman of the Company, who is the CODM of the Group during the Track Record Period, reviews internal management reports on a monthly basis. There was no aggregation of operating segments in arriving at the reportable segments of the Group.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitors the results attributable to each reportable segment on the following basis:

Segment profit represents the gross profit earned by each segment without allocation of central administration expenses (including emoluments of directors, listing expenses), selling and distribution expenses, other income and gains and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation.

The CODM reviews the Group's assets and liabilities as a whole without allocation to each segment. In his opinion, all strategic business units consume same materials and their products are produced by same machinery and equipment and then they are sold to same customers. As a result, it is not necessary to monitor the assets and liabilities under different segments. No segment information on assets and liabilities is presented accordingly.

During the Track Record Period, the Group generated revenue primarily from the sale of three categories of products under these segments. The following table sets out the breakdown of the revenue and segment profit by reportable segment:

	Year ended 31 December 2016			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers and reportable segment revenue — Point in time	321,558	69,124	54,919	445,601
Reportable segment profit	97,556	8,167	13,600	119,323
	Year ended 31 December 2017			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers and reportable segment revenue — Point in time	426,820	80,514	78,612	585,946
Reportable segment profit	100,332	8,639	23,318	132,289
	Year ended 31 December 2018			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers and reportable segment revenue — Point in time	387,562	186,245	65,909	639,716
Reportable segment profit	121,009	15,233	18,722	154,964

	Six months ended 30 June 2018			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers and reportable segment revenue — Point in time	153,249	88,107	27,827	269,183
Reportable segment profit	36,975	11,980	5,333	54,288
	Six months ended 30 June 2019			
	Aerosols	Organic silicone adhesives	Synthetic adhesive	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers and reportable segment revenue — Point in time	199,486	85,590	31,535	316,611
Reportable segment profit	69,105	25,393	8,927	103,425

(b) Reconciliations of reportable segment revenue and profit/(loss) before income tax

A reconciliation of segment revenue to consolidated revenue is presented as follows:—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total reportable segment revenue	445,601	585,946	639,716	269,183	316,611
All other segments revenue (<i>Note</i>)	66,618	83,328	129,455	49,425	54,743
Consolidated revenue	512,219	669,274	769,171	318,608	371,354

Note: Revenue from other segments represents the sales of architectural coatings, oil products, wood paints and others.

A reconciliation of segment result to consolidated profit/(loss) before income tax is presented as follows:—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Total of reportable segments profit	119,323	132,289	154,964	54,288	103,425
All other segments profit (Note)	14,420	20,647	30,848	8,143	9,694
Other income and gains	851	1,361	2,878	340	495
Gain on bargain purchase	—	—	4,847	4,847	—
Selling and distribution expenses	(60,050)	(72,711)	(90,238)	(38,135)	(48,843)
Administrative expenses	(37,988)	(47,076)	(62,163)	(25,106)	(37,628)
Listing expenses	—	(3,129)	(8,549)	(4,058)	(6,583)
Finance costs	(7,413)	(7,042)	(5,061)	(3,635)	(2,308)
Consolidated profit/(loss) before income tax	<u>29,143</u>	<u>24,339</u>	<u>27,526</u>	<u>(3,316)</u>	<u>18,252</u>

Note: Segment profit from other segments represents the sales of architectural coatings, oil products, wood paints and others.

(c) **Geographical information**

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. All the Group's non-current assets are located in the PRC during the Track Record Period. The following table provides an analysis of the Group's revenue generated from external customers by geographical market.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
The PRC	512,219	669,274	764,383	318,608	361,601
Australia	—	—	4,788	—	8,255
Others	—	—	—	—	1,498
	<u>512,219</u>	<u>669,274</u>	<u>769,171</u>	<u>318,608</u>	<u>371,354</u>

(d) **Information about major customers**

During the Track Record Period, revenue derived from the following customer in various segments with whom transactions have exceeded 10% of the Group's revenue is as follows:—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sanvo Holdings	<u>66,313</u>	<u>92,990</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

In the year ended 31 December 2015, the Group first commenced business relationship with Sanvo Holdings by entering into a co-operation arrangement with Sanvo Holdings, whereby the Group would provide it with semi-finished fine industrial chemical products. During the years ended 31 December 2016 and 2017 and the period from 1 January 2018 to 26 April 2018, the Group derived revenue from the sales of semi-finished fine industrial chemical products to Sanvo Holdings of approximately RMB66,313,000, RMB92,990,000 and RMB11,126,000 respectively. The Group granted credit period of 90 days to Sanvo Holdings.

Sanvo Holdings would further process the products purchased from the Group and carry out other procedures at its production facilities before on-selling the finished goods to its third party customers, the customer base of which was developed by the Group based on its distribution network and under general contracts entered into between these customers and the Group. During the years ended 31 December 2016 and 2017 and the period from 1 January 2018 to 26 April 2018, Sanvo Holdings' customers settled their trade balances by paying directly to the Group as the sales were undertaken pursuant to master contracts entered into by these customers with the Group. The Group used part of the proceeds received from Sanvo Holdings' customers to settle the trade balances owed by Sanvo Holdings to the Group. As at 31 December 2016 and 2017, after netting off the aforementioned proceeds received from settlement of Sanvo Holdings' trade receivables, the Group had amounts due from Sanvo Holdings of RMB48,727,000 and RMB53,647,000 respectively, which included in trade receivables.

The Group has acquired 100% shareholding of Sanvo Holdings on 27 April 2018 (Note 37) and sales to Sanvo Holdings after acquisition were fully eliminated. Sales to Sanvo Holdings for the period from 1 January 2018 to 26 April 2018 (acquisition date) was not over 10% of the Group's revenue for the year ended 31 December 2018 and the six months ended 30 June 2018.

7. Revenue and other income and gains

Revenue from the Group's principal activities, represent revenue derived from the sales of hardware and building materials and automotive maintenance industrial chemical products. Revenue and other income and gains recognised during the Track Record Period are as follows:—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue (Note (i))	512,219	669,274	769,171	318,608	371,354
Other income and gains					
Bank interest income	201	318	260	104	151
Rental income	—	—	846	—	278
Government subsidies (Note (ii))	237	876	1,555	174	10
Gain on disposal of financial assets at FVTPL (Note 21)	—	22	—	—	—
Gain on disposal of scraps and raw materials	280	48	47	16	—
Gain on disposal of property, plant and equipment	—	—	—	—	24
Sundry income	133	97	170	46	32
	851	1,361	2,878	340	495

Notes:

- (i) Disaggregation of revenue from contracts with customers by major categories of products is disclosed in Note 6.

All sales contracts are for period of one year or less. The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts such that the information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that have an original expected duration of one year or less is not disclosed.

- (ii) The Group received unconditional subsidies from local government during the Track Record Period as a recognition of the Group's contribution to the development of the local economy.

8. Finance costs

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest on interest-bearing bank borrowings	7,413	7,489	6,375	4,040	3,352
Interest on lease liabilities	—	—	—	—	209
Less: interest capitalised into property, plant and equipment (Note)	—	(447)	(1,314)	(405)	(1,253)
	<u>7,413</u>	<u>7,042</u>	<u>5,061</u>	<u>3,635</u>	<u>2,308</u>

Note: During the years ended 31 December 2017 and 2018 and the six months ended 30 June 2018 and 2019, the finance costs have been capitalised at an effective interest rate of 6.04%, 5.35%, 6.43% and 6.28% per annum respectively. No finance cost was capitalised during the year ended 31 December 2016.

9. Profit/(loss) before income tax

Profit/(loss) before income tax is arrived at after charging/(crediting):—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of prepaid lease payments (Notes (i) and 15)	1,008	1,008	1,913	681	—
Cost of inventories recognised as expenses	378,476	516,338	583,359	256,177	258,235
Depreciation of property, plant and equipment (Note 14)	2,140	2,743	6,152	1,860	4,363
Depreciation of right-of-use assets (Note 16)	—	—	—	—	2,131
Net loss/(gain) on disposal of property, plant and equipment	—	—	1	—	(24)
Written off of property, plant and equipment (Note 14)	—	—	425	—	—
Net exchange loss	—	—	13	—	—
Employee benefit expenses (including directors' remuneration (Note 10) and salaries in research and development expenses) (Note (ii))					
— Salaries, allowances and benefits in kind	45,848	54,687	57,055	28,145	32,899
— Discretionary bonus	2,262	167	3,146	262	1,140
— Retirement benefit scheme contributions	2,148	2,872	3,521	1,566	1,843
	<u>50,258</u>	<u>57,726</u>	<u>63,722</u>	<u>29,973</u>	<u>35,882</u>
Minimum lease payments under operating lease charges for properties and land	1,958	2,245	2,441	1,805	—
Research and development expenses (Note (iii))					
— Material consumption	8,598	13,438	17,660	6,536	9,026
— Employee benefit expenses	1,362	3,100	8,247	2,865	5,089
— Others	513	1,041	1,945	972	2,427
	<u>10,473</u>	<u>17,579</u>	<u>27,852</u>	<u>10,373</u>	<u>16,542</u>

Notes:

- (i) Amortisation of prepaid leases payments are included in cost of sales and administrative expenses.
- (ii) Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.
- (iii) Research and development expenses are included in administrative expenses.

10. Emoluments of directors, chief executive, five highest paid individuals and senior management

(a) Directors and chief executive emoluments

Pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, details of emoluments paid by the companies comprising the Group to the directors of the Company are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note (i))</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2016				
Executive directors				
Mr. Ernest Chen (<i>Note (ii)</i>)	—	272	11	283
Mr. Leo Chen (<i>Note (ii)</i>)	—	61	5	66
	—	333	16	349
Year ended 31 December 2017				
Executive directors				
Mr. Ernest Chen (<i>Note (ii)</i>)	—	310	11	321
Mr. Leo Chen (<i>Note (ii)</i>)	—	132	5	137
	—	442	16	458
Year ended 31 December 2018				
Executive directors				
Mr. Ernest Chen (<i>Note (ii)</i>)	—	375	14	389
Mr. Leo Chen (<i>Note (ii)</i>)	—	181	7	188
	—	556	21	577
Six months ended 30 June 2018 (unaudited)				
Executive directors				
Mr. Ernest Chen (<i>Note (ii)</i>)	—	160	5	165
Mr. Leo Chen (<i>Note (ii)</i>)	—	56	2	58
	—	216	7	223
Six months ended 30 June 2019				
Executive directors				
Mr. Ernest Chen (<i>Note (ii)</i>)	—	248	9	257
Mr. Leo Chen (<i>Note (ii)</i>)	—	173	6	179
Mr. Ng Cheuk Lun	—	—	—	—
	—	421	15	436

Notes:

- (i) Salaries, allowances and benefits in kind are generally emoluments paid in respect of the directors' other services in connection with the management of the affairs of the companies comprising the Group.
- (ii) Mr. Ernest Chen is also the chief executive of the Company. During the Track Record Period, Mr. Ernest Chen and Mr. Leo Chen received emoluments from companies comprising the Group for their appointment as directors of those companies .

Mr. Ernest Chen and Mr. Leo Chen were appointed as executive directors of the Company on 12 April 2018 respectively. Mr. Ng Cheuk Lun was appointed as executive director of the Company on 15 April 2019. Ir. Daniel Lai, Mr. Yeung Chun Yue David and Mr. Xu Kai were appointed as independent non-executive directors of the Company on 13 December 2019.

The Company did not have any executive directors, non-executive directors and independent non-executive directors at any time before 12 April 2018 since the Company was only incorporated on 12 April 2018.

The emoluments shown above represent emoluments received or receivable from the Group by these directors in their capacities as directors of companies comprising the Group during the Track Record Period.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

During the Track Record Period, no emoluments were paid by the Group to the directors as inducement to join or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals emoluments

The emoluments of the five highest paid individuals for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, include one, two, two, one and two directors of the Company respectively, whose emoluments are reflected in the analysis presented above. Details of emoluments paid to the remaining four, three, three, four and three highest paid individuals of the Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	390	489	425	261	287
Retirement benefit scheme contributions	5	14	14	9	7
	<u>395</u>	<u>503</u>	<u>439</u>	<u>270</u>	<u>294</u>

(unaudited)

The emoluments of the non-director highest paid individuals are within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
Nil to HK\$1,000,000	<u>4</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>3</u>

(unaudited)

During the Track Record Period, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

(c) Senior management emoluments

The number of senior management (excluding the directors of the Company) whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018 (unaudited)	2019
Nil to HK\$1,000,000	4	4	4	4	4

11. Income tax expense

	Year ended 31 December			Six months ended 30 June	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i>
Current tax expense					
— PRC Enterprise Income Tax (“EIT”)	4,979	4,181	4,819	144	1,817
Deferred tax credit					
— the origination and reversal of temporary differences (<i>Note 27</i>)	(17)	(10)	(27)	116	(241)
— decrease in applicable tax rate (<i>Note 27</i>)	—	(238)	—	—	—
Income tax expense	<u>4,962</u>	<u>3,933</u>	<u>4,792</u>	<u>260</u>	<u>1,576</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax under these jurisdictions during the Track Record Period.

No provision for income tax has been made for the subsidiaries incorporated in Hong Kong as the subsidiaries did not have any estimated assessable profits subject to Hong Kong Profits Tax during the Track Record Period.

Under the Enterprise Income Tax Law of the PRC (the “EIT Law”) and the Implementation Regulation of the EIT Law, the subsidiaries operating in the PRC are subject to the tax rate of 25% on the estimated assessable profits during the Track Record Period except for three of the subsidiaries operating in the PRC which were approved to be high and new technology enterprises (“HNTE”) during the Track Record Period. Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% and additional 50% tax reduction based on the eligible research and development expenses with a validity period of three years. Guangdong Sanvo was approved to be HNTE on 10 October 2014 and again on 9 November 2017 and enjoyed the preferential tax rate for HNTE for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019. Shunde Sanvo was approved to be HNTE on 11 December 2017, and enjoyed the preferential tax rate for HNTE for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2018 and 2019. Sanvo Holdings was approved to be HNTE on 11 December 2017, and enjoyed the preferential tax rate for HNTE for the period from 27 April 2018 (the date of acquisition of Sanvo Holdings) to 31 December 2018, for the period from 27 April 2018 (the date of acquisition of Sanvo Holdings) to 30 June 2018 and the six months ended 30 June 2019. Guangdong Fuvu was approved to be HNTE on 28 November 2018, and enjoyed the preferential tax rate for HNTE for the year ended 31 December 2018 and the six months ended 30 June 2018 and 2019. The HNTE certificate needs to be renewed every three years so as to enable the respective subsidiaries to enjoy the reduced tax rate of 15%.

Income tax expense for the Track Record Period can be reconciled to the profit/(loss) before income tax as follows:—

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) before income tax	29,143	24,339	27,526	(3,316)	18,252
Tax calculated at the rates applicable to profit in the tax jurisdiction concerned	7,286	6,641	9,066	344	5,520
Tax effect of concessionary tax rate	(2,596)	(2,671)	(2,732)	(552)	(2,710)
Tax effect of non-taxable income	—	—	(1,212)	(1,212)	—
Tax effect of non-deductible expenses	1,107	1,187	1,305	451	255
Tax reduction for research and development expenses	(835)	(986)	(1,644)	(574)	(1,489)
Tax effect of change in opening deferred tax liabilities resulting from a decrease in applicable tax rate	—	(238)	—	—	—
Tax effect of tax losses not recognised	—	—	9	1,803	—
Income tax expense	4,962	3,933	4,792	260	1,576

Pursuant to the EIT Law, 10% withholding tax is imposed on dividends declared in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident investors for the companies established in the PRC. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applicable. Before the Reorganisation, all the PRC subsidiaries were held by PRC tax residents. Pursuant to the Reorganisation, as at 31 December 2018 and 30 June 2019, all the PRC subsidiaries are directly or indirectly held by non-PRC tax resident investors. As such, temporary withholding tax differences relating to the undistributed profits of the PRC subsidiaries amounted to approximately RMB40,993,000 and RMB57,541,000 respectively as at 31 December 2018 and 30 June 2019. As at 31 December 2018 and 30 June 2019, deferred tax liabilities of approximately RMB4,099,000 and RMB5,754,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings respectively, as the Company is in a position to control the dividend policy of the PRC subsidiaries and it has been determined that it is probable that undistributed profits of the PRC subsidiaries will not be distributed in the foreseeable future.

12. Dividends paid

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interim dividends declared and paid to the then shareholders of subsidiaries	—	9,680	66,310	66,310	—

During the year ended 31 December 2017, pursuant to the shareholders' meeting of Shunde Sanvo on 13 December 2017, Shunde Sanvo declared and paid interim dividend amounting to approximately RMB4,150,000 to its then shareholders, Mr. Ernest Chen and Mr. Leo Chen.

During the year ended 31 December 2017, pursuant to the shareholder's meeting of Guangdong Fuvo on 20 December 2017, Guangdong Fuvo declared and paid interim dividends amounting to approximately RMB5,530,000 to its then shareholder, Mr. Ernest Chen.

During the year ended 31 December 2018 and the six months ended 30 June 2018, pursuant to the shareholders' meeting of Guangdong Sanvo on 27 February 2018, Guangdong Sanvo declared and paid interim dividend amounting to approximately RMB66,310,000 to its then shareholders, Mr. Ernest Chen and Ms. Liang.

The above interim dividends were declared and paid by the Company's subsidiaries. No dividend was declared or paid by the Company since its incorporation.

The rate of dividend and the number of shares ranking for dividend is not presented as such information is not meaningful having regard to the purpose of this Historical Financial Information.

13. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganisation and the presentation of the results for Track Record Period on the basis as disclosed in Note 2.2.

14. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost							
At 1 January 2016	2,728	13,229	1,475	3,252	13	904	21,601
Additions	1,918	5,801	549	—	15	4,485	12,768
Transfer	—	525	—	—	—	(525)	—
	<u>4,646</u>	<u>19,555</u>	<u>2,024</u>	<u>3,252</u>	<u>28</u>	<u>4,864</u>	<u>34,369</u>
At 31 December 2016 and 1 January 2017	4,646	19,555	2,024	3,252	28	4,864	34,369
Additions	19	4,218	402	1,002	—	14,617	20,258
Transfer	—	39	—	—	—	(39)	—
	<u>4,665</u>	<u>23,812</u>	<u>2,426</u>	<u>4,254</u>	<u>28</u>	<u>19,442</u>	<u>54,627</u>
At 31 December 2017 and 1 January 2018	4,665	23,812	2,426	4,254	28	19,442	54,627
Additions	3,256	5,134	541	434	615	26,878	36,858
Acquisition of Sanvo Holdings (Note 37)	21,103	6,004	276	235	298	1,081	28,997
Transfer	4,525	927	303	102	—	(5,857)	—
Disposal	(239)	(2,569)	(2)	(284)	—	—	(3,094)
Written-off	—	(470)	—	—	—	—	(470)
	<u>33,310</u>	<u>32,838</u>	<u>3,544</u>	<u>4,741</u>	<u>941</u>	<u>41,544</u>	<u>116,918</u>
At 31 December 2018 and 1 January 2019	33,310	32,838	3,544	4,741	941	41,544	116,918
Additions	617	1,928	466	183	19	11,384	14,597
Transfer	5,080	1,276	—	—	—	(6,356)	—
Disposal	—	(111)	—	(129)	—	—	(240)
	<u>39,007</u>	<u>35,931</u>	<u>4,010</u>	<u>4,795</u>	<u>960</u>	<u>46,572</u>	<u>131,275</u>
At 30 June 2019	39,007	35,931	4,010	4,795	960	46,572	131,275

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation							
At 1 January 2016	826	6,722	826	2,098	1	—	10,473
Charge for the year	150	1,337	267	385	1	—	2,140
At 31 December 2016 and 1 January 2017	976	8,059	1,093	2,483	2	—	12,613
Charge for the year	238	1,706	389	408	2	—	2,743
At 31 December 2017 and 1 January 2018	1,214	9,765	1,482	2,891	4	—	15,356
Charge for the year	2,955	2,355	393	390	59	—	6,152
Elimination on disposal	(88)	(477)	—	(269)	—	—	(834)
Elimination on written-off	—	(45)	—	—	—	—	(45)
At 31 December 2018 and 1 January 2019	4,081	11,598	1,875	3,012	63	—	20,629
Charge for the period	2,284	1,587	250	221	21	—	4,363
Elimination on disposal	—	(20)	—	(123)	—	—	(143)
At 30 June 2019	6,365	13,165	2,125	3,110	84	—	24,849
Net carrying amount							
At 31 December 2016	3,670	11,496	931	769	26	4,864	21,756
At 31 December 2017	3,451	14,047	944	1,363	24	19,442	39,271
At 31 December 2018	29,229	21,240	1,669	1,729	878	41,544	96,289
At 30 June 2019	32,642	22,766	1,885	1,685	876	46,572	106,426

During the year ended 31 December 2018, a fire in one of the subsidiaries of the Company damaged certain machinery with net carrying amount of approximately RMB425,000. Those machinery were fully written off and the loss was recognised as administrative expense during the year ended 31 December 2018 (Note 9).

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's property, plant and equipment with net carrying amount of approximately RMB7,043,000, RMB6,369,000, RMB30,691,000 and RMB28,282,000 were pledged for interest-bearing bank borrowings (Note 25).

The Group does not have the title certificates for certain items of buildings with an aggregate net carrying amount of approximately RMB2,026,000, RMB1,906,000, RMB5,295,000 and RMB5,694,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above mentioned properties and therefore the aforesaid matter does not affect the ownership rights of the Group over these assets and hence did not have any significant impact on the Group's consolidated financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019.

15. Prepaid lease payments

The Group has prepaid operating lease for the land use rights in the PRC. Movements in the prepaid lease payments are analysed as follows:—

	<i>RMB'000</i>
At 1 January 2016	48,533
Amortisation charge for the year	<u>(1,008)</u>
At 31 December 2016 and 1 January 2017	47,525
Amortisation charge for the year	<u>(1,008)</u>
At 31 December 2017 and 1 January 2018	46,517
Acquisition of Sanvo Holdings (<i>Note 37</i>)	22,912
Additions	23,772
Amortisation charge for the year	<u>(1,913)</u>
At 31 December 2018	91,288
Impact on initial application of IFRS 16	
— Reclassification to right-of-use assets (<i>Note 3(b)</i>)	<u>(91,288)</u>
At 1 January 2019 and 30 June 2019	<u><u>—</u></u>

	<u>As at 31 December</u>			<u>As at</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>30 June</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net carrying amount represented by:				
Current portion (<i>Note 18</i>)	1,008	1,008	2,363	—
Non-current portion	<u>46,517</u>	<u>45,509</u>	<u>88,925</u>	<u>—</u>
	<u><u>47,525</u></u>	<u><u>46,517</u></u>	<u><u>91,288</u></u>	<u><u>—</u></u>

Upon the initial application of IFRS 16 as at 1 January 2019, an opening adjustment was made as at the date of initial application to reclassify prepaid lease payments to right-of-use assets (*Note 3(b)*).

As at 31 December 2016, 2017 and 2018, the Group's prepaid lease payment representing the land use rights of the Group, with net carrying amount of approximately RMB45,071,000, RMB44,132,000 and RMB43,193,000 respectively were pledged for interest-bearing bank borrowings (*Note 25*).

The prepaid operating leases for the land use rights of the Group will be expired on 8 August 2044, 30 June 2052, 24 December 2064 and 7 June 2068 respectively.

16. Right-of-use assets

	<i>RMB'000</i>
Cost	
At 1 January 2016 and 31 December 2016, 2017 and 2018	—
Impact on initial application of IFRS 16 (<i>Note 3(b)</i>)	98,540
	<u>98,540</u>
At 1 January 2019 and 30 June 2019	98,540
	<u>98,540</u>
Accumulated depreciation	
At 1 January 2016 and 31 December 2016, 2017 and 2018	—
Depreciation for the period	(2,131)
	<u>(2,131)</u>
At 30 June 2019	(2,131)
	<u>(2,131)</u>
Net carrying amount	
At 1 January 2016 and 31 December 2016, 2017 and 2018	—
	<u>—</u>
At 30 June 2019	96,409
	<u>96,409</u>

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments related to properties and land were remeasured and recognised as adjustments to right-of-use assets and prepaid land lease payments were reclassified as adjustments to right-of-use assets immediately after the date of initial application (*Note 3(b)*).

As at 30 June 2019, the recognised right-of-use assets relate to the following types of assets:

	<i>RMB'000</i>
Properties	3,268
Land	93,141
	<u>96,409</u>
Net carrying amount	96,409
	<u>96,409</u>

As at 30 June 2019, the Group's right-of-use assets with net carrying amount of approximately RMB90,662,000 were pledged for interest-bearing bank borrowings (*Note 25*).

17. Investment in subsidiaries — the Company

	As at 31 December 2018	As at 30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Investment in subsidiaries — at cost, unlisted	1,228	1,228
	<u>1,228</u>	<u>1,228</u>

Particulars of the subsidiaries of the Company are set out in *Note 1*.

The following tables list out the financial information relating to Guangdong Sanvo, subsidiary of the Company which have material non-controlling interest ("NCI") as at 31 December 2016 and 2017. The summarised financial information presented below represents the amounts before any inter-company elimination.

Summarised financial information of Guangdong Sanvo

	As at 31 December		
	2016	2017	
	RMB'000	RMB'000	
NCI Percentage	5.8%	5.8%	
Non-current assets	5,818	8,684	
Current assets — Others	139,484	104,530	
Current assets — Amounts due from intragroup companies	12,858	104,130	
Current assets — Amount due from a director	62,135	59,426	
Total current assets	214,477	268,086	
Amount due to an intergroup company	(1,130)	—	
Current liabilities — Others	(106,153)	(150,593)	
Total current liabilities	(107,283)	(150,593)	
Non-current liabilities	(50,308)	(44,654)	
Net assets	62,704	81,523	
Carrying amount of NCI	3,637	4,728	
		Period from 1 January 2018 to 15 May	
	Year ended 31 December		2018
	2016	2017	RMB'000
	RMB'000	RMB'000	RMB'000
Revenue	372,707	395,970	75,090
Profit/(loss) and total comprehensive income/(loss) for the year/period	22,824	18,821	(8,851)
Profit/(loss) allocated to NCI	1,324	1,091	(513)
Cash flows (used in)/generated from operating activities	(10,376)	82,300	(93,894)
Cash flows generated from/(used in) investing activities	13,650	(64,176)	60,723
Cash flows (used in)/generated from financing activities	(5,534)	(3,579)	16,654

As part of the Reorganisation, the Group acquired the remaining 5.8% equity interest in Guangdong Sanvo on 15 May 2018 from Ms. Liang, a holder of NCI of Guangdong Sanvo (Note 2.1).

During the period from 1 January 2018 to 15 May 2018, Guangdong Sanvo declared and paid interim dividend of amount approximately RMB3,846,000 to Ms. Liang.

18. Trade and bills receivables, other receivables and prepayments

	The Group				The Company	
	As at 31 December			As at 30 June	As at December	As at 30 June
	2016	2017	2018	2019	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current portion						
Prepayments for acquisition of property, plant and equipment (Note (i))	5,477	6,201	3,636	9,510	—	—
Current portion						
Trade receivables	50,027	69,723	33,567	47,341	—	—
Bills receivables	—	250	304	1,035	—	—
Trade and bills receivables	50,027	69,973	33,871	48,376	—	—
Other receivables	1,524	3,519	2,626	2,457	—	—
Prepaid lease payments — current portion (Note 15)	1,008	1,008	2,363	—	—	—
Prepaid listing expenses	—	4,774	2,171	5,615	241	5,615
Prepayments	12,828	12,452	14,233	13,988	—	—
	65,387	91,726	55,264	70,436	241	5,615

Note:

- (i) It represents the amount prepaid to vendors for acquisition of property, plant and equipment which was not yet delivered as at the end of each reporting date.

The credit period for trade receivables is normally 90 days from the date of billing for the Track Record Period. The ageing analysis of trade and bills receivables based on due date is as follows:—

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	19,863	48,632	26,982	47,478
Less than 1 month past due	6,724	11,290	6,889	898
Over 1 month but less than 3 months past due	23,440	10,051	—	—
	50,027	69,973	33,871	48,376

At each reporting date, the Group carries out impairment reviews of its trade receivables using a lifetime expected credit loss (“ECL”) model. The ECL on trade receivables are assessed for debtors with significant balances or collectively using a provision matrix based on appropriate groupings. As part of the Group’s credit risk management, the Group use debtors’ ageing to assess impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers’ ability to pay all amounts due in accordance with the contractual terms. The estimated ECL loss rates are estimated based on the Group’s estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. As at 31 December 2016, 2017 and 2018 and 30 June 2019, expected loss rate of trade receivables is assessed to be 0.19%, 0.07%, 0.36% and 0.21% respectively. Based on evaluation on ECL loss rates and gross carrying amount of trade receivables, the directors of the Company determined that there are no material expected loss and therefore there has not been a loss allowance provision. The Group does not hold any collaterals or other credit enhancements over the trade and bills receivables.

The ageing analysis of trade and bills receivables based on invoice date is as follows:

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	6,967	23,182	22,199	24,388
Over 1 month but less than 3 months	12,896	22,173	11,274	21,686
Over 3 months but less than 1 year	30,164	24,618	398	2,302
	<u>50,027</u>	<u>69,973</u>	<u>33,871</u>	<u>48,376</u>

Opening and closing balances of trade and bills receivables for each reporting period are as follows:

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	63,482	50,027	69,973	33,871
At the end of the year/period	<u>50,027</u>	<u>69,973</u>	<u>33,871</u>	<u>48,376</u>

19. Inventories

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	18,845	25,262	29,241	25,758
Work in progress	2,579	3,021	4,156	4,449
Finished goods	40,341	45,602	37,017	28,813
	<u>61,765</u>	<u>73,885</u>	<u>70,414</u>	<u>59,020</u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's inventories with carrying amount of approximately RMB3,860,000, RMB3,371,000, RMB2,558,000 and RMB4,673,000, respectively were pledged for interest-bearing bank borrowings (Note 25).

20. Amounts due from/(to) a director/subsidiaries

Particulars of amount due from a director, disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:—

Name	Maximum amount outstanding during		Maximum amount outstanding during		Maximum amount outstanding during		As at 31 December 2018 and 30 June 2019
	As at 1 January 2016	the year ended 31 December 2016	As at 31 December 2016	the year ended 31 December 2017	As at 31 December 2017	the year ended 31 December 2018	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Ernest Chen	68,883	113,631	113,631	113,631	87,500	87,500	—

The amounts due from/(to) a director and subsidiaries are non-trade in nature. The amounts are unsecured, interest-free and repayable on demand. Part of the amount due to Mr. Ernest Chen, being RMB30,000,000 was settled by cash subsequent to 30 June 2019, and the remaining portion was capitalised as a contribution by Mr. Ernest Chen in equity of the Group on 31 October 2019.

21. Financial assets at FVTPL

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investment in wealth management product, at fair value	20,000	—	—	—

In December 2016, the Group acquired a wealth management product through a PRC bank with a carrying amount of RMB20,000,000. The investment could be redeemed in cash at any time, however, the PRC bank has the right to refuse the redemption if the daily redemption requests is exceeded the predetermined limit. According to the terms of the product, the principal is protected and guaranteed by the PRC bank.

The investment was measured at fair value. For details of the fair value measurement are set out in Note 34.

The directors of the Company are in the opinion that the fair value of the wealth management product at 31 December 2016 approximated the acquisition cost of RMB20,000,000.

In January 2017, the investment was fully redeemed by the Group and gain on disposal of financial assets at FVTPL of approximately RMB22,000 was recognised as other income and gains (Note 7) in the consolidated statement of comprehensive income during the year ended 31 December 2017.

22. Pledged bank deposits and cash and cash equivalents

Cash and cash equivalents represents cash at banks and cash on hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's cash and cash equivalents were denominated in RMB, amounted to approximately RMB21,272,000, RMB40,405,000, RMB18,195,000 and RMB43,149,000 respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's bank deposits of approximately RMB15,018,000, RMB10,351,000, RMB8,990,000 and RMB9,685,000 were pledged for the issues of bills payables for the Group's purchases of raw materials (Note 23).

As at 31 December 2018 and 30 June 2019, the Group's bank deposit of RMB2,300,000 and RMB2,300,000 was also pledged for guarantee to complete the construction work within a scheduled time table for the prepaid lease payments acquired during the year ended 31 December 2018. The Group would be subject to penalty if the Group was failed to fulfill the scheduled deadline. In the opinion of the directors of the Company, as at the date of this report, there is no delay on the construction work and no provision for penalty was required to be made in the Historical Financial Information.

The pledged bank deposits and bank balances carry interests at market rate ranging as follows per annum:—

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2016	2017	2018	2019	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Pledged bank deposits	1.50%	1.50%	1.35%	1.35%	N/A	N/A
Bank balances	0.35%	0.35%	0.00% to 0.30%	0.00% to 0.30%	0.00% to 0.13%	0.00% to 0.13%

23. Trade and bills payables, accruals, contract liabilities and other payables

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2016	2017	2018	2019	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (Note (i))	56,704	100,673	88,732	98,591	—	—
Bills payables (Note (ii))	19,276	10,291	8,990	11,436	—	—
Accrued expenses	—	—	792	844	—	—
Accrued employee benefit expenses	8,761	12,518	10,199	12,300	—	—
Accrued listing expenses	—	—	589	2,285	589	2,285
Deferred income – current portion (Note 26)	38	38	38	38	—	—
Provision for a litigation claim (Note 38)	—	587	587	—	—	—
Contract liabilities (Note (iii))	58,396	43,331	22,362	23,211	—	—
Utilities and rental deposits received	—	—	157	—	—	—
Other payables	17,559	25,362	18,471	16,950	—	—
	160,734	192,800	150,917	165,655	589	2,285

Notes:

- (i) The credit period received from suppliers of the Group is ranging from 30 to 90 days for the Track Record Period. The ageing analysis of trade payables based on invoice date is as follows:

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	32,272	70,334	72,204	73,428
Over 1 month but less than 3 months	16,476	17,682	13,912	20,137
Over 3 months but less than 1 year	5,900	4,198	1,343	3,345
Over 1 year	2,056	8,459	1,273	1,681
	<u>56,704</u>	<u>100,673</u>	<u>88,732</u>	<u>98,591</u>

- (ii) At 31 December 2016, 2017 and 2018 and 30 June 2019, bills payables of approximately RMB19,276,000, RMB10,291,000, RMB8,990,000 and RMB11,436,000 were secured by pledged bank deposits (Note 22).

- (iii) Contract liabilities represent billings in advance of performance in regarding the sales of hardware and building materials and automotive maintenance industrial chemical products.

When the Group receives a deposit before the products are delivered to the customers, this will give rise to contract liabilities at the start of a contract, until revenue recognised exceeds the amount of the deposit. Starting from 1 January 2016, the Group typically receives full deposit on acceptance of orders for all customers, except for the major customer. In previous years, the amount of the deposit, if any, was negotiated on a case by case basis with customers.

Contract liabilities also include the provision of sales discounts of approximately RMB6,758,000, RMB4,119,000, RMB7,166,000 and RMB3,905,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019 respectively. Sales discounts are offered to the customers when the customers meet the predetermined annual sales target. The customers can utilise these sales discounts from future purchases from the Group.

The following table shows the opening and closing balances of contract liabilities for each reporting period and how much of the revenue recognised during each reporting period relates to carried-forward contract liabilities:

	The Group			
	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	5,176	58,396	43,331	22,362
At the end of the year/period	<u>58,396</u>	<u>43,331</u>	<u>22,362</u>	<u>23,211</u>
Revenue recognised that was included in the contract liability balance at the beginning of the year/period	<u>(5,176)</u>	<u>(58,396)</u>	<u>(43,331)</u>	<u>(20,604)</u>

Contract liabilities in 2016 have increased by approximately RMB53,220,000 which was due to the Group typically receiving full deposit on acceptance of orders for all customers, except for the major customers of the Group, since 1 January 2016.

Contract liabilities in 2017 and 2018 have decreased by approximately RMB15,065,000 and RMB20,969,000 respectively which was due to the Group fasten the delivery process close to the reporting date.

24. Lease liabilities

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current				
Lease liabilities	—	—	—	1,682
Non-current				
Lease liabilities	—	—	—	4,744
	—	—	—	6,426

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities immediately after the date of initial application (Note 3(b)).

The Group rents a number of properties and land under operating leases. The agreements run for an initial period of 1 to 49 years and do not include an extension option.

The following amounts relating to leases were recognised to the consolidated statement of comprehensive income during the six months ended 30 June 2019:

	<i>RMB'000</i>
Depreciation charge of right-of-use assets — properties	889
Depreciation charge of right-of-use assets — land	1,242
Total depreciation charge of right-of-use assets (<i>Note 16</i>)	2,131
Interest expenses included in finance costs (<i>Note 8</i>)	209
Expense relating to short-term leases (included in administrative expenses)	9
	2,349

The total financing cash outflow for right-of-use assets during the six months ended 30 June 2019 was approximately RMB1,035,000.

25. Interest-bearing bank borrowings

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Current				
Interest-bearing bank borrowings — secured (<i>Note</i>)	58,620	48,634	51,302	57,668
Non-current				
Interest-bearing bank borrowings — secured (<i>Note</i>)	76,012	65,801	43,616	51,352
	<u>134,632</u>	<u>114,435</u>	<u>94,918</u>	<u>109,020</u>

Note: Interest is charged in the range of 5.22% to 5.88%, 5.22% to 7.77%, 5.88% to 6.75% and 5.88% to 6.47% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 respectively.

At 31 December 2016, 2017 and 2018 and 30 June 2019, total current and non-current interest-bearing bank borrowings were scheduled to repay as follows:—

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within one year	58,620	48,634	51,302	57,668
Over one year, but within two years	13,277	49,485	5,123	5,692
Over two years, but within five years	56,974	16,316	21,003	23,995
Over five years	5,761	—	17,490	21,665
	<u>134,632</u>	<u>114,435</u>	<u>94,918</u>	<u>109,020</u>

At the end of each reporting period, the Group's interest-bearing bank borrowings are secured by the following assets:—

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Property, plant and equipment (<i>Note 14</i>)	7,043	6,369	30,691	28,282
Prepaid lease payments (<i>Note 15</i>)	45,071	44,132	43,193	—
Right-of-use assets (<i>Note 16</i>)	—	—	—	90,662
Inventories (<i>Note 19</i>)	3,860	3,371	2,558	4,673
	<u>56,974</u>	<u>53,872</u>	<u>76,442</u>	<u>123,617</u>

At the end of each reporting period, the Group's interest-bearing bank borrowings are also secured by properties of Mr. Ernest Chen, Mr. Leo Chen and their respective relatives, and/or property, plant and equipment of Sanvo Holdings. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's interest-bearing bank borrowings of approximately RMB134,632,000, RMB114,435,000, RMB94,918,000 and RMB109,020,000 respectively were also guaranteed by certain subsidiaries, the controlling shareholder, an executive director of the Company, a holder of NCI of Guangdong Sanvo and their relatives and Sanvo Holdings.

26. Deferred income

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
Arising from the acquisition of prepaid lease payments	1,876	1,838	1,800	1,780
Represented by:				
Current portion (<i>Note 23</i>)	38	38	38	38
Non-current portion	1,838	1,800	1,762	1,742
	1,876	1,838	1,800	1,780

For the year ended 31 December 2015, the Group acquired the prepaid land lease with a consideration of RMB44,396,000 for building a new factory in Zhongshan City, with expenses directly related to the acquisition of approximately RMB2,553,000. Zhongshan City government provided subsidy as a reward when Zhongshan Minhe completed the filling work on the land within 12 months after the acquisition. The construction was started and completed during the year ended 31 December 2015 and the Group received the subsidy of approximately RMB1,914,000 during the year ended 31 December 2016.

Deferred income is amortised over the leasing period of the above leasehold land and recognised in the consolidated statements of comprehensive income during the Track Record Period.

27. Deferred tax assets/(liabilities)

Details of the deferred tax assets/(liabilities) recognised and movements during the Track Record Period are as follows:—

Deferred tax assets

	Tax loss available for offsetting against future taxable profits
	RMB'000
At 1 January 2016, 31 December 2016 and 2017 and 1 January 2018	—
Acquisition of Sanvo Holdings (<i>Note 37</i>)	788
Charged to profit or loss for the year (<i>Note 11</i>)	(315)
At 31 December 2018 and 1 January 2019	473
Charged to profit or loss for the period (<i>Note 11</i>)	(473)
At 30 June 2019	—

Deferred tax liabilities

	Revaluation surplus arising from business combinations	Accelerated tax depreciation	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	613	613
Credited to profit or loss for the year (Note 11)	—	(17)	(17)
At 31 December 2016 and 1 January 2017	—	596	596
Changes resulting from a decrease in applicable tax rate (Note 11)	—	(238)	(238)
Credited to profit or loss for the year (Note 11)	—	(10)	(10)
At 31 December 2017 and 1 January 2018	—	348	348
Acquisition of Sanvo Holdings (Note 37)	4,370	—	4,370
Credited to profit or loss for the year (Note 11)	(332)	(10)	(342)
At 31 December 2018 and 1 January 2019	4,038	338	4,376
Credited to profit or loss for the period (Note 11)	(708)	(6)	(714)
At 30 June 2019	<u>3,330</u>	<u>332</u>	<u>3,662</u>

28. Share capital

	Number of shares	Share capital
		RMB'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 12 April 2018 (date of incorporation of the Company), 31 December 2018, 1 January 2019 and 30 June 2019 (Note (a))	39,000,000	313
Issued and fully paid:		
At 12 April 2018 (date of incorporation of the Company)	—	—
Issue of share upon incorporation (Note (b))	1	—*
Issue of shares arising from the Reorganisation (Note (c))	99	—*
At 31 December 2018, 1 January 2019 and 30 June 2019	<u>100</u>	<u>—*</u>

* Less than RMB1,000

Notes:

- (a) On 12 April 2018, the Company was incorporated in the Cayman Islands with authorised share capital of HK\$390,000 (equivalent to approximately RMB313,000) divided into 39,000,000 shares of par value of HK\$0.01 each.

- (b) On the date of incorporation, 1 share of the Company was allotted and issued at HK\$0.01 to the initial subscriber, who then immediately transferred such share to Sanvo Fine Chemicals, the ultimate holding company.
- (c) On the date of incorporation, 95 shares and 4 shares of the Company were also allotted and issued at HK\$0.95 and RMB12,560,000 to Sanvo Fine Chemicals and Mr. Heng Victor Ja Wei, respectively. Accordingly, the Company's share capital was increased by HK\$1 and the remaining balance of the proceeds was credited to the share premium account.

Other than the share allotment and transfer aforementioned, no other share transaction was undertaken by the Company from its incorporation. There was no authorised and issued capital as at 31 December 2016 and 2017 as the Company has not yet been incorporated.

29. Reserves

Details of the movements on the Group's reserves are as set out in the consolidated statements of changes in equity. Details of the movements on the Company's reserves are set out as below:

	Share premium	Translation reserve	Accumulated losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 12 April 2018 (date of incorporation of the Company)	—	—	—	—
Loss for the period	—	—	(5,531)	(5,531)
Other comprehensive income:				
Exchange differences arising on translation	—	216	—	216
Total comprehensive income/(loss) for the period	—	216	(5,531)	(5,315)
Issuance of shares arising from the Reorganisation (<i>Note 28(c)</i>)	12,560	—	—	12,560
Balance at 31 December 2018 and 1 January 2019	12,560	216	(5,531)	7,245
Loss for the period	—	—	(6,573)	(6,573)
Other comprehensive loss:				
Exchange differences arising on translation	—	(95)	—	(95)
Total comprehensive loss for the period	—	(95)	(6,573)	(6,668)
Balance at 30 June 2019	<u>12,560</u>	<u>121</u>	<u>(12,104)</u>	<u>577</u>

Share premium

The share premium account of the Group and the Company includes the premium arising from the issue of new shares pursuant to the Reorganisation.

Capital reserve

The capital reserve as at 31 December 2016 comprises paid-up capital of Guangdong Sanvo, Guangdong Fuvo, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam. The capital reserve as at 31 December 2017 comprises share capital of Olive Woods and paid-up capital of Guangdong Sanvo, Guangdong Fuvo, Shunde Sanvo, Zhongshan Minhe and Guangdong Fullteam. These paid-up capital and share capital was eliminated when the Company became the holding company of these subsidiaries upon completion of the Reorganisation during the year ended 31 December 2018 and the six months ended 30 June 2019.

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Company and certain subsidiaries whose functional currencies are different from that of the presentation currency.

Other reserves

	Statutory surplus reserve	Safety reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2016	1,111	1,292	2,403
Appropriation to safety reserve	—	1,383	1,383
Appropriation to statutory surplus reserve	302	—	302
Balance at 31 December 2016 and 1 January 2017	1,413	2,675	4,088
Appropriation to safety reserve	—	703	703
Appropriation to statutory surplus reserve	217	—	217
Balance at 31 December 2017 and 1 January 2018	1,630	3,378	5,008
Appropriation to safety reserve	—	6,162	6,162
Utilisation of safety reserve	—	(847)	(847)
Appropriation to statutory surplus reserve	643	—	643
Balance at 31 December 2018 and 1 January 2019	2,273	8,693	10,966
Appropriation to safety reserve	—	4,042	4,042
Utilisation of safety reserve	—	(928)	(928)
Appropriation to statutory surplus reserve	921	—	921
Balance at 30 June 2019	<u>3,194</u>	<u>11,807</u>	<u>15,001</u>

Statutory surplus reserve

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory surplus reserve can be utilised to offset prior years' losses and may be capitalised as registered capital, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of registered capital.

Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, certain subsidiaries are required to set aside an amount to a safety reserve at different rates ranging from 2% to 4% per annum of the total revenue recognised during the Track Record Period. The reserve can be utilised for improvements of safety on production.

30. Commitments**(a) Capital Commitments**

Capital expenditures contracted for but not yet incurred at the end of each reporting period are as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
Property, plant and equipment	5,756	42,285	27,991	28,726

(b) Operating lease commitments*The Group as the lessee*

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
Within 1 year	1,151	1,346	2,098	18
Over 1 year but less than 5 years	1,747	1,000	3,284	—
Over 5 years	10,628	10,446	10,263	—
	13,526	12,792	15,645	18

The Group rents a number of properties and land under operating leases. The agreements run for an initial period of 1 to 49 years and do not include an extension option.

Upon the initial application of IFRS 16 as at 1 January 2019, operating lease commitments were remeasured and recognised as adjustments to the lease liabilities immediately after the date of initial application (Note 3(b)). Operating lease commitments as at 30 June 2019 shown above only represent lease commitments of the Group for short-term leases.

The Group as the lessor

Sanvo Holdings has certain operating lease arrangements in relation to part of its factories, which were acquired by the Group during the Acquisition and were classified as property, plant and equipment as at the date of the Acquisition. Those operating lease arrangements run for an initial period from one to three years. At 31 December 2018 and 30 June 2019, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants which fall due as follows:

	As at 31 December 2018	As at 30 June 2019
	<u>RMB'000</u>	<u>RMB'000</u>
Within 1 year	<u>256</u>	<u>450</u>

31. Related party transactions

Other than disclosed elsewhere in the Historical Financial Information, the Group has the following transactions with its related parties in the normal course of its business and mutually agreed between both parties:—

(a) Recurring transactions

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Rent paid to Mr. Ernest Chen	<u>1,680</u>	<u>1,680</u>	<u>1,680</u>	<u>840</u>	<u>840</u>

(b) Guarantees provided by related parties

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Guarantees of interest-bearing bank borrowings provided by Mr. Ernest Chen	80,000	70,000	25,000	25,000
Guarantees of interest-bearing bank borrowings provided by Mr. Leo Chen	<u>80,000</u>	<u>70,000</u>	<u>25,000</u>	<u>25,000</u>

Guarantees of interest-bearing bank borrowings provided by Mr. Ernest Chen were released prior to the Listing.

(c) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the directors of the Company. Key management personnel remuneration are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	654	832	941	396	766
Retirement benefit scheme contributions	29	29	35	15	23
	<u>683</u>	<u>861</u>	<u>976</u>	<u>411</u>	<u>789</u>

32. Financial instruments by category

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets measured at amortised cost				
— Trade and bills receivables and other receivables	51,551	73,492	36,497	50,833
— Amount due from a director	113,631	87,500	—	—
— Pledged bank deposits	15,018	10,351	11,290	11,985
— Cash and cash equivalents	21,272	40,405	18,818	45,857
	<u>201,472</u>	<u>211,748</u>	<u>66,605</u>	<u>108,675</u>
Financial assets at FVTPL	20,000	—	—	—
	<u>221,472</u>	<u>211,748</u>	<u>66,605</u>	<u>108,675</u>
Financial liabilities				
Financial liabilities measured at amortised cost				
— Trade and bills payables, accruals and other payables	102,300	148,844	127,930	142,406
— Lease liabilities	—	—	—	6,426
— Amount due to a director	—	—	58,930	63,184
— Interest-bearing bank borrowings	134,632	114,435	94,918	109,020
	<u>236,932</u>	<u>263,379</u>	<u>281,778</u>	<u>321,036</u>

33. Financial risk management and fair values of financial instruments

The Group is exposed to a variety of risks including interest rate risk, credit risk and liquidity risk through its use of financial instruments in its ordinary course of operations.

The Group does not have any written risk management policies and guidelines. The directors of the Company monitor the financial risk management and take such measures as considered necessary from time to time to minimise such financial risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk primarily arises from interest-bearing bank borrowings.

Interest-bearing bank borrowings obtained at variable rates expose the Group to the cash flow interest rate risk. Interest-bearing bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. In general, the Group raises long-term borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's fixed rates borrowings and floating rates net borrowings are as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Fixed rate borrowings:				
Interest-bearing bank borrowings	103,632	88,732	52,200	59,997
Floating rate borrowings:				
Interest-bearing bank borrowings	31,000	25,703	42,718	49,023
Less: pledged bank deposits	(15,018)	(10,351)	(11,290)	(11,985)
Less: bank balances	(20,024)	(39,460)	(18,087)	(45,718)
	(4,042)	(24,108)	13,341	(8,680)
	<u>99,590</u>	<u>64,624</u>	<u>65,541</u>	<u>51,317</u>

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after income tax and retained earnings to a possible change in interest rates of +/- 1%, with effect from the beginning of each reporting period. The calculations are based on the Group's pledged bank deposits, bank balances and interest-bearing bank borrowings at floating rate held at the reporting date. All other variables are held constant. A positive/ (negative) number below indicates an increase in profit after income tax and retained earnings where interest rates increased by 1%.

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Impact arising from pledged bank deposits and bank balances	<u>286</u>	<u>413</u>	<u>235</u>	<u>493</u>
Impact arising from interest-bearing bank borrowings	<u>(234)</u>	<u>(193)</u>	<u>(320)</u>	<u>(379)</u>

For a decrease in interest rate by 1%, there would be an equal but opposite impact on the profit after income tax and retained earnings.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date.

The sensitivity analysis included in the Historical Financial Information has been prepared on the same basis.

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Pledged bank deposits and bank balances of the Group are held with financial institutions of good standing. The carrying amount of trade and bills receivables, other receivables and amount due from a director represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group has a certain concentration of credit risk as 97%, 77%, 67% and 25% respectively of trade receivables was due from the Group's largest debtor. This debtor is either Sanvo Holdings or an international trading company with good past credit repayment history and records with the Group.

Significant increase in credit risk

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

Despite the aforementioned, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: 1) it has a low risk of default (i.e. no default history); ii) the borrower has strong capacity to meet its contractual cash flow obligations in the near term; and iii) 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.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers that default has occurred when the instrument is more than 90 days past due or the Group ceases business with those debtors unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedure, taking into account legal advice where appropriate. Any recoveries made are recognised directly in profit or loss.

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade and bills payables, accruals and other payables, amount due to a director, interest-bearing bank borrowings 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.

The maturity profile of the Group's non-derivative financial liabilities at each reporting period, based on the contracted undiscounted payments, is as follows:—

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year but less than 5 years	Over 5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2016					
Trade and bills payables, accruals and other payables	102,300	102,300	102,300	—	—
Interest-bearing bank borrowings	134,632	145,867	62,652	77,269	5,946
	<u>236,932</u>	<u>248,167</u>	<u>164,952</u>	<u>77,269</u>	<u>5,946</u>
As at 31 December 2017					
Trade and bills payables, accruals and other payables	148,844	148,844	148,844	—	—
Interest-bearing bank borrowings	114,435	119,446	50,876	68,570	—
	<u>263,279</u>	<u>268,290</u>	<u>199,720</u>	<u>68,570</u>	<u>—</u>
As at 31 December 2018					
Trade and bills payables, accruals and other payables	127,930	127,930	127,930	—	—
Amount due to a director	58,930	58,930	58,930	—	—
Interest-bearing bank borrowings	94,918	108,998	54,930	33,922	20,146
	<u>281,778</u>	<u>295,858</u>	<u>241,790</u>	<u>33,922</u>	<u>20,146</u>
As at 30 June 2019					
Trade and bills payables, accruals and other payables	142,406	142,406	142,406	—	—
Lease liabilities	6,426	14,585	2,029	2,388	10,168
Amount due to a director	63,184	63,184	63,184	—	—
Interest-bearing bank borrowings	109,020	126,514	62,891	38,959	24,664
	<u>321,036</u>	<u>346,689</u>	<u>270,510</u>	<u>41,347</u>	<u>34,832</u>

As at 30 June 2019, the Group had net current liabilities of approximately RMB106,495,000. The liquidity of the Group is primarily dependent on the unutilised facilities as detailed in Note 2.2 to meet its debt obligations.

(d) Fair values of financial instruments

Financial instruments other than financial assets at FVTPL, are not measured at fair value and measured at amortised cost. The carrying amounts of these financial instruments are not materially different from their fair values as at 31 December 2016, 2017 and 2018 and 30 June 2019.

34. Fair value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the financial assets at FVTPL at 31 December 2016 amounting to RMB20,000,000 is classified at level 3. Due to short duration between the acquisition date, 31 December 2016 and the disposal date and the principal of the investment is protected and guaranteed by the bank, the directors of the Company are in the opinion that the fair value of the financial assets at FVTPL was estimated by the acquisition cost, which is the significant unobservable input used. Should the acquisition cost increase or decrease by 5%, the fair value of the financial assets at FVTPL would be increased or decreased by approximately RMB1,000,000.

The movements during the Track Record Period in the balance of Level 3 fair value measurement are as follows:

	<i>RMB'000</i>
At 1 January 2016	—
Addition	<u>20,000</u>
At 31 December 2016 and 1 January 2017	20,000
Total gains included in profit or loss under other income and gains (<i>Note 7</i>)	22
Disposal of financial assets at FVTPL	<u>(20,022)</u>
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	<u><u>—</u></u>

During the Track Record Period, there was no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of each of the reporting period in which they occur.

35. Capital risk management

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debts. No changes in the objectives, policies or processes for managing capital were made during the Track Record Period.

The capital structure of the Group consists of net debt, which included interest-bearing bank borrowings, net of cash and cash equivalents, as disclosed in Notes 22 and 25 respectively, and equity attributable to owners of the Company, comprising share capital and reserves disclosed in the consolidated statements of financial position.

36. Cash flow information

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities:—

	Interest-bearing bank borrowings (Note 25)				
	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At the beginning of the year/period	127,281	134,632	114,435	114,435	94,918
Changes from financing cash flows:					
Proceeds from interest-bearing bank borrowings	131,461	43,045	88,315	81,616	42,953
Repayment of interest-bearing bank borrowings	(124,110)	(63,242)	(107,832)	(90,976)	(28,851)
Interest paid	(7,413)	(7,489)	(6,375)	(4,040)	(3,352)
Net change from financing cash flows	(62)	(27,686)	(25,892)	(13,400)	10,750
Other change — Interest on interest-bearing bank borrowings	7,413	7,489	6,375	4,040	3,352
At the end of the year/period	<u>134,632</u>	<u>114,435</u>	<u>94,918</u>	<u>105,075</u>	<u>109,020</u>

	Amount due to a director (Note 20)		
	Year ended	Six months ended 30 June	
	31 December	2018	2019
	2018	2018	2019
	RMB'000	RMB'000	RMB'000
		(unaudited)	
At the beginning of the year/period	—	—	58,930
Changes from financing cash flows:			
Advances from a director	55,555	58,901	4,254
Other change — Cash consideration paid by Mr. Ernest Chen on behalf of the Group for the acquisition of Sanvo Holdings (Note 37)	3,375	3,375	—
At the end of the year/period	<u>58,930</u>	<u>62,276</u>	<u>63,184</u>

	Lease liabilities <i>(Note 24)</i>
	Six months ended 30 June 2019
	<i>RMB'000</i>
At the beginning of the period	7,252
Change from financing cash flows — Payment of lease liabilities	(1,035)
Other change — Interest on lease liabilities	209
At the end of the period	<u>6,426</u>

37. Acquisition of Sanvo Holdings

On 19 April 2018 and 27 April 2018, Guangdong Sanvo, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement and a supplemental agreement with Lacosta Development Limited (“LKD HK”) to acquire its 100% equity interest of Sanvo Holdings with a cash consideration of approximately RMB13,237,000, capital gain tax of RMB3,375,000 charged to LKD HK which is borne by the Group and waiver of advances of approximately RMB34,646,000 provided by Sanvo Holdings to Mr. Li Tao, the then ultimate controlling shareholder of Sanvo Holdings.

The Acquisition was completed on 27 April 2018 and Sanvo Holdings became an indirectly wholly owned subsidiary of the Company. The cash consideration of approximately RMB13,237,000 was fully settled before 31 December 2018.

The table below summarises the consideration paid for the acquisition of Sanvo Holdings, and the fair values of assets acquired and liabilities assumed at the acquisition date:

	<i>Notes</i>	As at acquisition date <i>RMB'000</i>
Recognised amounts of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment	14	28,997
Prepaid lease payments	15	22,912
Prepayments for acquisition of property, plant and equipment		2,293
Deferred tax assets	27	788
Inventories		25,462
Bills and other receivables and prepayments <i>(Note (a))</i>		40,548
Cash and cash equivalents		1,668
Trade and other payables and accruals <i>(Note (f))</i>		(62,193)
Deferred tax liabilities	27	<u>(4,370)</u>
Total identifiable net assets		56,105
Gain from bargain purchase <i>(Note (b))</i>		<u>(4,847)</u>
Total consideration		<u>51,258</u>

	<i>Notes</i>	As at acquisition date <u>RMB'000</u>
Consideration:		
Cash consideration		13,237
Capital gain tax charged to LKD HK which is borne by the Group (<i>Note 36</i>)		3,375
Waiver of advances to the then ultimate controlling shareholder of Sanvo Holdings (<i>Note (c)</i>)		<u>34,646</u>
Total consideration		<u><u>51,258</u></u>
Net cash flow arising on acquisition:		
Cash consideration paid		13,237
Less: Cash and cash equivalents acquired		<u>(1,668)</u>
Net cash outflow on acquisition		<u><u>11,569</u></u>

Notes:

- (a) The gross contractual undiscounted balances of bills and other receivables amounted to approximately RMB38,502,000. The fair values of these bills and other receivables at the acquisition date were estimated to be approximately RMB38,502,000, based on an assessment of the expected credit risks of the balances, which is estimated based on the estimated credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort.
- (b) Gain from bargain purchase was arising from the change of net asset value of Sanvo Holdings between the date of determining the consideration and the acquisition date.
- (c) Other than cash consideration of approximately RMB13,237,000 and the capital gain tax charged to LKD HK of RMB3,375,000 which is borne by the Group, the Group also waived the advances previously provided by Sanvo Holdings to Mr. Li Tao at approximately RMB34,646,000.
- (d) The fair values of assets acquired and liabilities assumed at the acquisition date have been arrived at based on a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, an independent valuer not connected with the Group and Sanvo Holdings and a member of Hong Kong Institute of Surveyors.
- (e) On 1 January 2018, Mr. Leo Chen was appointed as a director of LKD HK, who is for handling the administrative processing in relation to the acquisition of Sanvo Holdings. Thus, LKD HK is not considered as related party.
- (f) Including in the balance, there were trade payables of approximately RMB46,659,000 that were due to the Group.

The acquired business contributed revenue of approximately RMB155,392,000 and RMB33,721,000 and net profit after tax of approximately RMB4,697,000 and RMB1,874,000 for the period from 27 April 2018 to 31 December 2018 and for the period from 27 April 2018 to 30 June 2018, respectively. If the acquisition had occurred on 1 January 2016, pro forma consolidated revenue for each of the three years ended 31 December 2018 and the six months ended 30 June 2018 would have been approximately RMB608,461,000, RMB779,279,000, RMB822,300,000 and RMB371,738,000 respectively, while pro forma consolidated profit for each of the three years ended 31 December 2018 would have been approximately RMB28,268,000, RMB18,208,000 and RMB25,811,000 respectively, and pro forma consolidated loss for the six months ended 30 June 2018 would have been approximately RMB499,000 respectively.

38. Contingent liabilities

Up to the date of this report, the following legal proceedings of the Group are still outstanding.

Litigation claim relating to injuries of a construction worker

On 2 July 2016, a construction worker (the "Plaintiff") who was employed by the Group's constructor suffered injuries whilst performing upgrade construction in the factory building of Guangdong Fuvo. After diagnosis, the Plaintiff was proven to be permanently disabled. On 24 August 2017, a personal injury claim was initiated by the Plaintiff against the Group relating to compensation for his medical expenses and psychological distress. On 17 August 2018, Zhongshan City Second Court concluded that the Group had to make compensation for the Plaintiff's medical expenses and psychological distress amounting of approximately RMB587,000. As a result of the foregoing, the Group recognised the provision for litigation of approximately RMB587,000 under the administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2017. Such provision is included in trade and bills payables, accruals, contract liabilities and other payables in the consolidated statements of financial position as at 31 December 2017 and 2018.

On 8 October 2018, the Plaintiff and the Group submitted the appeal application to the Zhongshan City Intermediate People's Court. Pursuant to the judgement dated 27 May 2019, Zhongshan City Intermediate People's Court concluded that the Group had to make compensation for the Plaintiff's medical expenses and psychological distress amounting of approximately RMB1,382,000. As a result of the foregoing, the Group recognised additional compensation expense to the Plaintiff of approximately RMB795,000 under the administrative expenses in the consolidated statement of comprehensive income for the six months ended 30 June 2019. Such compensation was fully paid to the Plaintiff during the six months ended 30 June 2019.

Other than the disclosure of above, as at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group was not involved in any other material litigation or arbitration. As far as the Group was aware, the Group had no other material litigation or claim which was pending or threatened against the Group.

39. Event after the reporting period

The companies comprising the Group underwent the Reorganisation described in Note 2.1 in preparation for the listing of shares of the Company on the Stock Exchange.

On 13 December 2019, the authorised share capital of the Company was increased from HK\$390,000 (equivalent to approximately RMB313,000) divided into 39,000,000 shares to HK\$15,000,000 divided into 1,500,000,000 shares of per value of HK\$0.01 each. The Company will offer 90,000,000 new shares for subscription by way of share offer.

Except as disclosed elsewhere in this report, there are no other material subsequent events undertaken by the Company or by the Group after 30 June 2019.

40. Subsequent financial statements

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2019 up to the date of this report.

III. ADDITIONAL PRE-ACQUISITION FINANCIAL INFORMATION OF SANVO HOLDINGS

As stated in Note 37 to the Historical Financial Information of the Group, the Group acquired the entire equity interests in Sanvo Holdings on 27 April 2018.

The pre-acquisition financial information of Sanvo Holdings for each of the two years ended 31 December 2017 and the period from 1 January 2018 to 26 April 2018 (the date prior to Sanvo Holdings becoming a subsidiary of the Group) (the “Pre-Acquisition Period”) (the “Pre-Acquisition Financial Information”) has been prepared by the directors of Sanvo Holdings in accordance with the accounting policies set out in Note 4 to the Historical Financial Information of the Group, which conforms with IFRSs.

The Pre-Acquisition Financial Information is presented in RMB, which is also the functional currency of Sanvo Holdings. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statements of Comprehensive Income of Sanvo Holdings

	Notes	Year ended 31 December		Period from 1 January to 26 April	
		2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Revenue	2	162,555	202,995	51,246	64,255
Cost of sales		(134,892)	(172,659)	(40,254)	(47,854)
Gross profit		27,663	30,336	10,992	16,401
Other income and gains	2	4,159	4,256	1,398	1,056
Selling and distribution expenses		(17,399)	(22,773)	(6,816)	(5,220)
Administrative expenses		(7,031)	(10,712)	(3,156)	(3,211)
Profit before income tax	3	7,392	1,107	2,418	9,026
Income tax expense	4	—	—	—	—
Profit and total comprehensive income for the year/period		<u>7,392</u>	<u>1,107</u>	<u>2,418</u>	<u>9,026</u>

Statements of Financial Position of Sanvo Holdings

	<i>Notes</i>	As at 31 December		As at
		2016	2017	26 April
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS AND LIABILITY				
Non-current assets				
Property, plant and equipment	6	16,783	17,150	17,165
Prepaid lease payments	7	5,898	5,686	5,615
Prepayments for acquisition of property, plant and equipment	8	880	1,278	2,293
		<u>23,561</u>	<u>24,114</u>	<u>25,073</u>
Current assets				
Inventories	9	23,914	23,291	25,462
Bills and other receivables and payments	8	33,661	40,727	40,760
Cash and cash equivalents	10	2,652	3,403	1,668
		<u>60,227</u>	<u>67,421</u>	<u>67,890</u>
Current liability				
Trade and other payables and accruals	11	63,151	69,791	62,193
Net current (liabilities)/assets		<u>(2,924)</u>	<u>(2,370)</u>	<u>5,697</u>
Net assets		<u>20,637</u>	<u>21,744</u>	<u>30,770</u>
CAPITAL AND RESERVES				
Paid-up capital		22,864	22,864	22,864
(Deficits)/reserves		(2,227)	(1,120)	7,906
Total equity		<u>20,637</u>	<u>21,744</u>	<u>30,770</u>

Statements of Changes in Equity of Sanvo Holdings

	Paid-up capital	Other reserve	(Accumulated losses)/ retained earnings	Total equity
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Balance at 1 January 2016	22,864	964	(10,583)	13,245
Profit and total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>7,392</u>	<u>7,392</u>
Balance at 31 December 2016 and at 1 January 2017	22,864	964	(3,191)	20,637
Profit and total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>1,107</u>	<u>1,107</u>
Balance at 31 December 2017 and 1 January 2018	22,864	964	(2,084)	21,744
Profit and total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>9,026</u>	<u>9,026</u>
Appropriation of statutory surplus reserve	<u>—</u>	<u>521</u>	<u>(521)</u>	<u>—</u>
Balance at 26 April 2018	<u><u>22,864</u></u>	<u><u>1,485</u></u>	<u><u>6,421</u></u>	<u><u>30,770</u></u>
Balance at 1 January 2017	22,864	964	(3,191)	20,637
Profit and total comprehensive income for the period (unaudited)	<u>—</u>	<u>—</u>	<u>2,418</u>	<u>2,418</u>
Balance at 26 April 2017 (unaudited)	<u><u>22,864</u></u>	<u><u>964</u></u>	<u><u>(773)</u></u>	<u><u>23,055</u></u>

Statements of Cash Flows of Sanvo Holdings

	Notes	Year ended 31 December		Period from 1 January to 26 April	
		2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities					
Profit before income tax		7,392	1,107	2,418	9,026
Adjustments for:—					
Amortisation of prepaid lease payments	3	212	212	71	71
Depreciation of property, plant and equipment	3	1,697	1,772	885	665
Bank interest income	2	(15)	(27)	(5)	(2)
Operating profit before working capital changes		<u>9,286</u>	<u>3,064</u>	<u>3,369</u>	<u>9,760</u>
(Increase)/decrease in inventories		(12,835)	623	(4,856)	(2,171)
Decrease/(increase) in bills and other receivables and prepayments		1,038	(2,802)	(4,008)	238
Increase/(decrease) in trade and other payables and accruals		<u>9,370</u>	<u>6,640</u>	<u>11,525</u>	<u>(7,598)</u>
Net cash generated from operating activities		<u>6,859</u>	<u>7,525</u>	<u>6,030</u>	<u>229</u>
Cash flows from investing activities					
Bank interest received		15	27	5	2
Payment for acquisition of property, plant and equipment		(2,743)	(1,634)	(441)	(680)
Prepayments for acquisition of property, plant and equipment		(760)	(903)	(232)	(1,015)
(Advance to)/repayment from the then controlling shareholder of Sanvo Holdings		<u>(3,575)</u>	<u>(4,264)</u>	<u>2,123</u>	<u>(271)</u>
Net cash (used in)/generated from investing activities		<u>(7,063)</u>	<u>(6,774)</u>	<u>1,455</u>	<u>(1,964)</u>
Net (decrease)/increase in cash and cash equivalents		(204)	751	7,485	(1,735)
Cash and cash equivalents at the beginning of the year/period		<u>2,856</u>	<u>2,652</u>	<u>2,652</u>	<u>3,403</u>
Cash and cash equivalents at the end of the year/period		<u><u>2,652</u></u>	<u><u>3,403</u></u>	<u><u>10,137</u></u>	<u><u>1,668</u></u>

Statements of Cash Flows of Sanvo Holdings (Continued)

Non-cash transaction:

During the years ended 31 December 2016 and 2017 and the period from 1 January 2017 to 26 April 2017, property, plant and equipment of approximately RMB1,856,000, RMB505,000 and RMB456,000, respectively were prepaid in prior years and then transferred from prepayments for acquisition of property, plant and equipment.

NOTES TO THE PRE-ACQUISITION FINANCIAL INFORMATION OF SANVO HOLDINGS

1. Segment information

Sanvo Holdings has three reportable segments which are Sanvo Holdings' strategic business units, as follows:

Oil products	— Sales of diesel engine oil, gasoline engine oil, gear oil, motorcycle oil, lubricating grease, anti-wear hydraulic oil and synthetic brake fluid
Organic silicone adhesives	— Sales of product series, which are all silicone-based adhesives
Synthetic adhesive	— Sales of several product series, which are all multi-purpose contact adhesives

Information about strategic business units of other operating segments that are not reportable in accordance with IFRS 8 "Operating Segment" are consolidated and disclosed in "All other segments".

These strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the directors of Sanvo Holdings, who are the CODMs of Sanvo Holdings during the Pre-Acquisition Period, review internal management reports on a monthly basis. There was no aggregation of operating segments in arriving at the reportable segments of the Group.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitor the results attributable to each reportable segment on the following basis:

Segment profit represents the gross profit earned by each segment without allocation of central administration expenses (including emoluments of directors), selling and distribution expenses and other income and gains. This is the measure reported to Sanvo Holdings' CODM for the purposes of resource allocation.

The CODM review Sanvo Holdings' assets and liabilities as a whole without allocation to each segment. In their opinion, all strategic business units consume same materials and their products are produced by same machinery and equipment and then they are sold to same customers. As a result, it is not necessary to monitor the assets and liabilities under different segments. No segment information on assets and liabilities is presented accordingly.

During the Pre-Acquisition Period, Sanvo Holdings generated revenue primarily from the sale of three categories of products under these segments. The following table sets out the breakdown of the revenue and segment profit by reportable segment:

	Year ended 31 December 2016			Total RMB'000
	Oil products RMB'000	Organic silicone adhesives RMB'000	Synthetic adhesive RMB'000	
Revenue from external customers and reportable segment revenue — Point in time	48,317	85,766	7,371	141,454
Reportable segment profit	7,568	15,099	1,421	24,088

	Year ended 31 December 2017			
	Oil products	Organic silicone adhesives	Synthetic adhesive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers and reportable segment revenue — Point in time	59,025	123,386	9,048	191,459
Reportable segment profit	12,949	12,652	1,484	27,085

	Period from 1 January 2017 to 26 April 2017			
	Oil products	Organic silicone adhesives	Synthetic adhesive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers and reportable segment revenue — Point in time	18,028	27,858	2,118	48,004
Reportable segment profit	4,855	4,791	510	10,156

	Period from 1 January 2018 to 26 April 2018			
	Oil products	Organic silicone adhesives	Synthetic adhesive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers and reportable segment revenue — Point in time	19,099	40,606	2,664	62,369
Reportable segment profit	4,963	10,461	699	16,123

(b) Reconciliations of reportable segment revenue and profit/(loss) before income tax

A reconciliation of segment revenue to consolidated revenue is presented as follows:—

	Year ended 31 December		Period from 1 January to 26 April	
	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Total reportable segment revenue	141,454	191,459	48,004	62,369
All other segments revenue (<i>Note</i>)	21,101	11,536	3,242	1,886
Consolidated revenue	162,555	202,995	51,246	64,255

Note: Revenue from other segments represents the sales of architectural coatings, synthetics and wood paints.

A reconciliation of segment result to profit before income tax is presented as follows:—

	Year ended 31 December		Period from 1 January to 26 April	
	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Total of reportable segments profit	24,088	27,085	10,156	16,123
All other segments profit (<i>Note</i>)	3,575	3,251	836	278
Other income and gains	4,159	4,256	1,398	1,056
Selling and distribution expenses	(17,399)	(22,773)	(6,816)	(5,220)
Administrative expenses	(7,031)	(10,712)	(3,156)	(3,211)
Profit before income tax	<u>7,392</u>	<u>1,107</u>	<u>2,418</u>	<u>9,026</u>

Note: Segment profit from other segments represents the sales of architectural coatings, synthetics and wood paints.

(c) **Geographical information**

The principal place of Sanvo Holdings' operation is in the PRC. All Sanvo Holdings' revenue from external customers and its non-current assets are located in the PRC.

(d) **Information about major customers**

No individual customer accounted for over 10% of Sanvo Holdings' total revenue during the Pre-Acquisition Period.

2. **Revenue and other income and gains**

Revenue from Sanvo Holdings' principal activities represent revenue derived from the sale of chemical products. Revenue and other income and gains recognised during the Pre-Acquisition Period are as follows:—

	Year ended 31 December		Period from 1 January to 26 April	
	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Revenue (<i>Note (i)</i>)	<u>162,555</u>	<u>202,995</u>	<u>51,246</u>	<u>64,255</u>
Other income and gains				
Bank interest income	15	27	5	2
Government subsidies (<i>Note (ii)</i>)	105	15	1	300
Rental income	4,006	4,183	1,392	753
Gain on disposal of scraps and raw materials	22	—	—	1
Sundry income	11	31	—	—
	<u>4,159</u>	<u>4,256</u>	<u>1,398</u>	<u>1,056</u>

Notes:

- (i) Disaggregation of revenue from contracts with customers by major categories of products is disclosed in Note 1.

Sanvo Holdings has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts such that the information about revenue that Sanvo Holdings will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that have an original expected duration of one year or less is not disclosed.

- (ii) Sanvo Holdings received unconditional subsidies from local government during the Pre-Acquisition Period as a recognition of contribution from Sanvo Holdings to the development of the local economy.

3. Profit before income tax

Profit before income tax is arrived at after charging:—

	Year ended 31 December		Period from 1 January to 26 April	
	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of prepaid lease payments (<i>Notes (i) and 7</i>)	212	212	71	71
Cost of inventories recognised as expenses	134,892	172,659	40,254	47,854
Depreciation of property, plant and equipment (<i>Note 6</i>)	1,697	1,772	885	665
Employee benefit expenses (including directors' remuneration) (<i>Note (ii)</i>)				
— Salaries, allowances and benefits in kind	6,334	7,772	1,750	2,771
— Discretionary bonus	254	409	31	3
— Retirement benefit scheme contributions	643	921	242	171
	<u>7,231</u>	<u>9,102</u>	<u>2,023</u>	<u>2,945</u>
Research and development expenses				
— Material consumption	1,769	4,822	1,607	1,321
— Others	29	252	84	36
	<u>1,798</u>	<u>5,074</u>	<u>1,691</u>	<u>1,357</u>

Notes:

- (i) Amortisation of prepaid leases payments are included in cost of sales.
- (ii) Employee benefit expenses are included in cost of sales, selling and distribution expenses and administrative expenses.
- (iii) Research and development expenses are included in administrative expenses.

4. Income tax expense

No provision for EIT has been made as Sanvo Holdings did not have any estimated assessable profits subject to EIT for the year ended 31 December 2017. Estimated assessable profits subject to EIT for the year ended 31 December 2016 and for the periods from 1 January 2017 to 26 April 2017 and 1 January 2018 to 26 April 2018 were set off against the taxation losses unrecognised in prior years so no provision for EIT has been made.

Under the EIT Law and the Implementation Regulation of the EIT Law, Sanvo Holdings is subject to the tax rate of 25% on the estimated assessable profits during the year ended 31 December 2016. Sanvo Holdings was approved to be HNTE on 11 December 2017, and it enjoyed the preferential tax rate of 15% for HNTE and addition 50% tax reduction based on the eligible research and development expenses for the year ended 31 December 2017 and the periods from 1 January 2017 to 26 April 2017 and from 1 January 2018 to 26 April 2018. The HNTE certificate needs to be renewed every three years so as to enable to enjoy the reduced tax rate of 15%.

Income tax expense for the Pre-Acquisition Period can be reconciled to the profit before income tax per the statements of comprehensive income as follows:—

	Year ended 31 December		Period from 1 January to 26 April	
	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Profit before income tax	7,392	1,107	2,418	9,026
Tax calculated at the rates applicable to profit in the tax jurisdiction concerned	1,848	277	605	2,257
Tax effect of concessionary rate	—	—	—	(892)
Tax effect of non-deductible expenses	7	11	8	1
Tax effect of tax losses not recognised	—	404	—	—
Utilisation of tax losses previously not recognised	(1,855)	—	(404)	(1,215)
Tax reduction for research and development expenses	—	(692)	(209)	(151)
Income tax expense	—	—	—	—

At 31 December 2016 and 2017 and 26 April 2018, Sanvo Holdings has cumulative tax losses arising in the PRC of approximately RMB9,706,000, RMB13,280,000 and RMB5,255,000 respectively that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which these tax losses can be utilised.

Pursuant to the EIT Law, 10% withholding tax is imposed on dividends declared in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident investors for the companies established in the PRC. For qualified investors incorporated in Hong Kong, a treaty rate of 5% will be applicable. Temporary withholding tax differences relating to the undistributed profits of Sanvo Holdings amounted to approximately RMB6,421,000 as at 26 April 2018. Deferred tax liabilities of approximately RMB642,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings as LKD HK is in a position to control the dividend policy of Sanvo Holdings during the Pre-Acquisition Period and it has been determined that it is probable that undistributed profits of Sanvo Holdings will not be distributed in the foreseeable future.

5. Dividend

No dividend was paid or declared by Sanvo Holdings during the Pre-Acquisition Period.

6. Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost							
At 1 January 2016	18,128	2,941	554	293	952	4,330	27,198
Additions	247	3,108	100	—	—	1,144	4,599
Transfer	—	3,170	—	—	—	(3,170)	—
At 31 December 2016 and 1 January 2017	18,375	9,219	654	293	952	2,304	31,797
Additions	541	576	24	141	5	852	2,139
Transfer	2,430	136	—	—	—	(2,566)	—
At 31 December 2017 and 1 January 2018	21,346	9,931	678	434	957	590	33,936
Additions	—	187	—	2	—	491	680
At 26 April 2018	21,346	10,118	678	436	957	1,081	34,616
Accumulated depreciation							
At 1 January 2016	11,497	614	328	74	804	—	13,317
Charge for the year	829	699	105	56	8	—	1,697
At 31 December 2016 and 1 January 2017	12,326	1,313	433	130	812	—	15,014
Charge for the year	880	714	101	76	1	—	1,772
At 31 December 2017 and 1 January 2018	13,206	2,027	534	206	813	—	16,786
Charge for the period	322	289	25	28	1	—	665
At 26 April 2018	13,528	2,316	559	234	814	—	17,451
Net carrying amount							
At 31 December 2016	<u>6,049</u>	<u>7,906</u>	<u>221</u>	<u>163</u>	<u>140</u>	<u>2,304</u>	<u>16,783</u>
At 31 December 2017	<u>8,140</u>	<u>7,904</u>	<u>144</u>	<u>228</u>	<u>144</u>	<u>590</u>	<u>17,150</u>
At 26 April 2018	<u>7,818</u>	<u>7,802</u>	<u>119</u>	<u>202</u>	<u>143</u>	<u>1,081</u>	<u>17,165</u>

As at 31 December 2016 and 2017 and 26 April 2018, Sanvo Holdings' property, plant and equipment with net carrying amount of approximately RMB4,126,000, RMB8,132,000 and RMB18,325,000 were pledged for interest-bearing bank borrowings of the Group.

Sanvo Holdings does not have the title certificates for certain items of buildings with an aggregate net carrying amount of approximately RMB1,933,000, RMB2,602,000 and RMB2,499,000 as at 31 December 2016 and 2017 and 26 April 2018. The directors of Sanvo Holdings are of the opinion that Sanvo Holdings is entitled to lawfully and validly occupy and use the above mentioned properties and therefore the aforesaid matter does not affect the ownership rights of Sanvo Holdings over these assets and hence did not have any significant impact on Sanvo Holdings' financial position as at 31 December 2016 and 2017 and 26 April 2018.

7. Prepaid lease payments

Sanvo Holdings has prepaid operating lease for the land use rights in the PRC. Movements in the prepaid lease payments are analysed as follows:—

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	6,322	6,110	5,898
Amortisation charge for the year/period	(212)	(212)	(71)
At the end of the year/period	<u>6,110</u>	<u>5,898</u>	<u>5,827</u>
Represented by:			
Current portion (Note 8)	212	212	212
Non-current portion	<u>5,898</u>	<u>5,686</u>	<u>5,615</u>
	<u>6,110</u>	<u>5,898</u>	<u>5,827</u>

8. Bills and other receivables and prepayments

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Non-current portion			
Prepayments for acquisition of property, plant and equipment (Note (i))	<u>880</u>	<u>1,278</u>	<u>2,293</u>
Current portion			
Bills receivables (Note (ii))	—	—	206
Other receivables	1,411	3,988	3,650
Prepaid lease payments – current portion (Note 7)	212	212	212
Prepayments	1,927	2,152	2,046
Receivable due from the then controlling shareholder of Sanvo Holdings (Note (iii))	<u>30,111</u>	<u>34,375</u>	<u>34,646</u>
	<u>33,661</u>	<u>40,727</u>	<u>40,760</u>

Notes:

- (i) It represents the amount prepaid to vendors for acquisition of property, plant and equipment which was not yet delivered as at the end of each reporting date.
- (ii) All bills receivables were neither past due nor impaired. Sanvo Holdings does not hold any collaterals or other credit enhancements over bills receivables. The directors of Sanvo Holdings determined that there are no material expected loss. The ageing analysis of bills receivables based on invoice date is as follows:

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 1 month	—	—	206

- (iii) The amount is fund advanced to the then controlling shareholder of Sanvo Holdings, and it is unsecured, interest-free and repayable on demand and was waived for settlement at the date of acquisition of Sanvo Holdings by the Group.

9. Inventories

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Raw materials	9,894	10,562	10,177
Work in progress	1,527	980	386
Finished goods	12,493	11,749	14,899
	<u>23,914</u>	<u>23,291</u>	<u>25,462</u>

10. Cash and cash equivalents

Cash and cash equivalents represents cash at banks and cash on hand.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2016 and 2017 and 26 April 2018, Sanvo Holdings' cash and cash equivalents were denominated in RMB, amounted to approximately RMB2,652,000, RMB3,403,000 and RMB1,668,000 respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

11. Trade and other payables and accruals

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade payables (<i>Note (i)</i>)	56,086	63,238	56,076
Accrued expenses	492	921	1,041
Accrued salaries	802	1,581	959
Other payables	5,120	3,400	3,918
Rental deposits received	651	651	199
	<u>63,151</u>	<u>69,791</u>	<u>62,193</u>

Note:

- (i) The credit period received from suppliers of Sanvo Holdings is ranging from 30 to 90 days for the Pre-Acquisition Period. The ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December		As at 26 April
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 1 month	10,409	16,543	24,372
Over 1 month but less than 3 months	14,385	11,926	5,850
Over 3 months but less than 1 year	31,287	34,642	24,975
Over 1 year	5	127	879
	<u>56,086</u>	<u>63,238</u>	<u>56,076</u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant's Report from Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

(A) STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Share Offer on the audited consolidated net tangible assets of the Group attributable to owners of the Company as if the Share Offer had taken place on 30 June 2019.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group had the Share Offer been completed on 30 June 2019 or at any future dates.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 derived from the Accountant's Report set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019		Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019		Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 per Share	
	RMB'000 (Note 1)	Estimated net proceeds from the Share Offer RMB'000 (Note 2)	RMB'000	RMB	HK\$	
Based on an Offer Price of HK\$1.20 per Offer Share	44,350	77,390	121,740	0.28	0.32	
Based on an Offer Price of HK\$1.40 per Offer Share	44,350	92,416	136,766	0.32	0.36	

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 of approximately RMB44,350,000 are extracted from the Accountant's Report, as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 90,000,000 Shares to be issued under the Share Offer and the Offer Price of HK\$1.20 and HK\$1.40 per Offer Share, respectively, being the low-end and high-end of the stated Offer Price Range, after the deduction of the underwriting fees and other related expenses to be incurred by the Group (other than expenses of approximately RMB18,261,000 already recognised in profit or loss up to 30 June 2019), but without taking into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Schemes or allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.8788, which was the rate prevailing on 30 June 2019. No representation is made that the HK\$ amounts have been, could have been or could be converted into RMB, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 per Share is calculated based on 427,500,000 Shares assuming that the Capitalisation Issue Shares and the Share Offer had been completed on 30 June 2019, but without taking into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme or allotted and issued or repurchased by the Company pursuant to the general mandate as for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from RMB into HK\$ at an exchange rate of RMB0.8788 to HK\$1, which was the rate prevailing on 30 June 2019. No representation is made that the RMB amounts have been, could have been or could be converted to HK\$, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2019.
- (6) The unaudited pro forma of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2019 does not take into account the amount due to Mr. Ernest Chen of RMB33,184,000 was capitalised on 31 October 2019.

Taking into account of the impact of the amount due to Mr. Ernest Chen of RMB33,184,000 was capitalised on 31 October 2019 and estimated net proceeds from the Share Offer at the Offer Price of HK\$1.20 and HK\$1.40 per Offer Share, the unaudited pro forma of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company will be RMB154,924,000 and RMB169,950,000, respectively. The unaudited pro forma of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share after taken into account of such amount due to Mr. Ernest Chen of RMB33,184,000 was capitalised on 31 October 2019, estimated net proceeds from the Share Offer at the Offer Price of HK\$1.20 and HK\$1.40 per Offer Share, will be RMB0.36 per Share and RMB0.40 per Share (equivalent to HK\$0.41 per Share and HK\$0.45 per Share), respectively.

**(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.

**Moore Stephens CPA Limited**

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180

F +852 2375 3828

www.moore.hk

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The Directors
SANVO Fine Chemicals Group Limited

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of SANVO Fine Chemicals Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 June 2019 and the related notes as set out in Part A of Appendix II on pages II-1 to II-2 of the prospectus dated 27 December 2019 (the "Prospectus") issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed share offer of the Company (the "Share Offer") on the Main Board of The Stock Exchange of Hong Kong Limited on the Group's financial position as at 30 June 2019 as if the Share Offer had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial position as at 30 June 2019, on which an accountant's report set out in Appendix I to the Prospectus 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 ("AG") 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" 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 behavior.

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 Accountant's 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 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 2019 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 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 accountant's judgment, having regard to the reporting accountant's 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 by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Li Wing Yin
Practising Certificate Number: P05035
Hong Kong, 27 December 2019

The following is the valuation report, prepared for the purpose of incorporation in this prospectus received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 30 September 2019 of the property interests held by Guangdong SANVO.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2017 (“IVS”) and published by the International Valuation Standards Council which followed by the HKIS Valuation Standards 2017 Edition (the “HKIS Standards”) and published by The Hong Kong Institute of Surveyors (“The HKIS”). The standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the Latest Practicable Date of this Prospectus. If additional documents and facts are made available, we reserve the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

27 December 2019

The Board of Directors
SANVO Fine Chemicals Group Limited
Dacen Industrial Park
Huangpu Town
Guangdong Province
The People’s Republic of China

Dear Sirs,

In accordance with the instructions given to us by the present management of SANVO Fine Chemicals Group Limited (hereinafter referred to as the “Instructing Party”) to conduct an valuation engagement of certain *real properties* (same as the word *properties* in this report) in which SANVO Fine Chemicals Group Limited (hereinafter referred to as the “Company”) and its subsidiaries and/or its major shareholders (collectively, together with the Company hereinafter referred to as the “Group”) have interests in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have conducted inspections, made relevant

enquiries and obtained such further information as we consider necessary to support our working, and to perform an independent valuation of the real properties by using the most appropriate method as at 30 September 2019 (hereinafter referred to as the “Valuation Date”) for the Instructing Party’s internal management reference purpose. We are given to understand that the properties under the list provided are held by the Group.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party’s due diligence but we have not been engaged to make specific sales or purchase recommendations, or to give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and values of the property interests are documented in this valuation report and submitted to the Instructing Party at today’s date (hereinafter referred to as the “Report Date”). We are further given to understand that this valuation report would be included in this prospectus (hereinafter referred to the “Prospectus”) for the Company’s initial public offering purpose. This valuation report comprises the text section, summary of values section and property particulars with values section.

VALUATION OF PROPERTIES

Basis of Value and Assumptions

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, having considered the inherent characteristic of each property, that is, the property can be freely transferred in the market, we have provided our values of the properties on the market value basis.

The term “Market Value” is defined by the IVS and the HKIS Standards 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”.

Unless otherwise stated, our valuations of the real properties held by the Group in Groups I and II have been made on the assumptions that, as at the Valuation Date,

1. the legally interested party in each of the properties has absolute title to its relevant property interests;
2. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired term as granted, and any premiums payable have already been fully paid;

3. the legally interested party in each of the properties sells its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property interest;
4. each of the properties has obtained relevant government's approval for the sale of the property and is able to be disposed of and transferred it free of all encumbrances (including but not limited to the cost of transaction) in the market; and
5. each of the properties can be freely disposed of and transferred free of all encumbrances as at the Valuation Date for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the values as reported.

Approach to Value

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing Property Nos. 1 and 2 in Group I and Property No. 4 in Group II, having considered the general and inherent characteristics of the properties, we have adopted the depreciated replacement cost approach, which is an application of the Cost Approach, in valuing specialised properties like the properties. The use of this approach requires an estimate of the market value of the land use rights for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the property. The land use rights of properties have been determined from market-based evidences by analysing similar sales or offerings of comparable properties.

By using this approach, the land should be assumed to have the benefit of planning permission for the replacement of the existing buildings and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing buildings and site works, and the extent to which these realise the full potential value of the land. When considering a notional replacement site, it should normally be regarded as having the same physical and location characteristics as the actual site, other than characteristics of the actual site which are not relevant, or are of no value, to the existing use. In considering the buildings, the gross replacement cost of the buildings should take into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use. These costs to be estimated are not to erect buildings in the future but have the buildings available for occupation at the valuation date, the work having commenced at the appropriate time.

The valuations of the properties are on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the values of the total assets employed and the nature of the operation.

In valuing Property No. 3 in Group I, we have adopted the Sales Comparison Approach on the assumption that the property could be sold with the benefit of vacant possession as at the Valuation Date. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

We need to state that our opinion of values of the properties are not necessarily intended to represent the amount that might be realised from disposition of land use rights or various building(s) of the properties on piecemeal basis in the open market.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis to the properties and the study of possible alternative development options and the related economics do not come within the scope of our work.

REPORTING OF LEASEHOLD PROPERTY INTERESTS IN GROUP III

Properties in this Group are subject to various leasehold arrangements, and we have assigned no commercial value to the property interests due mainly to its leasehold nature or prohibition against assignment or sub-letting or lack of substantial rents.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as they appeared in the copies of the documents as provided and information from the Instructing Party and its appointed personnel and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

Unless otherwise stated, no allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting the sale of properties in Groups I and II. It is further assumed that the properties are free from all encumbrances, restrictions, and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, in our valuations, we have assumed that the properties in Groups I and II are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

Save except disclosed under the sections “Business — Properties — Properties with defective titles” and “Business — Occupational health and work safety — Fire Incident at our FV Production Site”, as at the Latest Practicable Date of this Prospectus, we are unable to identify any adverse news against the properties which may affect the reported findings or values in our work product. Thus, we are not in the position to report and comment on its impact (if any) on the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the findings or value(s) reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement, the Instructing Party or the appointed personnel of the Company provided us the necessary documents to support that the legally interested party in each of the properties has free and uninterrupted rights to assign, to transfer, to mortgage, to let or to use the properties at its existing use (in this instance, an absolute title), for the whole of the unexpired terms as granted, free of all encumbrances or any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Group has the right to occupy and use the properties. However, our procedures to value, as agreed with Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal adviser to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have been provided with copies of the title documents of the properties. However, we have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal titles and the rights (if any) to the properties valued. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties in China. However, we have complied with the requirements as stated in Listing Rules (as defined in this Prospectus) and relied solely on the copies of document and the copy of the PRC legal opinions provided by the Instructing Party with regard to the legal titles of the properties. We are given to understand that the PRC legal opinion was prepared by the Company's PRC legal adviser, King & Wood Mallesons (Guangzhou). No responsibility or liability from our part is assumed in relation to those legal opinions.

By referencing to the legal opinions, we understand that the Group has obtained all the approval and/or endorsement from the relevant authorities, and that there would be no legal impediment (especially from the regulators) for the Group to continue the legal titles to the properties. Should this not be the case, it will affect our findings or conclusion of values in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

The properties were inspected by Sr Elsa Ng (a Registered Professional Surveyor in Hong Kong and a Registered Real Estate Appraiser in the PRC) in July 2018 and December 2019. We inspected the properties under the companion of the staff of the Group. As advised, the staff possesses the ability to accompany us to conduct inspection. According to the IVS and the HKIS Standards, the reason to have inspection, which is part of investigation, is to enable the valuer to have a better understanding of the property to be valued and its characteristics that are relevant to its value. We have inspected the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our work should not be taken as making any implied representation or statement about such parts. No building survey, structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the properties valued. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material have been used in the construction of the properties, or have since been incorporated into the properties, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigations would not disclose the presence of any such materials to any significant extent.

Unless otherwise stated, we are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our agreed procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the Instructing Party or the appointed personnel of the Company.

We have relied solely on the information provided by Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, development schedule, lettings, rentals, site and floor areas and all other relevant matters.

The scope of our work has been determined by reference to the property list provided by the Instructing Party. All properties on the list have been included in our report. The Instructing Party has confirmed to us that the Group has no property interest other than those specified on the list supplied to us.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local real property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

When we adopted the work products from other professions, external data providers and the appointed personnel of the Group or the Instructing Party in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuations. The procedures we have taken as agreed do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the instructing Party or the appointed personnel of the Company. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the work.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party or the appointed personnel of the Group. We consider that we have been provided with sufficient information to reach an informed view, and have had no reasons to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

OPINION OF VALUE

Based on the above information and assumptions, we are of the opinion that the Market Value of the properties in Groups I and II held by the Group as at the Valuation Date in its existing states and assuming free of all encumbrances was in the order of RENMINBI YUAN ONE HUNDRED SEVENTY-EIGHT MILLION AND EIGHT HUNDRED THOUSAND ONLY (RMB178,800,000). For breakdown of values, please refer to the following sections.

LIMITING CONDITIONS

Our findings or values of the properties in this report are valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person. Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspection and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this report to reflect events or conditions, which occur or make known to us subsequent to the date hereof. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this Prospectus for the Company's initial public offering purpose.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost etc.), even if it has been advised of their possible existence. For the avoidance of doubt, our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

It is agreed that the Instructing Party and the Group are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, wilful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

Our report is prepared in line with the reporting requirements contained in Chapter 5 of the Listing Rules as well as the reporting guidelines contained in the IVS and the HKIS Standards. The valuations have been undertaken by us, acting as external valuer, for the purpose of the valuation.

We retain a copy of this report together with the data and documents provided by the Instructing party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis and valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or values significantly.

We hereby certify that the fee for this service is not contingent upon our opinion of values, and we have no significant interest in the properties, the Group or the values reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS(GP)*
Executive Director

Contributing valuer:
Krystal Tian Qi *B.Sc. M.Sc.*

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS

SUMMARY OF VALUES

Group I — Properties held and/or occupied by the Group under long-term title certificates in the PRC and valued on market value basis

Property	Amount of valuation in its existing state as at 30 September 2019 <i>RMB</i>	Interest of the Group	Amount of valuations in its existing state Attributable to the Group as at 30 September 2019 <i>RMB</i>
1. A factory complex erected on a parcel of land and located at Jiyou Industrial Zone Xingtian Town Shunde District Fushan City Guangdong Province The People's Republic of China 528325	RMB22,100,000	100 per cent.	RMB22,100,000
2. A factory complex erected on a parcel of land and located at No. 5 Xinliu West Road Huangpu Town Zhongshan City Guangdong Province The People's Republic of China 528429	RMB46,800,000	100 per cent.	RMB46,800,000
3. A parcel of land known as Lot No. W01-17-0167 and located at Maan Village Huangpu Town Zhongshan City Guangdong Province The People's Republic of China 528429	RMB23,700,000	100 per cent.	RMB23,700,000
Sub-total:	<u><u>RMB92,600,000</u></u>		<u><u>RMB92,600,000</u></u>

Group II — Property held under development by the Group under long-term title certificates in the PRC and valued on market value basis

Property	Amount of valuation in its existing state as at 30 September 2019 <i>RMB</i>	Interest of the Group	Amount of valuations in its existing state Attributable to the Group as at 30 September 2019 <i>RMB</i>
4. A developing factory complex erected on a parcel of land and located at Shazai Village Minzhong Town Zhongshan City Guangdong Province The People's Republic of China 528441	RMB86,200,000	100 per cent.	RMB86,200,000
Sub-total:	<u>RMB86,200,000</u>		<u>RMB86,200,000</u>

Group III — Properties occupied by the Group under various operating leases in the PRC

Property	Amount of valuation in its existing state as at 30 September 2019 <i>RMB</i>	Interest of the Group	Amount of valuations in its existing state Attributable to the Group as at 30 September 2019 <i>RMB</i>
5. A factory complex erected on two parcels of adjoining land and located at Dacen Industrial Zone No. 43 Chengye Avenue Huangpu Town Zhongshan City Guangdong Province The People's Republic of China 528429	No Commercial Value		No Commercial Value

Property	Amount of valuation in its existing state as at 30 September 2019 <i>RMB</i>	Interest of the Group	Amount of valuations in its existing state Attributable to the Group as at 30 September 2019 <i>RMB</i>
6. A factory complex erected on a parcel of land and located at Shangnan Village Fusha Town Zhongshan City Guangdong Province The People's Republic of China 528434	No Commercial Value		No Commercial Value
7. Two parcels of land located at Jiyou Village Xingtan Town Shunde District Fushan City Guangdong Province The People's Republic of China 528325	No Commercial Value		No Commercial Value
8. A parcel of land located at the west of the old office of Xingtan Town Industrial Zone Shunde District Fushan City Guangdong Province The People's Republic of China 528325	No Commercial Value		No Commercial Value
Sub-total:	No Commercial Value		No Commercial Value
Grand-total:	RMB178,800,000		RMB178,800,000

PROPERTIES PARTICULARS WITH VALUES

Group I — Properties held and/or occupied by the Group under long-term title certificates in the PRC and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 30 September 2019
1. A factory complex erected on a parcel of land and located at Jiyou Industrial Zone Xingtan Town Shunde District Fushan City Guangdong Province The PRC 528325	<p>The property comprises a parcel of land having a site area of 13,824.28 square meters (“sq.m.”) with 9 various major buildings and structures erected thereon. (See Note 1 below).</p> <p>The major buildings and structures include office, workshop, warehouses and others supporting facilities of height ranging from single to 2 storeys and were completed in 2003 and 2004. According to the information provided by the appointed personnel of the Company, they have a total gross floor area of approximately 6,900.83 sq.m. (See Notes 2 and 3 below)</p> <p>The property is subject to a right to use the land for a term till 30 June 2052 for industrial purpose. (See Note 1 below)</p>	As inspected by us and confirmed by the appointed personnel of the Company, the property was occupied by member of the Group namely Guangdong Shunde Sanvo Chemical Industry Limited, for office, workshop, warehouse, staff quarters and other supporting purposes.	RMB22,100,000 (100 per cent. interest)

Notes:

- The right to possess the land is held by the State and the right to use a parcel of land having a site area of approximately 13,824.28 sq.m. has been granted by the State to 廣東順德三和化工有限公司 (translated as Guangdong Shunde Sanvo Chemical Industry Limited and hereinafter referred to as “Shunde Sanvo”) via a Realty Title Certificate known as Yue Fang Di Quan Zheng Fu Zi Di 0313081162 Hao (粵房地權證佛字第 0313081162 號) issued by the Foshan Shunde People’s Government (佛山市順德區人民政府) and registered on 15 October 2013, the legally interested party in the land is Shunde Sanvo for a term till 30 June 2052 for industrial purpose.

2. According to the above mentioned Realty Title Certificate, the major buildings and structures erected on the land have a total gross floor area of 4,752.18 sq.m.

The area breakdowns for each of the buildings and structures are as follows:

	<u>Buildings/structures</u>	<u>Year of Completion</u>	<u>Gross Floor Area (sq.m.)</u>
(i)	An office building	2003	1,288.92
(ii)	A warehouse	2003	821.28
(iii)	A workshop/warehouse	2003	1,003.71
(iv)	A workshop	2003	1,176.42
(v)	A guard room	2003	43.85
(vi)	A quality control and research center	2003	417.99
		Total	<u>4,752.18</u>

According to the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Malleons (Guangzhou), we are given to understand that there were extension to the workshop/warehouse mentioned in (iii) and (iv) above without following planning and construction application procedures.

3. According to the information provided by the appointed personnel of the Company and the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Malleons (Guangzhou), there are 3 buildings/structures having a total gross floor area of approximately 6,517.63 sq.m., without Realty Title Certificate but erected on the land as mentioned in Note 1 above. The area breakdowns for each of the buildings and structures are as follows:

	<u>Buildings/structures</u>	<u>Year of Completion</u>	<u>Gross Floor Area (sq.m.)</u>
(i)	Warehouse 3	2004	869.24
(ii)	Workshop 3	2004	700
(iii)	Warehouse 4	2004	579.41
		Total	<u>2,148.65</u>

4. According to the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Malleons (Guangzhou), the following opinions are noted:

- (i) Shunde Sanvo has legally obtained the land use rights of the property and is the only legally interested party in the land;
- (ii) Shunde Sanvo has legally obtained the right of the buildings mentioned in Note 2 above and is the only legally interested party in the said buildings;
- (iii) Pursuant to a Planning Permit for Construction Project Jian Zi Di 440606201808798 Hao dated 23 July 2018 and issued by the Fushan City Planning and Statistic Bureau, Shunde Sanvo was permitted to develop workshops, which upon completion, would have a total gross floor area of 6,452.82 sq.m. (which includes after extension of workshop mentioned in 2(iv) and the warehouse 4 mentioned in 3(iii) above);
- (iv) Pursuant to a Planning Permit for Construction Project Jian Zi Di 440606201808780 Hao dated 23 July 2018 and issued by Fushan City Planning and Statistic Bureau, Shunde Sanvo was permitted to develop workshop and warehouses, which upon completion, would have a total gross floor area of 7,297.09 sq.m. (which includes area of workshop/warehouse mentioned in 2(iii) (after extension), 2(vi) and warehouse 3 mentioned in 3(i) above);
- (v) Shunde Sanvo will apply for new title document for (iii) and (iv) above;

- (vi) According to the interview with the relevant Planning and Management Bureau of Fushan City Planning and Statistics Bureau, subject to completion of planning application of those buildings without following planning and construction application and submission of relevant required information, there is no legal impediment for the buildings to obtain the relevant construction permits and the subsequent Realty Title Certificates upon obtaining completion satisfaction. Moreover, Shunde Sanvo, as at the interview date, did not receive any dispute on construction work and any lawsuits or complaints relating to land and buildings; and
 - (vii) Shunde Sanvo did not obtain prior approval on the extension to the workshops mentioned in Note 2 (iii) and 2 (iv) and did not obtain Realty Title Certificates for the buildings mentioned in Note 3 above. Shunde Sanvo has the risk of being requested to verify or demolish the buildings in concern within a time frame or confiscation of illegal proceeds generated, and required to compensate. In view of (a) interviewed with relevant government officials and received confirmation from them for not requesting Shunde Sanvo to pay penalty, stop using or demolish the relevant buildings; (b) Shunde Sanvo's normal business operation can be conducted in buildings with proper title certificates, the risk of the Group receiving penalty from the relevant government department is low and its business operation activities will not be seriously affected even though it is punished.
5. For account reporting purpose, should it be established that the buildings and structures as mentioned in Note 3 above could obtain the relevant approvals and authorisations from the authorities, and could be transferred together with the land as a unique interest in the market without any further encumbrances/premium, the valuation of the property would become approximately RMB24,500,000 as at the Valuation Date.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 30 September 2019
2. A factory complex erected on a parcel of land and located at No. 5 Xinliu West Road Huangpu Town Zhongshan City Guangdong Province The PRC 528429	<p>The property comprises 6 various buildings in the complex known as Block A, B, C, D, E and F, and 3 various structures erected a parcel of land having a site area of 62,606.7 sq.m. (See Note 1 below)</p> <p>The major buildings and structures including office, workshop and warehouses, having a total gross floor area of approximately 40,801.2 sq.m., were all completed in 2001. (See Notes 2 and 3 below)</p> <p>The property is subject to a right to use the land for a term till 8 February 2044 for industrial purpose. (See Note 1 below)</p>	<p>As inspected by us and confirmed by the appointed personnel of the Company, majority of the property was occupied by member of the Group namely Guangdong Sanvo Holdings Co., Limited, for office, workshop, warehouse, staff quarters and other supporting purposes, and portion of the property was vacant and portion was subject to a tenancy. (See Note 4 below)</p>	<p>RMB46,800,000</p> <p>(100 per cent. interest)</p>

Notes:

- The right to possess the land is held by the State and the right to use a parcel of land having a site area of 62,606.7 sq.m. has been granted by the State to 廣東三和控股有限公司 (translated as Guangdong Sanvo Holdings Co., Limited and hereinafter referred to as "Sanvo Holdings") via a Realty Title Certificate known as Yue (2015) Zhong Shan Shi Bu Dong Chan Quan Di 0039133 Hao (粵(2015) 中山市不動產權第0039133號) issued by the Zhongshan Land & Resources Bureau (中山市國土資源局) and dated 8 December 2015, the legally interested party in the land is Sanvo Holdings till 8 February 2044 for industrial purpose.
- According to the abovementioned Realty Title Certificate, the major buildings erected on the land have a total gross floor area of 27,760.9 sq.m. The area breakdowns for each of the buildings are as follows:

Buildings	Year of Completion	Gross Floor Area (sq.m.)
(i) A 2-storey staff quarters (Block A)	2001	992.5
(ii) A 2-storey office (Block B)	2001	1,996.82
(iii) A single storey workshop/warehouses (Block C)	2001	10,548.33
(iv) A single storey workshop (Block D)	2001	7,043.1
(v) A single storey workshop (Block E)	2001	3,520.4
(vi) A single storey workshop (Block F)	2001	1,829.25
(vii) A single storey workshop (Block G)	2001	1,830.50
	Total	<u>27,760.9</u>

3. According to the information provided by the appointed personnel of the Company, there are 5 various buildings/structures having a total gross floor area of approximately 13,040.3 sq.m., without Realty Title Certificate, completed in around 2001 and erected on the land as mentioned in Note 1 above. Four of the buildings/structures were vacant/owner occupied and the remaining one was subject to a tenancy as mentioned in Note 4 below. As inspected in December 2019, the leased property was vacant.
4. The property was subject to a tenancy agreement as at the Valuation Date. Details are as follows:

<u>Buildings/Structures Gross Floor Area (sq.m.)</u>	<u>Lease Term</u>	<u>Monthly Rental (exclusive of management fee, utilities charges) (RMB)</u>
Block G — 1,830.5 sq.m.,	1 April 2019 — 31 March 2020	50,000 inclusive of tax

5. According to the legal opinion as prepared by the Company's PRC legal advisor, King & Wood Mallesons (Guangzhou), the following opinions are noted:
- (i) Sanvo Holdings has legally obtained the land use rights of the property and is the only legally interested party in the land;
 - (ii) Sanvo Holdings has legally obtained the right of the buildings mentioned in Note 2 above and is the only legally interested party in the said buildings;
 - (iii) Sanvo Holdings has an absolute right to possess, use, lease or other uses comply with the relevant laws and regulations, and the actual usages of the land and buildings mentioned in Note 2 above complied with the statutory usage as stated in the aforesaid Realty Title Certificate;
 - (iv) According to the interviews with the relevant government departments, Sanvo Holdings will not be requested to demolish or vacate or stop using/ leasing the buildings mentioned in Note 3 above but will be required to submit relevant planning application after payment of relevant penalty. Subject to completion of relevant planning application of the buildings mentioned in Note 3 above and submission of relevant required information, there is no legal impediment for the buildings to obtain the relevant construction permits and the subsequent Realty Title Certificates upon obtaining completion satisfaction. Moreover, Sanvo Holdings, as at the interview date, did not receive any dispute on construction work, and any lawsuits or complaints relating to land and buildings;
 - (v) Sanvo Holdings did not obtain Realty Title Certificates for the buildings mentioned in Note 3 above, Sanvo Holdings has the risk of being requested to verify or demolish the buildings in concern within a time frame or confiscation of illegal proceeds generated, and requested to compensate. In view of (a) among the 5 various buildings in concern, 4 of them are vacant, not for manufacturing purpose of Sanvo Holdings; (b) the remaining building is only 30 sq.m. guard room; and (c) interviewed with relevant government officials and received confirmation from them for not requesting Sanvo Holdings to demolish or vacate the relevant buildings, the risk of the Group receiving penalty from the relevant government department is low and its business operation activities will not be seriously affected even though it is punished; and
 - (vi) the property is subject to a mortgages in favour of 順德農村商業銀行股份有限公司杏壇支行, and except the aforesaid mortgages, the property is free from further encumbrances, restrictions, and seizure.
6. For account reporting purpose, should it be established that the buildings and structures as mentioned in Note 3 above could obtain the relevant approvals and authorisations from the authorities, and could be transferred together with the land as a unique interest in the market without any further encumbrances/premium, the valuation of the property would become RMB54,900,000 as at the Valuation Date.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 30 September 2019
3. A parcel of land known as Lot No. W01-17-0167 and located at Maan Village Huangpu Town Zhongshan City Guangdong Province The PRC 528429	<p>The property comprises a parcel of land having a total site area of 30,764.1 sq.m. (See Note 1 below)</p> <p>The property is subject to a right to use the land for a term till 7 June 2068 for industrial purpose. (See Note 1 below)</p>	As inspected by us and confirmed by the appointed personnel of the Company, the property was vacant.	<p>RMB23,700,000</p> <p>(100 per cent. interest)</p>

Notes:

1. The right to possess the land is held by the State and the right to use the land was granted by the State to 廣東三和化工科技有限公司 (translated as Guangdong Sanvo Chemical Industry Technology Limited and hereinafter referred to as “Guangdong Sanvo”), via the following ways:
 - (i) a Contract for the Grant of State-owned Construction Land Use Rights (國有建設用地使用權出讓合同) known as No. 442000-2018-000519 dated 11 April 2018 and made between Zhongshan City Land and Resources Bureau and Guangdong Sanvo, the land use rights of a parcel of land known as Lot No. W01-17-0167 having a site area of 30,746.1 sq.m. was granted to Guangdong Sanvo for a term of 50 years for industrial usage at a consideration of RMB23,073,075. According to the information available to us, the consideration has been fully paid; and
 - (ii) via a Realty Title Certificate known as Yue (2018) Zhong Shan Shi Bu Dong Chan Quan Di 0207907 Hao (粵(2018)中山市不動產權第0207907號) issued by the Zhongshan Land and Resources Bureau (中山市國土資源局), the legally interested party in the land is Guangdong Sanvo till 7 June 2068 for industrial purpose.
2. Pursuant to a Planning Permit for Using Construction Usage Land (建設用地規劃許可證) Di Zi Di 021122018050004 Hao dated 23 May 2018 and issued by the Zhongshan City Urban and Rural Planning Bureau (中山市城鄉規劃局), Guangdong Sanvo was permitted to develop the land parcel having a site area of 30,764.1 sq.m.
3. Pursuant to 2 various numbers of Planning Permit for Construction Project (建設工程規劃許可證) Jian Zi Di 021212019100022 and 021212019100023 Hao (建字第021212019100022及021212019100023號) all dated 1 November 2019, and issued by the Zhongshan City Natural Resources Bureau (中山市自然資源局), Guangdong Sanvo was permitted to develop workshops, guard rooms and other associated facilities (staff quarters), upon completion with a total gross floor area of approximately 70,792.59 sq.m.
4. According to the legal opinion as prepared by the Company’s PRC legal adviser, King & Wood Mallesons (Guangzhou), the following opinions are noted:
 - (i) Guangdong Sanvo fully paid the consideration and related tax of the property, and there is no dispute with the local authority;
 - (ii) The property is subject to mortgage in favour of 廣發銀行股份有限公司中山分行 and except the aforesaid mortgages, the property is free from all encumbrances, restrictions, and seizure.
 - (iii) pursuant to a letter dated 28 December 2018 and issued the relevant Zhongshan Idle Land Working Group office, Zhongshan City Housing, Urban and Rural Planning Bureau (中山市住房和城鄉建設局) agreed Guangdong Sanvo to apply construction permit to develop the property before 10 June 2020; and
 - (iv) Guangdong Sanvo has legally obtained the land use rights of the property and is the only legally interested party in the property. Guangdong Sanvo can use and construct on the property according to the usage under aforesaid State-owned Land Use Rights Certificate, and relevant PRC laws and regulations.

Group II — Property held under development by the Group under long-term title certificates in the PRC and valued on market value basis

<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Amount of valuation in its existing state attributable to the Group as at 30 September 2019</u>
4. A developing factory complex erected on a parcel of land and located at Shazai Village Minzhong Town Zhongshan City Guangdong Province The PRC 528441	<p>The property comprises a parcel of land having a site area of 63,825.3 sq.m. and a developing Phases I and II of a factory complex erecting thereon <i>(See Note 1 below)</i></p> <p>We were given to understand that the usage of the development upon completion will be for industrial purpose, and the total planned gross floor area for the whole development which will consist of 3 phases upon completion will be 67,599.41 sq.m. <i>(See Note 2 below)</i></p> <p>Construction works of Phase I was completed in around April 2019 and Phase II was under construction at the time of inspection. <i>(See Notes 3 and 4 below)</i></p> <p>Phase I of the property consists of 2 various workshops and 2 various warehouses having a total gross floor area of approximately 25,914.78 sq.m. Phase II of the property consists of a warehouse and a liquid irrigation area and a LPG underground storage tanks area. Upon completion, the warehouse will have a gross floor area of approximately 4,973.28 sq.m. We are given to understand that Phase II is expected to be completed in the first quarter of 2020.</p> <p>The property is subject to a right to use the land for a term till 24 December 2064 for industrial purpose. <i>(See Note 1 below)</i></p>	<p>As inspected by us and confirmed by the appointed personnel of the Company, Phase I of the property was completed and Phase II of the property was under construction.</p> <p>Due to the nature of construction works in progress and safety concerns, we were unable to conduct internal inspection to the interior of the buildings under construction.</p>	<p>RMB86,200,000</p> <p>(100 per cent. interest)</p>

Notes:

1. The right to possess the land is held by the State and the right to use a parcel of land having a site area of approximately 63,825.3 sq.m. has been granted by the State to 中山市珉和化工科技有限公司 (translated as Zhongshan Minhe Chemical Industry Technology Limited and hereinafter referred to as “Zhongshan Minhe”) via a State-owned Land Use Rights Certificate known as Zhong Fu Guo Yong (2015) Di 0800104 Hao (中府國用(2015)第0800104號) issued by the People’s Government of Zhongshan City (中山市人民政府) and dated 2 March 2015, the legally interested party in the land is Zhongshan Minhe for a term till 24 December 2064 for industrial purpose. The consideration of the land was RMB43,082,000.

Pursuant to a Planning Permit for Using Construction Usage Land (建設用地規劃許可證) Di Zi Di 030222014110010 Hao dated 12 December 2014 and issued by the Zhongshan City Urban and Rural Planning Bureau (中山市城鄉規劃局), Zhongshan Minhe was permitted to develop the land parcel having a site area of 63,825.3 sq.m.
2. Pursuant to 3 various numbers of Planning Permit for Construction Project (建設工程規劃許可證) Jian Zi Di 031212016090043, 031212016090044 and 031212016090045 Hao (建字第031212016090043, 031212016090044 及 031212016090045號) all dated 22 October 2016, and issued by the Zhongshan City Urban and Rural Planning Bureau (中山市城鄉規劃局), Zhongshan Minhe was permitted to develop workshops, warehouses, research and development building and other associated structures in three phases, which upon completion, would have a total gross floor area of 67,599.41 sq.m. for the whole development.
3. Pursuant to a Construction Permit for Construction Project (建設工程施工許可證) No. 442000201701132101 (編號442000201701132101) dated 13 January 2017 and issued by the Zhongshan City Housing, Urban and Rural Planning Bureau (中山市住房和城鄉建設局), Zhongshan Minhe was permitted to commence construction of the Phase 1 which, upon completion, will have a total gross floor area of 25,914.78 sq.m..
4. Pursuant to a Construction Permit for Construction Project (建設工程施工許可證) No. 442000201901171201 (編號442000201901171201) dated 17 January 2019 and issued by the Zhongshan City Housing, Urban and Rural Planning Bureau (中山市住房和城鄉建設局), Zhongshan Minhe was permitted to commence construction of the Phase II which, upon completion, will have a total gross floor area of 4,973.28 sq.m..
5. According to the information provided by the appointed personnel of the Instructing Party, the cost incurred for the project was approximately RMB41.7 million and the estimated total cost to complete the development was approximately RMB68.5 million (excluding machinery) as at the Valuation Date. Estimated value after completion of the development in approximately RMB155 million.
6. According to the legal opinion as prepared by the Company’s PRC legal adviser, King & Wood Mallesons (Guangzhou), the following opinions are noted:
 - (i) Zhongshan Minhe has legally obtained the land use rights of the property and is the only legally interested party in the property;
 - (ii) Zhongshan Minhe can use and construct on the property according to the usage under aforesaid State-owned Land Use Rights Certificate, Planning Permit for Construction Project, Construction Permit for Construction Project and relevant PRC laws and regulations;
 - (iii) the aforesaid development and construction on the property comply with the statutory usage as stated on the State-owned Land Use Rights Certificate; and
 - (iv) the property is subject to a mortgage in favour of 順德農村商業銀行股份有限公司杏壇支行, and expect the abovementioned mortgage, the property is free from all encumbrances, restrictions, and seizure.

Group III — Properties occupied by the Group under various operating leases in the PRC

Property	Description and Occupancy	Amount of valuation in its existing state attributable to the Group as at 30 September 2019
5. A factory complex erected on two parcels of adjoining land and located at Dacen Industrial Zone No. 43 Chengye Avenue Huangpu Town Zhongshan City Guangdong Province The PRC 528429	<p>The property comprises two parcels of adjoining land having a total site area of approximately 18,600 sq.m. with 17 various major buildings and associated buildings/ structures erected thereon.</p> <p>The major buildings and structures include composite office building, workshops, warehouses, staff quarters, canteen and other supporting facilities of height ranging from single storey to 3-storey and were completed in 2000. According to the information provided by the appointed personnel of the Company, they have a total gross floor area of approximately 7,958.21 sq.m.</p> <p>The property is leased to the Group and, currently occupied by Guangdong Sanvo (as defined in Property 3 above), under a tenancy agreement for a term of 3 years from 1 July 2018 to 30 June 2021 at a monthly rental of RMB80,000 exclusive of management fee.</p> <p>The property was occupied by the Group for office, workshop, warehouse, quarters and other supporting purposes.</p>	No commercial Value

Notes:

1. The lessors of the property are 陳炳強 (Chen Bing Qiang), who is the major shareholder of the Company, and 梁銀生 (Liang Yin Sheng) who authorized Chen Bing Qiang to sign agreement and handle all related issue.
2. The lessee of the property is Guangdong Sanvo.
3. According to the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Mallesons (Guangzhou), the following are noted:
 - (i) the tenancy agreement is legally binding to both parties though it has not registered;

- (ii) the lessors of the property obtain Realty Title Certificates for the office building and staff quarters having a total gross floor area of approximately 3,387.54 sq.m. and the existing uses of these buildings complied with the statutory usage as stated in their respective Realty Title Certificates. Guangdong Sanvo could legally occupy and use the buildings;
- (iii) Guangdong Sanvo could occupy and use the workshop, warehouse and portion of the other supporting facilities, which all form part of the property, under the tenancy agreement and the relevant laws and regulations in the PRC given that the lessors could obtain the realty title certificate. As advised by relevant government authority, no action would be taken to suspend the current production activities of Guangdong Sanvo in the buildings. Guangdong Sanvo could occupy and use the buildings in its existing state without legal impediment;
- (iv) Guangdong Sanvo could occupy and use the canteen and portion of the other supporting facilities, which all form part of the property, under the tenancy agreement and the relevant laws and regulations in the PRC provided that relevant construction application procedures have been completed, the relevant permits and certificates have been obtained and the relevant construction project completion and acceptance have been passed, and could occupy and use the aforesaid part of the property in their existing states according to the tenancy agreement. As advised by relevant government authority, no action would be taken to suspend the current production activities of Guangdong Sanvo in the buildings and there would be no legal impediment for the lessors in obtaining completion and acceptance registration and the resultant Realty Title Certificate after the relevant construction application procedures have been completed. Guangdong Sanvo could occupy and use the buildings in its existing state without legal impediment; and
- (v) The risk of receiving penalty from the relevant government department is low. Guangdong Sanvo's business operation activities will not be seriously affected even though it is punished.

Property	Description and Occupancy	Amount of valuation in its existing state attributable to the Group as at 30 September 2019
6. A factory complex erected on a parcel of land and located at Shangnan Village Fusha Town Zhongshan City Guangdong Province The PRC 528434	<p>The property comprises a parcel of land having a site area of approximately 31,288.5 sq.m. with 4 various major buildings and a temporary structures having a total gross floor area of approximately 4,825.24 sq.m. erected thereon.</p> <p>The 4 major buildings and the temporary structures include office, workshops, and warehouses of height ranging from single to 3 storeys and were completed in around 2001 and 2015.</p> <p>The property is rented to the Group, and currently occupied by Guangdong Fuvo Industry Co., Limited under a tenancy agreement for a term of 3 year commencing from 1 June 2018 to 31 May 2021 at a monthly rental of RMB60,000. The rental was adjusted to RMB80,000 on 21 August 2019.</p> <p>The property was occupied by the Group for office, manufacturing, warehouse and other supporting purposes.</p>	No commercial Value

Notes:

1. The lessor of the property is 陳炳强 (Chen Bing Qiang), who is the major shareholder of the Company.
2. The lessee of the property is Guangdong Fuvo Industrial Co., Limited (“Guangdong Fuvo”), a wholly-owned subsidiary of the Company.
3. According to the legal opinion as prepared by the Company’s PRC legal adviser, King & Wood Mallesons (Guangzhou), the following are noted:
 - (i) the tenancy agreement is effective and legally binding to both parties though it has not registered;
 - (ii) the lessor of the property is in the process to apply for relevant construction planning application and related approval procedures have been completed and getting the relevant realty title certificates of the buildings of the property. As advised by relevant government authority, there is no legal impediment for such application and no action would be taken to suspend the current production operation. Guangdong Fuvo can occupy and use the property in its existing state without legal impediment; and
 - (iii) Guangdong Fuvo could occupy and use the property under the tenancy agreement and the relevant laws and regulations in the PRC provided that relevant construction application and approval procedures have been completed, the relevant permits and certificates have been obtained and the relevant construction project completion and acceptance have been passed.

<u>Property</u>	<u>Description and Occupancy</u>	<u>Amount of valuation in its existing state attributable to the Group as at 30 September 2019</u>
7. Two parcels of land located at Jiyou Village Xingtan Town Shunde District Fushan City Guangdong Province The PRC 528325	<p>The property comprises two parcels of land having a total site area of approximately 7,153.37 sq.m. (10.73 Chinese mu).</p> <p>The property is rented to the Group, and is currently occupied by Shunde Sanvo (as defined in Property 1 above) under a tenancy agreement from 1 June 2013 to 31 March 2062 at a total annual rental of RMB18,810 per mu with a rental growth rate of 5% starting from 1 January 2015 and thereafter 5% per three years for industrial purpose.</p> <p>As inspected and confirmed by the appointed personnel of the Company, the property was vacant.</p>	No commercial Value

Notes:

1. The lessors of the property are, 佛山市順德區杏壇鎮吉祐村民委員會、新一小組、新二小組、蘭堂小組、禮村小組、松南小組.
2. The lessee of the property is Shunde Sanvo.
3. According to the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Mallesons (Guangzhou), the following opinions are noted:
 - (i) The lessors have followed the relevant regulations under the 廣東省集體建設用地使用權流轉管理辦法 (translated as Administrative Measures of Guangdong Province for the Transfer of the Right to the Use of Collectively-owned Land for Construction Purposes) to rent the property with villager's democratic decision making procedures, but did not follow the relevant land registration procedure of leasing collectively-owned land. The Group has risk of receiving penalty from the relevant land administration department but the Group's business operation activities will not be seriously affected as the property is vacant; and
 - (ii) the tenancy agreement is effective and legally binding to both parties though it has not registered.

<u>Property</u>	<u>Description and Occupancy</u>	<u>Amount of valuation in its existing state attributable to the Group as at 30 September 2019</u>
8. A parcel of land located at the west of the old office of Xingtang Town Industrial Zone Shunde District Fushan City Guangdong Province The PRC 528325	<p>The property comprises a parcel of land having a site area of approximately 436 sq.m. (0.65 Chinese mu).</p> <p>The property is rented to the Group, and is currently occupied by Shunde Sanvo (as defined in Property 1 above) under a tenancy agreement. (See Note 3 below)</p> <p>As inspected and confirmed by the appointed personnel of the Company, the property was vacant.</p>	No commercial Value

Notes:

1. The lessor of the property is 佛山市順德區杏壇鎮吉祐村民委員會 (translated as the Jiyou Villagers Committees of Xingtang Town in Shunde District of Fushan City).
2. The lessee of the property is Shunde Sanvo.
3. The property was subject to a tenancy agreement commencing from 1 January 2016 to 31 December 2062 at a total annual rental of RMB13,500 per mu inclusive of management fee with a rental growth rate of 8% per every three years.
4. According to the legal opinion as prepared by the Company's PRC legal adviser, King & Wood Mallesons (Guangzhou), the following opinions are noted:
 - (i) The lessor has followed the relevant regulations under the 廣東省集體建設用地使用權流轉管理辦法 (translated as Administrative Measures of Guangdong Province for the Transfer of the Right to the Use of Collectively-owned Land for Construction Purposes) to rent the property with villager's democratic decision making procedures, but did not follow the relevant land registration procedure of leasing collectively-owned land. The Group has risk of receiving penalty from the relevant land administration department but the Group's business operation activities will not be seriously affected as the property is vacant; and
 - (ii) the tenancy agreement is effective and legally binding to both parties though it has not registered.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 April 2018 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since 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) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 13 December 2019 and will become effective on the Listing Date. A summary of certain provisions of the Articles is set out below.

(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 Cayman Companies Law, 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 any class of shares may (unless otherwise provided for by the terms of issue of the shares 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. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an

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adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

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 an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal

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register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided 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 register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may 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 requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

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(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit 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) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. 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 20% per annum as the Board shall fix from the day appointed for payment 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, 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, nevertheless, 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

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(b) Directors

(i) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest 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 shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term 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 the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

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The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time 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 also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also 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 shall, in the exercise of the powers 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 Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

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The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) 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 shall be 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.

Neither the Company nor the Board shall be 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall 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

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may 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 Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(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 uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, 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.

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(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

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(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with 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 for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of 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 or other benefits received by him as a director, officer or member of 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 in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, 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 for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

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A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity 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;
- (bb) the giving of any security or indemnity 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/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, 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;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) 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, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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 a second or casting vote.

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(c) **Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) **Meetings of member**

(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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is 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 members which 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.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) ***Voting rights and right to demand a poll***

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) 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 share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised 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 in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members 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

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meetings. Such requisition shall be made in writing to the Board or the secretary of the Company 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 two 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 (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.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be 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, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

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(vi) 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, and continues to be present until the conclusion of the meeting.

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 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.

(vii) 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 shall be 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 shall be 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 if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

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The books of accounts of the Company shall be kept at the head office of the Company 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 account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) 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.

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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 of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) 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 members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members 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.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' 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 monies 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the

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monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, 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.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) 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, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

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- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or 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 so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 12 April 2018 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also 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.

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(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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 arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so 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 are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company’s or a subsidiary’s shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. 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 member and, for the avoidance of doubt, 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; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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 that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, 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, in respect of a treasury share.

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(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has 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 the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

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(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 25 April 2018.

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.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right 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 of association.

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(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate 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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a 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 the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

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When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized 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.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

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(s) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents To be Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI. 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**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 April 2018. The principal place of business of our Company in Hong Kong is at 5/F., 349 Hennessy Road, Wanchai, Hong Kong. Our Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance (Cap. 622) on 11 September 2018. Ms. Chan Chun Yee Stella of 5th Floor, 76 Morrison Hill Road, Wanchai, Hong Kong, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands law and to its constitution, which comprises the Memorandum and the Articles. A summary of various provisions of the constitution and relevant aspects of the Companies Law of the Cayman Islands is set out in Appendix IV to this prospectus.

2. Changes in the share capital of our Company

- (a) As at the date of incorporation, our Company has an authorised share capital of HK\$390,000.00 divided into 39,000,000 ordinary Shares with a par value of HK\$0.01 each. On the same day, (i) 1 fully paid ordinary Share was allotted and issued to the initial subscriber, and was subsequently transferred to Sanvo Fine Chemicals, and (ii) 95 ordinary Shares and 4 ordinary Shares were further allotted and issued as fully paid to Sanvo Fine Chemicals and Mr. Victor Heng, respectively.
- (b) on 13 December 2019, the authorised share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares of par value of HK\$0.01 each to HK\$15,000,000 divided into 1,500,000,000 Shares of par value of HK\$0.01 each by the creation of an additional 1,461,000,000 Shares of par value of HK\$0.01 each pursuant to the written resolutions passed by the then shareholders of our Company referred to in the subsection headed “A. Further information about our Company 3. — Resolutions of our Shareholders passed on 13 December 2019” in this appendix to this prospectus.
- (c) Immediately following the completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$4,275,000 divided into 427,500,000 Shares of par value of HK\$0.01 each, all fully paid or credited as fully paid, and 1,072,500,000 Shares will remain unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company. Save as disclosed herein and in paragraphs headed “3. Resolutions of our Shareholders passed on 13 December 2019” and “4. Corporate Reorganisation and Pre-IPO Investment” of this appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions of our Shareholders passed on 13 December 2019

On 13 December 2019, resolutions in writing were passed by our Shareholders pursuant to which, among other things:

- (a) our Company conditionally approved and adopted the Memorandum and the Articles with effect upon the Listing, the terms of which are summarised in Appendix IV to this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares of par value of HK\$0.01 each to HK\$15,000,000 divided into 1,500,000,000 Shares by the creation of an additional of 1,461,000,000 Shares of par value of HK\$0.01 each, all of which shall rank *pari passu* in all respects with the existing Shares;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this prospectus; and (dd) 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 such dates or may be specified in the Underwriting Agreements:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue of the Offer Shares pursuant to the Share Offer;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors' absolute discretion to grant options to subscribe for Shares up to the limits as referred to thereunder and to allot, issue and deal with the Shares pursuant to the exercise of any options which may be granted;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$3,374,999 standing to the credit of the share premium account of our Company by applying such sum in paying up in full 337,499,900 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on the date of this resolution (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares (other than the right to participate in the Capitalisation Issue) and our Directors were authorised to give effect to such capitalisation;

- (iv) subject to the lock-up undertaking given by our Company pursuant to Rule 10.08 of the Listing Rules, a general unconditional mandate was granted to our Directors pursuant to the Articles to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for the Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers whether during or after the end of the Relevant Period (as defined below), provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Memorandum and the Articles, or pursuant to the exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, or pursuant to the exercise of any options that may be granted under the Share Option Scheme, or under the Capitalisation Issue or the Share Offer, or (iii) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:
- (a) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may issued under any options that may be granted under the Share Option Scheme); and
 - (b) the total number of Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate (as defined below),

such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the end of the period within which our Company is required by the Articles or any applicable laws to hold its next annual general meeting and (iii) the date on which the mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting (the “**Relevant Period**”);

- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was granted to the Directors to exercise all the powers of our Company to repurchase the Shares on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) not exceeding in aggregate 10% of the total number of Shares in issue immediately following the completion of the Share Offer (excluding any Shares which may be issued under any options which may be granted under the Share Option Scheme) in accordance with all applicable laws and the requirements of the Listing Rules, such mandate to remain in effect during the Relevant Period; and

- (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above by the addition of such Shares which may be repurchased by our Company (if any) pursuant to paragraph (v) above.

4. Corporate Reorganisation and Pre-IPO Investment

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. For further details, please refer to the subsection headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus.

5. Changes in share capital of our subsidiaries

The subsidiaries of our Company are listed in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

Save for the alterations mentioned in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, there has been no other alteration in the share capital of our subsidiaries within the two years immediately preceding the issue of this prospectus.

6. Repurchase of our Shares by our Company

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of the Shares by our Company.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders’ Approval

All proposed repurchases of shares, which must be fully paid up 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 of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 13 December 2019, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares 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, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the Share Offer (excluding any Shares which may be issued under any options which may be granted under the Share Option Scheme), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date on which it is varied or revoked by or renewed an ordinary resolution of our Shareholders in general meeting.

(ii) Source of Funds

Any repurchase by our Company 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. Our Company may not repurchase its own Shares on Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

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 Law, 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 the Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase our Directors resolve to hold the shares purchased by our Company as treasury shares, shares purchased by our Company shall be treated as cancelled and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman Companies Law.

(v) *Suspension of Repurchase*

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) 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 a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Core connected parties*

The Listing Rules prohibit a company from knowingly repurchasing the Shares on Stock Exchange from "a core connected person", which includes a Director, chief executive or substantial shareholder of the 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 the company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on 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) *Funding of repurchases*

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 and regulations of the Cayman Islands.

Our Directors may not repurchase the 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. Subject to the foregoing, our Directors may make repurchases with profits of our Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles of Association and subject to Cayman Companies Law, out of capital.

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.

(d) General

None of our Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates, 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 law and regulations 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 purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of our 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 consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the listing of the Shares pursuant to the Repurchase Mandate. At present, so far as is known to the Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our 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 has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so in the event that our Company is authorised to make purchases of Shares.

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement (廣東三和化工科技有限公司股權轉讓合同) dated 26 January 2018 entered into between Mr. Ernest Chen and Guangdong Fuvo, in relation to the transfer of 93.2% of the equity interest in Guangdong Sanvo from Mr. Ernest Chen to Guangdong Fuvo at a consideration of RMB6,415,500;
- (b) an equity transfer agreement (廣東三和化工科技有限公司股權轉讓合同) dated 26 January 2018 entered into between Liang Yinqi (梁銀齊) and Guangdong Fuvo, in relation to the transfer of 5.8% of the equity interest in Guangdong Sanvo from Liang Yinqi to Guangdong Fuvo at a consideration of RMB399,300;
- (c) an equity transfer agreement (廣東芙田化學有限公司股權轉讓合同) dated 30 January 2018 entered into between Mr. Ernest Chen and Guangdong Fuvo, in relation to the transfer of 89% of the equity interest in Guangdong Fullteam from Mr. Ernest Chen to Guangdong Fuvo at a consideration of RMB1,005,700;
- (d) an equity transfer agreement (廣東芙田化學有限公司股權轉讓合同) dated 30 January 2018 entered into between Mr. Leo Chen and Guangdong Fuvo, in relation to the transfer of 10% of the equity interest in Guangdong Fullteam from Mr. Leo Chen to Guangdong Fuvo at a consideration of RMB113,000;
- (e) an equity transfer agreement (廣東順德三和化工有限公司股權轉讓合同) dated 30 January 2018 entered into between Mr. Ernest Chen and Guangdong Sanvo, in relation to the transfer of 90% of the equity interest in Shunde Sanvo from Mr. Ernest Chen to Guangdong Sanvo at a consideration of RMB745,400;
- (f) an equity transfer agreement (廣東順德三和化工有限公司股權轉讓合同) dated 30 January 2018 entered into between Mr. Leo Chen and Guangdong Sanvo, in relation to the transfer of 10% of the equity interest in Shunde Sanvo from Mr. Leo Chen to Guangdong Sanvo at a consideration of RMB82,800;
- (g) an investment agreement (投資協議) dated 12 April 2018 entered into among our Company, Mr. Victor Heng and Mr. Ernest Chen, pursuant to which Mr. Victor Heng agreed to subscribe for, and Mr. Ernest Chen agreed to procure our Company to issue and allot 4 Shares to Mr. Victor Heng at a net investment amount of RMB12,000,000;
- (h) an equity transfer agreement (廣東三和控股有限公司股權轉讓合同) dated 19 April 2018 entered into between LKD HK and Guangdong Sanvo, in relation to the transfer of 100% of the equity interest in Sanvo Holdings from LKD HK to Guangdong Sanvo at a consideration of RMB13,237,300;

- (i) a supplemental agreement (關於廣東三和控股有限公司股權轉讓合同的補充協議) dated 27 April 2018 entered into among LKD HK, Guangdong Sanvo and Sanvo Holdings, in relation to the tax payment of RMB3,375,000 and the waiver by Guangdong Sanvo of advances of RMB34,645,746 to Li Tao (李濤), the then ultimate beneficial owner of Sanvo Holdings;
- (j) an equity transfer agreement (中山芙田化學有限公司股權轉讓合同) dated 3 May 2018 entered into between Mr. Ernest Chen and Guangdong Fullteam, in relation to the transfer of 90% of the equity interest in Zhongshan Fullteam Chemical Co., Ltd.* (中山芙田化學有限公司) (“**Zhongshan Fullteam**”) from Mr. Ernest Chen to Guangdong Fullteam at a consideration of RMB1;
- (k) an equity transfer agreement (中山芙田化學有限公司股權轉讓合同) dated 3 May 2018 entered into between Mr. Leo Chen and Guangdong Fullteam, in relation to the transfer of 10% of the equity interest in Zhongshan Fullteam from Mr. Leo Chen to Guangdong Fullteam at a consideration of RMB1;
- (l) an equity transfer agreement (廣東阜和實業有限公司股權轉讓合同) dated 6 June 2018 entered into between Mr. Ernest Chen and OWHK, in relation to the transfer of 10% of the equity interest in Guangdong Fuvo from Mr. Ernest Chen to OWHK at a consideration of RMB277,000;
- (m) an equity transfer agreement (中山市珉和化工科技有限公司股權轉讓合同) dated 6 June 2018 entered into between Mr. Leo Chen and OWHK, in relation to the transfer of 10% of the equity interest in Zhongshan Minhe from Mr. Leo Chen to OWHK at a consideration of RMB390,200;
- (n) an equity transfer agreement (廣東三和化工科技有限公司股權轉讓合同) dated 11 July 2018 entered into between Mr. Ernest Chen and Guangdong Fuvo, in relation to the transfer of 1% of the equity interest in Guangdong Sanvo from Mr. Ernest Chen to Guangdong Fuvo at a consideration of RMB68,800;
- (o) an equity transfer agreement (廣東芙田化學有限公司股權轉讓合同) dated 13 July 2018 entered into between Mr. Ernest Chen and Guangdong Fuvo, in relation to the transfer of 1% of the equity interest in Guangdong Fullteam from Mr. Ernest Chen to Guangdong Fuvo at a consideration of RMB11,300;
- (p) a share transfer form dated 23 July 2018 entered into between Mr. Victor Heng and our Company, in relation to the transfer of one share in Olive Woods from Mr. Victor Heng to our Company at a consideration of RMB1,227,200;
- (q) an equity transfer agreement (廣東阜和實業有限公司股權轉讓合同) dated 3 August 2018 entered into between Mr. Ernest Chen and American Sanvo, in relation to the transfer of 90% of the equity interest in Guangdong Fuvo from Mr. Ernest Chen to American Sanvo at a consideration of RMB4,700,000;
- (r) an equity transfer agreement (中山市珉和化工科技有限公司股權轉讓合同) dated 3 August 2018 entered into between Mr. Ernest Chen and American Sanvo, in relation to the transfer of 90% of the equity interest in Zhongshan Minhe from Mr. Ernest Chen to American Sanvo at a consideration of RMB6,600,000;
- (s) the Deed of Indemnity; and
- (t) the Public Offer Underwriting Agreement.

2. Intellectual Property Rights

(a) Trademark

- (i) As at the Latest Practicable Date, our Group is the owner of the following trademark, which is/are material to the business of our Group:

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
1.		1	19499502	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
2.		2	19500383	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
3.		3	19500461	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
4.		4	19500734	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
5.		1	19500196	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
6.		2	19500348	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
7.		3	19500640	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
8.		4	19500670	14 May 2017 to 13 May 2027	PRC	Guangdong Fuvo
9.		1	6658978	21 April 2010 to 20 April 2020	PRC	Guangdong Sanvo
10.		4	9417389	7 April 2015 to 6 April 2025	PRC	Guangdong Sanvo
11.		4	7982134	14 April 2011 to 13 April 2021	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
12.	瓷怡收極	1	15880007	7 February 2016 to 6 February 2026	PRC	Guangdong Sanvo
13.	瓷怡收極	2	15880007	7 February 2016 to 6 February 2026	PRC	Guangdong Sanvo
14.	瓷怡收極	3	15880007	7 February 2016 to 6 February 2026	PRC	Guangdong Sanvo
15.	瓷怡收極	4	15880007	7 February 2016 to 6 February 2026	PRC	Guangdong Sanvo
16.	瓷怡收極	19	15880007	7 February 2016 to 6 February 2026	PRC	Guangdong Sanvo
17.	逢美	2	15410904	28 December 2015 to 27 December 2025	PRC	Guangdong Sanvo
18.	逢美	1	15410904	28 December 2015 to 27 December 2025	PRC	Guangdong Sanvo
19.	小侍	1	16107570	14 April 2016 to 13 April 2026	PRC	Guangdong Sanvo
20.	小侍	2	16107570	14 April 2016 to 13 April 2026	PRC	Guangdong Sanvo
21.	小侍	3	16107570	14 April 2016 to 13 April 2026	PRC	Guangdong Sanvo
22.	王者	1	7233580	28 December 2010 to 27 December 2020	PRC	Guangdong Sanvo
23.	王者	2	7233579	28 September 2010 to 27 September 2020	PRC	Guangdong Sanvo
24.		1	7233581	7 November 2010 to 6 November 2020	PRC	Guangdong Sanvo
25.		2	7233578	21 September 2010 to 20 September 2020	PRC	Guangdong Sanvo
26.	爱豹	1	17876316	21 October 2016 to 20 October 2026	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
27.		2	17876317	21 October 2016 to 20 October 2026	PRC	Guangdong Sanvo
28.		3	17876318	21 October 2016 to 20 October 2026	PRC	Guangdong Sanvo
29.		4	17876319	21 October 2016 to 20 October 2026	PRC	Guangdong Sanvo
30.		19	17876320	21 October 2016 to 20 October 2026	PRC	Guangdong Sanvo
31.		1	18723161	7 February 2017 to 6 February 2027	PRC	Guangdong Sanvo
32.		2	18723160	7 February 2017 to 6 February 2027	PRC	Guangdong Sanvo
33.		3	18723162	7 February 2017 to 6 February 2027	PRC	Guangdong Sanvo
34.		1	17368157	7 September 2016 to 6 September 2026	PRC	Guangdong Sanvo
35.		2	17368157	7 September 2016 to 6 September 2026	PRC	Guangdong Sanvo
36.		3	19501633	14 May 2017 to 13 May 2027	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
37.		4	19501568	14 May 2017 to 13 May 2027	PRC	Guangdong Sanvo
38.		1	7093208	7 August 2010 to 6 August 2020	PRC	Guangdong Sanvo
39.		2	7093209	7 August 2010 to 6 August 2020	PRC	Guangdong Sanvo
40.		1	7270063	7 September 2010 to 6 September 2020	PRC	Guangdong Sanvo
41.		2	7270064	7 September 2010 to 6 September 2020	PRC	Guangdong Sanvo
42.		1	11075427	28 October 2013 to 27 October 2023	PRC	Guangdong Sanvo
43.		1	9000159	21 January 2012 to 20 January 2022	PRC	Guangdong Sanvo
44.		1	19012933	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
45.		1	19012935	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
46.		3	8500550	28 July 2011 to 27 July 2021	PRC	Guangdong Sanvo
47.		3	6774659	7 April 2010 to 6 April 2020	PRC	Guangdong Sanvo
48.		4	19012936	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
49.		4	19012937	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
50.		4	19012938	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
51.		4	19012939	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
52.	贤齐	2	6658973	21 April 2010 to 20 April 2020	PRC	Guangdong Sanvo
53.	贤平	2	6658977	14 April 2010 to 13 April 2020	PRC	Guangdong Sanvo
54.	贤修	2	6658976	21 April 2010 to 20 April 2020	PRC	Guangdong Sanvo
55.	贤治	2	6658974	14 April 2010 to 13 April 2020	PRC	Guangdong Sanvo
56.	天治	1	11075428	28 October 2013 to 27 October 2023	PRC	Guangdong Sanvo
57.	一垫如固	1	9236030	28 March 2012 to 27 March 2022	PRC	Guangdong Sanvo
58.		1	9000160	14 January 2012 to 13 January 2022	PRC	Guangdong Sanvo
59.	银旋封	1	7205132	21 August 2010 to 20 August 2020	PRC	Guangdong Sanvo
60.	十面埋伏	1	9000161	7 March 2012 to 6 March 2022	PRC	Guangdong Sanvo
61.	钉牌	1	10333551	14 September 2013 to 13 September 2023	PRC	Guangdong Sanvo
62.	令出即止	1	19012934	7 March 2017 to 6 March 2027	PRC	Guangdong Sanvo
63.	Chameleon	1	6774656	28 September 2010 to 27 September 2020	PRC	Guangdong Sanvo
64.	新干线	1	3317698	28 July 2014 to 27 July 2024	PRC	Guangdong Sanvo
65.	慕樱	2	7205130	21 August 2010 to 20 August 2020	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
66.		2	8107639	14 March 2011 to 13 March 2021	PRC	Guangdong Sanvo
67.	上善若水	2	7205131	21 August 2010 to 20 August 2020	PRC	Guangdong Sanvo
68.	精妝	2	16107569	14 April 2016 to 13 April 2026	PRC	Guangdong Sanvo
69.	怡宁	1	6990574	28 July 2010 to 27 July 2020	PRC	Guangdong Sanvo
70.	怡宁	2	6990573	28 July 2010 to 27 July 2020	PRC	Guangdong Sanvo
71.	qido 茶道	1	6774658	28 May 2010 to 27 May 2020	PRC	Guangdong Sanvo
72.	qido 茶道	2	6774654	21 May 2010 to 20 May 2020	PRC	Guangdong Sanvo
73.	似水流莲	2	7205129	21 August 2010 to 20 August 2020	PRC	Guangdong Sanvo
74.	似水流莲	4	22520224	14 February 2018 to 13 February 2028	PRC	Guangdong Sanvo
75.	似水流莲	1	22520016	14 February 2018 to 13 February 2028	PRC	Guangdong Sanvo
76.	无影钉	1	22111365	14 February 2018 to 13 February 2028	PRC	Guangdong Sanvo
77.	三和智造	4	22110995	14 February 2018 to 13 February 2028	PRC	Guangdong Sanvo
78.	麗明珠	4	22110908	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
79.		4	22110772	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
80.	 和梦	3	22110343	7 March 2018 to 6 March 2028	PRC	Guangdong Sanvo
81.	 和爱洁	3	22110365	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
82.	 蓝妹纸	3	22110126	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
83.	 蓝波浪	3	22110027	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
84.		3	22109906	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
85.	 和梦	2	22109610	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
86.		2	22109319	21 January 2018 to 20 January 2028	PRC	Guangdong Sanvo
87.	 和爱档	1	26296506	14 September 2018 to 13 September 2028	PRC	Guangdong Sanvo
88.	 和爱档	4	26287260	14 September 2018 to 13 September 2028	PRC	Guangdong Sanvo
89.	 喜脱红尘	1	28129560	14 November 2018 to 13 November 2028	PRC	Guangdong Sanvo
90.	 喜脱红尘	3	28109761	14 November 2018 to 13 November 2028	PRC	Guangdong Sanvo
91.	 皇柔	1	19516065	14 May 2017 to 13 May 2027	PRC	Sanvo Holdings
92.	 皇柔	2	19516362	14 May 2017 to 13 May 2027	PRC	Sanvo Holdings
93.	 皇柔	3	19516516	14 May 2017 to 13 May 2027	PRC	Sanvo Holdings

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
94.		4	19516687	14 May 2017 to 13 May 2027	PRC	Sanvo Holdings
95.		1	6658980	21 April 2010 to 20 April 2020	PRC	Shunde Sanvo
96.		1	6774660	28 May 2010 to 27 May 2020	PRC	Shunde Sanvo
97.		2	7441540	14 October 2010 to 13 October 2020	PRC	Shunde Sanvo
98.		2	1383122	14 April 2010 to 13 April 2020	PRC	Shunde Sanvo
99.		2	6125215	21 August 2010 to 20 August 2020	PRC	Shunde Sanvo
100.		2	6658979	14 September 2010 to 13 September 2020	PRC	Shunde Sanvo
101.		2	7051198	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
102.		2	7051199	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
103.		2	7051200	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
104.		2	7051201	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
105.		2	7051202	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
106.		2	7051203	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
107.		2	7051204	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
108.	本礼	2	7051205	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
109.	小美	2	7051206	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
110.	本智	2	7051207	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
111.	本信	2	7051208	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
112.	卫言	2	7051209	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
113.	卫德	2	7051210	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
114.	卫功	2	7051211	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
115.	斧优	2	7051212	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
116.	斧良	2	7051213	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
117.	斧正	2	7051214	7 August 2010 to 6 August 2020	PRC	Shunde Sanvo
118.	谦谦君子	2	7205128	21 August 2010 to 20 August 2020	PRC	Shunde Sanvo
119.	吉兆	2	7233577	7 September 2010 to 6 September 2020	PRC	Shunde Sanvo
120.	 TUYE 图业	2	8678438	14 October 2011 to 13 October 2021	PRC	Shunde Sanvo
121.	Fullteam	2	22600438	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo

No.	Trademark	Class (Note)	Trademark No.	Effective period	Place of Registration	Registered Owner
122.	Fullteam	4	22600374	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
123.	Fullteam	3	22600289	7 April 2018 to 6 April 2028	PRC	Shunde Sanvo
124.	Fullteam	1	22600103	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
125.	FUTIM	1	22522798	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
126.	FUTIM 美田	4	22522664	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
127.	美田	4	22522615	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
128.	美田	3	22522521	14 February 2018 to 13 February 2028	PRC	Shunde Sanvo
129.	美田	2	21979423	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo
130.	FUTIM 美田	3	21979314	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo
131.	FUTIM 美田	37	21979548	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo
132.	FUTIM 美田	2	21979193	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo
133.	FUTIM 美田	1	21979114	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo
134.	美田	1	21979041	7 January 2018 to 6 January 2028	PRC	Shunde Sanvo

No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
135.	 和持御	4	28 June 2019 to 27 June 2029	34075082	PRC	Guangdong Sanvo
136.	 和磁劲	4	28 June 2019 to 27 June 2029	34073105	PRC	Guangdong Sanvo
137.	 和磁耐	4	28 June 2019 to 27 June 2029	34071938	PRC	Guangdong Sanvo
138.	 和磁安	4	28 June 2019 to 27 June 2029	34061650	PRC	Guangdong Sanvo
139.	 和磁护	4	28 June 2019 to 27 June 2029	34053573	PRC	Guangdong Sanvo
140.	FullTeam 美田	2	21 June 2019 to 20 June 2029	32860412	PRC	Shunde Sanvo
141.	FullTeam 美田	1	14 June 2019 to 13 June 2029	32855995	PRC	Shunde Sanvo
142.	FullTeam 美田	3	28 August 2019 to 27 August 2029	32850205	PRC	Shunde Sanvo
143.	FullTeam 美田	4	14 June 2019 to 13 June 2029	32848244	PRC	Shunde Sanvo




(ii) As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
1.		1	6 September 2017	26259938	PRC	Guangdong Sanvo
2.		4	6 July 2017	25194714	PRC	Guangdong Sanvo
3.		4	2 July 2019	39379158	PRC	Guangdong Sanvo
4.		4	2 July 2019	39375382	PRC	Guangdong Sanvo
5.		4	2 July 2019	39374702	PRC	Guangdong Sanvo
6.		4	2 July 2019	39374697	PRC	Guangdong Sanvo
7.		4	2 July 2019	39372043	PRC	Guangdong Sanvo
8.		4	2 July 2019	39370515	PRC	Guangdong Sanvo
9.		4	2 July 2019	39364085	PRC	Guangdong Sanvo
10.		1	2 July 2019	39363352	PRC	Guangdong Sanvo
11.		4	2 July 2019	39360862	PRC	Guangdong Sanvo
12.		4	2 July 2019	39360857	PRC	Guangdong Sanvo
13.		4	2 July 2019	39360834	PRC	Guangdong Sanvo
14.		1	2 July 2019	39358591	PRC	Guangdong Sanvo
15.		1	2 July 2019	39355089	PRC	Guangdong Sanvo
16.		1	10 May 2019	38113467	PRC	Guangdong Sanvo
17.		33	10 May 2019	38107748	PRC	Guangdong Sanvo










No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
18.		2	10 May 2019	38106256	PRC	Guangdong Sanvo
19.		19	10 May 2019	38101781	PRC	Guangdong Sanvo
20.		3	10 May 2019	38101455	PRC	Guangdong Sanvo
21.		4	10 May 2019	38093013	PRC	Guangdong Sanvo
22.	qido 拳道	2	18 April 2019	37630806	PRC	Guangdong Sanvo
23.		1	18 April 2019	37630603	PRC	Guangdong Sanvo
24.		2	18 April 2019	37628438	PRC	Guangdong Sanvo
25.		2	18 April 2019	37627605	PRC	Guangdong Sanvo
26.		1	18 April 2019	37627357	PRC	Guangdong Sanvo
27.	qido 拳道	1	18 April 2019	37626997	PRC	Guangdong Sanvo
28.		2	18 April 2019	37625142	PRC	Guangdong Sanvo
29.		3	18 April 2019	37623359	PRC	Guangdong Sanvo
30.	Chameleon <small>变色龙</small>	1	18 April 2019	37623335	PRC	Guangdong Sanvo
31.		2	18 April 2019	37622885	PRC	Guangdong Sanvo
32.		1	18 April 2019	37621847	PRC	Guangdong Sanvo
33.		2	18 April 2019	37621552	PRC	Guangdong Sanvo

No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
34.	怡宁	2	18 April 2019	37619024	PRC	Guangdong Sanvo
35.	怡宁	1	18 April 2019	37614040	PRC	Guangdong Sanvo
36.	上善若水	2	18 April 2019	37619017	PRC	Guangdong Sanvo
37.	福盈門	2	18 April 2019	37615864	PRC	Guangdong Sanvo
38.	贤平	2	18 April 2019	37613066	PRC	Guangdong Sanvo
39.	王者	2	18 April 2019	37612651	PRC	Guangdong Sanvo
40.	王者	1	18 April 2019	37604194	PRC	Guangdong Sanvo
41.	慕樱	2	18 April 2019	37607066	PRC	Guangdong Sanvo
42.	贤治	2	18 April 2019	37607061	PRC	Guangdong Sanvo
43.	迁善	1	18 April 2019	37605825	PRC	Guangdong Sanvo
44.	FUTIM 夫田	1	18 April 2019	37630433	PRC	Shunde Sanvo
45.	FUTIM 夫田	2	18 April 2019	37618041	PRC	Shunde Sanvo
46.	小美	2	18 April 2019	37629233	PRC	Shunde Sanvo
47.	本礼	2	18 April 2019	37629223	PRC	Shunde Sanvo
48.	本义	2	18 April 2019	37627972	PRC	Shunde Sanvo

No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
49.	禧兆	2	18 April 2019	37626841	PRC	Shunde Sanvo
50.	卫德	2	18 April 2019	37621801	PRC	Shunde Sanvo
51.	斧优	2	18 April 2019	37619520	PRC	Shunde Sanvo
52.	卫功	2	18 April 2019	37616190	PRC	Shunde Sanvo
53.	卫言	2	18 April 2019	37614688	PRC	Shunde Sanvo
54.	本仁	2	18 April 2019	37614636	PRC	Shunde Sanvo
55.	谦谦君子	2	18 April 2019	37614299	PRC	Shunde Sanvo
56.	亨兆	2	18 April 2019	37614225	PRC	Shunde Sanvo
57.	斧正	2	18 April 2019	37611515	PRC	Shunde Sanvo
58.	本信	2	18 April 2019	37611455	PRC	Shunde Sanvo
59.	贞兆	2	18 April 2019	37609621	PRC	Shunde Sanvo
60.	本智	2	18 April 2019	37608103	PRC	Shunde Sanvo
61.	吉兆	2	18 April 2019	37607044	PRC	Shunde Sanvo
62.	利兆	2	18 April 2019	37606578	PRC	Shunde Sanvo

No.	Trademark	Class	Application date	Application number	Place of registration	Applicant
63.		2	18 April 2019	37604773	PRC	Shunde Sanvo
64.		2	18 April 2019	37604751	PRC	Shunde Sanvo
65.		2	18 April 2019	37603581	PRC	Shunde Sanvo

- (iii) As at the Latest Practicable Date, we have been granted by Mr. Ernest Chen the non-transferable, non-exclusive and non-assignable right to use the following trademarks which are material to our business:

No.	Trademark	Class (Note)	Trademark No.	Expiry date	Place of Registration	Registered Owner
1.		4	301390220	22 July 2029	Hong Kong	Mr. Ernest Chen
2.		4	301390220	22 July 2029	Hong Kong	Mr. Ernest Chen
3.		4	301390220	22 July 2029	Hong Kong	Mr. Ernest Chen
4.		4	301390220	22 July 2029	Hong Kong	Mr. Ernest Chen
5.		1, 2, 3, 5	300416754	8 May 2025	Hong Kong	Mr. Ernest Chen
6.		1, 2, 3, 4, 19, 304688272	37	2 October 2028	Hong Kong	Mr. Ernest Chen
7.		1, 2, 3, 4, 19, 304688272	37	2 October 2028	Hong Kong	Mr. Ernest Chen
8.		1, 2, 3, 4, 19, 304688272	37	2 October 2028	Hong Kong	Mr. Ernest Chen
9.		1, 2, 3, 4, 19, 304688272	37	2 October 2028	Hong Kong	Mr. Ernest Chen

Note: The class number represents the specifications of products or services which have already been registered or are in the process of registration. Detailed specifications of the products and services represented by that class number are set out in the relevant registration certificates or application forms.

(b) Domain Name

As at the Latest Practicable Date, our Group is the owner of the following domain name(s) which is/are material to the business of our Group:

No.	Registered Owner	Domain Name	Registration Date	Expiry Date
1.	Guangdong Sanvo	www.sanvo.com	7 June 2000	7 June 2023
2.	Guangdong Sanvo	www.sanvo.com.cn	17 February 2000	17 February 2022
3.	Guangdong Sanvo	www.sanvo.cn	2 February 2004	2 February 2023

(c) Patents

(i) As at the Latest Practicable Date, our Group is the owner of the following patents which is material to the business of our Group:

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
1.	Environment-friendly low temperature starting fluid 一種環保型低溫起動劑	ZL201010109889.9	27 January 2010 to 26 January 2030	PRC	Guangdong Fuvo	Invention
2.	Simple coated imitation metal fluorocarbon paint 一種簡易塗裝的仿金屬氟碳漆	ZL200810001468.7	21 January 2008 to 20 January 2028	PRC	Guangdong Sanvo Shunde Sanvo	Invention
3.	Zero VOC nano tranquil emulsion paint 一種零VOC納米安神乳膠漆	ZL200810128440.X	29 June 2008 to 28 June 2028	PRC	Guangdong Sanvo	Invention
4.	Nano mildew neutral silicone sealant 納米防霉中性矽酮密封膠	ZL200810130693.0	3 July 2008 to 2 July 2028	PRC	Guangdong Sanvo	Invention
5.	Graffiti spray paint 塗鴉自動噴漆	ZL200810213292.1	18 August 2008 to 17 August 2028	PRC	Guangdong Sanvo	Invention
6.	Pigmented glazing emulsified cream and preparation method, leather coloring glazing agent and canning method 著色上光乳化膏及製備方法、皮革著色上光劑及罐裝方法	ZL200810179219.7	1 December 2008 to 30 November 2028	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
7.	High-hardness wear-resistant double-group water-based wood paint and its preparation method 一種高硬度耐磨雙組水性木器漆及其製備方法	ZL200810187813.0	23 December 2008 to 22 December 2028	PRC	Guangdong Sanvo	Invention
8.	Energy storage type silicone sealant 蓄能發光型矽酮密封膠	ZL200910145373.7	18 May 2009 to 17 May 2029	PRC	Guangdong Sanvo	Invention
9.	Environmental protection water-based putty 一種環保水性原子灰	ZL200910145544.6	26 May 2009 to 25 May 2029	PRC	Guangdong Sanvo	Invention
10.	Chloroprene latex adhesive and its preparation method 一種氯丁膠乳膠粘劑及其製備方法	ZL200910174105.8	24 September 2009 to 23 September 2029	PRC	Guangdong Sanvo	Invention
11.	High-temperature-resistant liquid sealant 一種耐高溫液體密封膠	ZL200910179334.9	29 September 2009 to 28 September 2029	PRC	Guangdong Sanvo	Invention
12.	Nano silver tide curing matt flooring Paint 納米銀負離子潮固化啞光地板漆	ZL200910179335.3	29 September 2009 to 28 September 2029	PRC	Guangdong Sanvo	Invention
13.	Water-resistant white latex paint 一種耐水白乳膠漆	ZL200910204764.1	8 October 2009 to 7 October 2029	PRC	Guangdong Sanvo	Invention
14.	Self-repair environment-friendly engine oil 一種自修復環境友好型發動機油	ZL201010263440.8	22 August 2010 to 21 August 2030	PRC	Guangdong Sanvo	Invention
15.	Aerosol self-repair rust-proof lubricant 一種氣霧型自修復防銹潤滑劑	ZL201010560776.0	19 November 2010 to 18 November 2030	PRC	Guangdong Sanvo	Invention
16.	Elastic fleece polyurethane coating 一種彈性絨毛聚氨酯塗料	ZL201110062706.7	12 March 2011 to 11 March 2031	PRC	Guangdong Sanvo	Invention
17.	Degradable nitrile rubber sealant 一種可降解丁腈橡膠密封膠	ZL201110066534.0	16 March 2011 to 15 March 2031	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
18.	Safety aerosol spray can 一種安全氣霧劑噴霧罐	ZL201210281490.8	9 August 2012 to 8 August 2032	PRC	Guangdong Sanvo	Invention
19.	Chloroprene adhesive and its preparation method 一種氯丁膠粘劑及其製備方法	ZL201310328616.7	27 July 2013 to 26 July 2033	PRC	Guangdong Sanvo	Invention
20.	No-nail glue and its preparation method 一種免釘膠及其製備方法	ZL201310726150.6	21 December 2013 to 20 December 2033	PRC	Guangdong Sanvo	Invention
21.	Aqueous spray paint and its preparation method 一種水性噴漆及其製備方法	ZL201310743968.9	23 December 2013 to 22 December 2033	PRC	Guangdong Sanvo	Invention
22.	Peelable spray paint and its preparation method 一種可剝離噴漆及其製備方法	ZL201410558360.3	17 October 2014 to 16 October 2034	PRC	Guangdong Sanvo	Invention
23.	Double-group acrylate adhesive and its preparation method 一種雙組丙烯酸酯膠粘劑及其製備方法	ZL201410794532.7	19 December 2014 to 18 December 2034	PRC	Guangdong Sanvo	Invention
24.	Aerosol spray can 一種氣霧劑噴霧罐	ZL201120347082.9	16 September 2011 to 15 September 2021	PRC	Guangdong Sanvo	Utility
25.	Aerosol spraying assistant tool 一種氣霧劑噴塗輔助工具	ZL201120516355.8	27 November 2011 to 26 November 2021	PRC	Guangdong Sanvo	Utility
26.	Spray Adhesives and its preparation method 一種噴膠及其製備方法	ZL201610667741.4	15 August 2016 to 14 August 2036	PRC	Guangdong Sanvo	Invention
27.	High-temperature-resistant and low-toxicity hammered spray paint and its preparation method 一種耐高溫低毒錘紋噴漆及其製備方法	ZL201610559098.3	17 July 2016 to 16 July 2036	PRC	Guangdong Sanvo	Invention
28.	Waterproof tile gap filling agent and its preparation method 一種水性美縫劑及其製備方法	ZL201610502491.9	30 June 2016 to 29 June 2036	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
29.	Anti-freezing fluid and its preparation methods 一種防凍液及其製備方法	ZL201410743604.5	9 December 2014 to 8 December 2034	PRC	Guangdong Sanvo	Invention
30.	Solvent-based rubber adhesive and its preparation method 一種溶劑型橡膠粘劑及其製備方法	ZL201510670134.9	13 October 2015 to 12 October 2035	PRC	Guangdong Sanvo	Invention
31.	Flange sealant anaerobic sealant and its preparation method 一種平面密封厭氧膠及其製備方法	ZL201510670133.4	13 October 2015 to 12 October 2035	PRC	Guangdong Sanvo	Invention
32.	Low-clarity and self-cleaning peelable spray paint and its preparation method 一種低透度自潔可剝離噴漆及其製備方法	ZL201610788383.2	31 August 2016 to 30 August 2036	PRC	Guangdong Sanvo	Invention
33.	Full and rolling shape of aerosol spray top cover measuring devices 一種測量氣霧罐上頂蓋全形狀卷邊裝置	ZL201721472638.0	7 November 2017 to 6 November 2027	PRC	Guangdong Sanvo	Utility
34.	Lightweight and portable aerosol spray gun 一種輕便省力型氣霧劑輔助噴槍	ZL201721471960.1	7 November 2017 to 6 November 2027	PRC	Guangdong Sanvo	Utility
35.	Safety aerosol spray can 一種安全氣霧劑噴霧罐	ZL201220392269.5	9 August 2012 to 8 August 2022	PRC	Guangdong Sanvo	Utility
36.	Adhesive bottle and package combination 一種膠粘劑瓶及包裝組合體	ZL201620489000.7	24 May 2016 to 23 May 2026	PRC	Guangdong Sanvo	Invention
37.	Invertible spray, anti-clogging aerosol valve and combination device 一種可倒噴、防堵塞氣霧閥及其組合裝置	ZL201621004675.4	31 August 2016 to 30 August 2026	PRC	Guangdong Sanvo	Utility
38.	Invertible spray, anti-clogging aerosol valve 一種可倒噴、防堵塞氣霧劑裝置	ZL201621001144.X	31 August 2016 to 30 August 2026	PRC	Guangdong Sanvo	Utility

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
39.	Anti-clogging aerosol device 一種防堵塞氣霧劑裝置	ZL201621169027.4	2 November 2016 to 1 November 2026	PRC	American Sanvo	Utility
40.	A Neoprene Adhesive And Its Preparation Method 一種氯丁 膠粘劑及其製備方法	HK1219833	21 July 2016 to 20 July 2024	Hong Kong	Guangdong Sanvo	Invention
41.	Tile gap filling agent and its preparation method 一種美縫劑及其製備方法	ZL201610502467.5	30 June 2016 to 29 June 2036	PRC	Sanvo Holdings	Invention
42.	Environment-friendly high antiwear lubricant and its preparation method 一種環境友好高抗磨潤滑油及其 製備方法	ZL201310328617.1	27 July 2013 to 26 July 2033	PRC	Sanvo Holding	Invention
43.	Brake fluid filling device 一種制動液灌裝裝置	ZL201721185821.2	15 September 2017 to 14 September 2027	PRC	Sanvo Holding	Utility
44.	Curvature detection device for packaging bottles 一種包裝瓶曲面檢測裝置	ZL201721471986.6	7 November 2017 to 6 November 2027	PRC	Sanvo Holding	Utility
45.	Sand pattern wear-resistant Children's wood paint 砂紋耐磨負離子兒童木器漆	ZL200810131080.9	16 August 2008 to 15 August 2028	PRC	Shunde Sanvo	Invention
46.	Environment-friendly polyurethane hammer paint 一種環保聚氨酯類錘紋漆	ZL200810211114.5	26 August 2008 to 25 August 2028	PRC	Shunde Sanvo	Invention
47.	Anti-electromagnetic radiation emulsion paint and its preparation method 一種防電磁輻射乳膠漆及其製備 方法	ZL200910208578.5	19 October 2009 to 18 October 2029	PRC	Shunde Sanvo	Invention
48.	Transparent no-nail glue and its preparation method 一種透明免釘膠及其製備方法	ZL201410581479.2	27 October 2014 to 26 October 2034	PRC	Shunde Sanvo	Invention
49.	Environment-friendly flame- retardant anaerobic adhesive and its preparation method 一種阻燃環保厭氧膠及製備方法	ZL201610632497.8	4 August 2016 to 3 August 2036	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner(s)	Type of Patent
50.	Microcapsule silicone sealant and its preparation method 一種含有微膠囊的矽酮密封膠及其製備方法	ZL201710370708.X	23 May 2017 to 22 May 2037	PRC	Guangdong Fuvo	Invention

(ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents:

No.	Registered Name	Registration No.	Date of Application	Place of Registration	Applicant(s)	Type of Patent
1.	High-strength and high-temperature resistant silicone sealant and its preparation method 一種高強度耐高溫矽酮密封膠及其製備方法	201810177897.3	5 March 2018	PRC	Guangdong Fuvo	Invention
2.	Single component polyurethane foam caulking agent and its preparation method 一種單組份聚氨酯泡沫填縫劑及其製備方法	201710415043.X	5 June 2017	PRC	Guangdong Sanvo	Invention
3.	Stainless steel surface restoration technology and repair paints 一種不銹鋼表面修復工藝及修復用漆	201610894531.9	13 October 2016	PRC	Guangdong Sanvo	Invention
4.	Environment-friendly agarwood nerve-soothing emulsion paint and its preparation method 一種沉香安神環保乳膠漆及其製備方法	201711098678.8	9 November 2017	PRC	Guangdong Sanvo	Invention
5.	Environment-friendly energy-efficient coating and its preparation method 一種節能環保塗料及其製備方法	201711118259.6	14 November 2017	PRC	Guangdong Sanvo	Invention
6.	Paint remover's preparation method 一種脫漆劑的製備方法	201711155331.2	20 November 2017	PRC	Guangdong Sanvo	Invention
7.	Epoxy plasticized dry-fasten adhesive 一種增韌型環氧乾掛膠及其製備方法	201711156301.3	20 November 2017	PRC	Guangdong Sanvo	Invention
8.	Aerosol wax-free paint remover 一種氣霧型無蠟脫漆劑	201711154573.X	20 November 2017	PRC	Guangdong Sanvo	Invention
9.	Aerosol wax-free paint remover's preparation method 一種氣霧型無蠟脫漆劑的製備方法	201711154574.4	20 November 2017	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Date of Application	Place of Registration	Applicant(s)	Type of Patent
10.	Paint remover 一種脫漆劑	201711154767.X	20 November 2017	PRC	Guangdong Sanvo	Invention
11.	Lightweight and portable aerosol spray gun 一種輕便省力型氣霧劑輔助噴槍	201711086738.4	7 November 2017	PRC	Guangdong Sanvo	Invention
12.	Curvature detection device for packaging bottles 一種包裝瓶曲面檢測裝置	201711085895.3	7 November 2017	PRC	Sanvo Holdings	Invention
13.	Transparent high-temperature resistant and flame-retardant silicone sealant and its preparation method 一種透明耐高溫阻燃矽酮密封膠及製備方法	201711086800.X	7 November 2017	PRC	Sanvo Holdings	Invention
14.	Dry-fasten and high stable anaerobic adhesive and its preparation method 一種快乾、高穩定性厭氧膠及其製備方法	201711087321.X	7 November 2017	PRC	Sanvo Holdings	Invention
15.	Fully synthetic gasoline and oil and its preparation method 一種全合成汽油機油及其製備方法	201710070888.X	9 February 2017	PRC	Sanvo Holdings	Invention
16.	Nitrogen-containing six-membered structure borate brake fluid's preparation method 一種含氮六元環結構硼酸酯制動液的製備方法	201610546445.9	13 July 2016	PRC	Sanvo Holdings	Invention
17.	Full and rolling shape of aerosol spray top cover measuring devices 一種測量氣霧罐上頂蓋全形狀卷邊裝置	201711087331.3	7 November 2017	PRC	Guangdong Sanvo	Invention
18.	Anti-static interior wall coating and its preparation method 一種抗靜電內牆塗料及其製備方法	201811345121.4	13 November 2018	PRC	Shunde Sanvo	Invention
19.	Water-proof coating and its preparation method 一種防水塗料及其製備方法	201811345226.X	13 November 2018	PRC	Shunde Sanvo	Invention
20.	Anti-graffiti and anti-adhesive spray paint and its preparation method 一種抗塗鴉、防粘貼噴漆及製備方法	201910686251.2	29 July 2019	PRC	Guangdong Sanvo	Invention
21.	Aerosol paint and its preparation method 一種氣霧漆及其製備方法	201910709828.7	2 August 2019	PRC	Guangdong Sanvo	Invention

No.	Registered Name	Registration No.	Date of Application	Place of Registration	Applicant(s)	Type of Patent
22.	Aerosol UV coating and its preparation method 一種氣霧型UV塗料及其製備方法	201910710379.8	2 August 2019	PRC	Guangdong Sanvo	Invention
23.	Aerosol rust converter spray and its preparation method 一種氣霧型帶銹轉銹噴劑及其製備方法	201910884544.1	19 September 2019	PRC	Guangdong Sanvo	Invention
24.	Aerosol rust converter spray and its preparation method 一種氣霧型帶銹轉銹噴劑及其製備方法	201910884545.6	19 September 2019	PRC	Guangdong Sanvo	Invention
25.	Aerosol rust converter spray and its preparation method 一種氣霧型帶銹轉銹噴劑及其製備方法	201910884543.7	19 September 2019	PRC	Guangdong Sanvo	Invention
26.	Aerosol for writing pad and its preparation method 一種書寫板氣霧劑及製備方法	201910686202.9	29 July 2019	PRC	Guangdong Sanvo	Invention
27.	No-nail glue and its preparation method 一種免釘膠及其製備方法	201910766847.3	20 August 2019	PRC	Shunde Sanvo	Invention
28.	Low-odour, high fullness and smooth polyurethane varnish and its preparation method 一種低氣味、高豐滿度、滑爽聚氨酯清漆及其製作方法	201910570808.6	28 June 2019	PRC	Shunde Sanvo	Invention
29.	Fresh volatile crackle paint and its preparation method 一種清味自揮發裂紋漆塗料及其製備方法	201910562556.2	26 June 2019	PRC	Shunde Sanvo	Invention
30.	Weather-resistant no-nail glue for exterior use and its preparation method 一種可戶外用耐候型免釘膠及其製備方法	201910766832.7	20 August 2019	PRC	Shunde Sanvo	Invention
31.	Chlorosulfonated polyethylene rubber sealant and its preparation method 一種氯磺化聚乙烯橡膠密封膠及其製備方法	201910787469.7	20 August 2019	PRC	Shunde Sanvo	Invention
32.	No-nail glue and its preparation method 一種免釘膠及其製備方法	201910767050.5	20 August 2019	PRC	Shunde Sanvo	Invention

No.	Registered Name	Registration No.	Date of Application	Place of Registration	Applicant(s)	Type of Patent
33.	Weather-resistant no-nail glue and its preparation method 一種耐候免釘膠及製備方法	201910767049.2	20 August 2019	PRC	Shunde Sanvo	Invention
34.	Water-based flame-retardant liquid sealant and its preparation method 一種水性阻燃液態密封膠及製備方法	201910787462.5	20 August 2019	PRC	Shunde Sanvo	Invention

As of the Latest Practicable Date, we have been granted by Mr. Ernest Chen the non-transferable, non-exclusive and non-assignable right to use the following patents which are material to our business:

No.	Registered Name	Registration No.	Effective Period	Place of Registration	Registered Owner	Type of Patent
1.	Packaging can (Sanvo spray paint) 包裝罐(三和噴漆)	ZL201230536827.6	24 October 2012 to 23 October 2022	PRC	Mr. Ernest Chen	Design Patent
2.	Packaging can (Sanvo excipients spray paint) 包裝罐(三和輔料噴漆)	ZL201330348525.0	20 July 2013 to 19 July 2023	PRC	Mr. Ernest Chen	Design Patent
3.	Packaging can (Sanvo ultra strong all-purpose adhesive) 包裝罐(三和特效萬能膠)	ZL201330348524.6	20 July 2013 to 19 July 2023	PRC	Mr. Ernest Chen	Design Patent
4.	Packaging can (Sanvo strong carburetor cleaner) 包裝罐(三和強化化清劑)	ZL201530246342.7	6 July 2015 to 5 July 2025	PRC	Mr. Ernest Chen	Design Patent

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of Interests

(a) Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following the completion of the Share Offer (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the interests and short positions of the 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 the 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interest in the Shares

<u>Name</u>	<u>Capacity/nature</u>	<u>Name of relevant company</u>	<u>Number of shares held</u>	<u>Approximate percentage of shareholding</u>
Mr. Ernest Chen	Interest in a controlled corporation ²	Our Company	314,000,000 (L) ¹	73.45%
	Beneficial Interest	Sanvo Fine Chemicals	50,000	100%

Notes:

- The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- Our Company will be held as to approximately 73.45% by Sanvo Fine Chemicals immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon exercise of the options which may be granted under the Share Option Scheme). Sanvo Fine Chemicals is wholly owned by Mr. Ernest Chen. Mr. Ernest Chen is deemed, or taken to be interested, in all the Shares held by Sanvo Fine Chemicals for the purpose of the SFO.

(b) *Interests and short positions disclosable under Divisions 2 and 3 of Part XV of the SFO*

For information on the persons who will, immediately following the completion of the Capitalisation Issue and the Share Offer, having or be deemed or taken to have beneficial interests or short position 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 directly or indirectly be interested in 10% or more of the number of any class of share capital carrying the rights to vote in all circumstances at general meetings of any members of our Group, please refer to the section headed “Substantial Shareholders” in this prospectus.

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the Share Offer, be interested, directly or indirectly, in 10% or more of the number of any class of share capital carrying the rights to vote in all circumstances at general meetings of any members of our Group.

2. Particulars of Directors’ service agreements and appointment letters

Each of our Executive Directors has entered into a service contract with our Company for a term of three years commencing on the Listing Date, until terminated by either party giving not less than three months’ notice in writing to the other. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Each of our independent non-executive Directors has entered into an appointment letter with our Company for a term of three years commencing on Listing Date, until terminated by either party giving not less than three months’ notice in writing to the other. Each of the independent non-executive Directors is entitled to a director’s fee of HK\$150,000 per annum. Save for directors’ fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Save as disclosed above, none of our Directors has entered into, or has proposed to enter into, a service contract with us (excluding contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

3. Remuneration of Directors

- (a) The aggregate remuneration paid by our Group to our Directors in respect of the three years ended 31 December 2018 and the six months ended 30 June 2019 were approximately RMB349,000, RMB458,000, RMB577,000 and RMB436,000 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 2019 will be approximately RMB1,700,000.

- (c) None of our Directors has been paid any sum of money for the three years ended 31 December 2018 and the six months ended 30 June 2019 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to any emoluments for the three years ended 31 December 2018, and the six months ended 30 June 2019.

4. Agency fees or commissions received

Save as disclosed in the subsection headed “Underwriting — Underwriting arrangements and expenses — Total commission and expenses” in this prospectus, none of our Directors or the experts named in the subsection 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 Note 31 to the Accountant’s Report of our Company set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) our Directors are not aware of any other person (not being a Director or the chief executive of our Company) who will, immediately following the completion of the Capitalisation Issue and the Share Offer, have interests and/or short positions in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to 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 number of any class of share capital carrying the rights to vote in all circumstances at general meetings of any members of our Group;
- (b) none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company, our subsidiary or any of the associated corporation (within the meaning of Part XV of the SFO) which 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 interests and short positions which he/she is 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 to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

- (c) none of our Directors nor any of the parties listed in the subsection headed “E. Other information — 7. Consents of experts” in this appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or were proposed to be acquired or disposed of by or leased to our Company or any member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the subsection headed “E. Other information — 7. Consents of experts” in this appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant to the business of our Group taken as a whole;
- (e) save in connection with the Underwriting Agreements, none of the experts referred to in the subsection headed “E. Other information — 7. Consents of experts” in this appendix;
 - (i) is interested legally or beneficially in any securities of any member of our Group; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
 - (ii) none of our Directors or their respective close associates nor, to the knowledge of our Directors, any Shareholders who held more than 5% of the total Shares as at the Latest Practicable Date had any interest in the five largest customers or the five largest suppliers of our Company.
- (f) none of our Directors has any existing or proposed service contracts 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); and
- (g) 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

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 13 December 2019. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons (“**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of our Group;
 - (bb) quality of work performed for our Group;
 - (cc) initiative and commitment in performing his duties; and
 - (dd) length of service or contribution to our Group.

(c) **Acceptance of an offer of options**

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the options duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer for grant of an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given.

Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the independent financial adviser as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee share certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.

(d) **Maximum number of shares**

The maximum number of Shares which may be issued upon exercise of all option to be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date, being 42,750,000 Shares (the “**Scheme Limit**”), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in general meeting; and/or

- (ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the 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 at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, consolidation, sub-division of shares or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including exercised, cancelled and outstanding options to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his/her associates if the participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders’ approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may

from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

- (aa) the Eligible Participant's name, address and occupation;
- (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
- (cc) the date upon which an offer for an option must be accepted;
- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the notice given by the grantee in respect of the exercise of the option; and
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) Price of shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of our independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant, which must be fixed before our Shareholders' meeting and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of options

A grant of options may not be made after inside information has come to our Company's knowledge until such information has been announced pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (such date to first be 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 any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year, or quarterly or any other interim period (whether or not required under the Listing Rules);

and ending on the date of actual publication of the results announcement.

(i) Rights are personal to grantee

An option is personal to the grantee. No grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing by a grantee shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of option and duration of the share option scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The minimum period for which an option must be held before it can be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme by the Shareholders of our Company (the "**Adoption Date**"). Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Adoption Date.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment/death

If the grantee, who is an employee of our Group at the time of the grant of an option, ceases to be an employee of our Group:

- (i) by any reason other than death, ill-health, injury, disability or termination of his/her relationship with our Company and/or any of its subsidiaries on one or more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) in whole or in part within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as our Company may determine); or
- (ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or, as appropriate, his personal representative(s) may exercise the option in full (to the extent not already exercised) within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death.

(m) Rights on dismissal

If the grantee of an option ceases to be an Eligible Participant by reason of his/her resignation from the employment of our Group or termination of his/her employment or contract on the grounds that he/she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his/her debts or has become insolvent or has made any arrangements or has compromised with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or has been in breach of contract, his/her option will lapse and not be exercisable after the date of termination of his/her employment. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive.

(n) Rights on takeover

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event that a notice is given by our Company to its 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 forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of our Company referred to above 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, allot the relevant Shares to the grantee credited as fully paid.

(p) Rights on compromise or arrangement between our company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of the jurisdiction in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a compromise or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and 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 meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, 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. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) Ranking of shares

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights (including those arising on liquidation) as at attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes. The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l) and (n); or
- (iii) the date upon which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date upon which the grantee ceases to be an Eligible Participant by reason as referred to in paragraph (m) above; or
- (vi) the date upon which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) Alteration of the share option scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms and any adjustment to be made to the exercise price of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules, the supplemental guidance of 5 September 2005 and any future guidance or interpretation of the Listing Rules from time to time and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

(u) Cancellation of options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (i).

(v) Termination of the share option scheme

Our Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Administration of the board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) Conditions of the share option scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee granting the listing of and permission to deal in, on the Main Board of the Stock Exchange, our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Joint Bookrunners (for themselves and on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 42,750,000 Shares in total.

E. OTHER INFORMATION**1. Tax and other indemnities**

On 13 December 2019, our Controlling Shareholders (the “**Indemnifiers**”) entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries stated therein), to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of the death of any person or by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing;
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other event, act, omission or circumstance against or attributable to any other person, firm or company, whether or not such tax liabilities are chargeable against or attributable to any other person, firm or company; and
- (c) all claims, payments, suits, damages, settlements, sums, outgoings, fees, losses and any reasonable costs and expenses which would be incurred or suffered directly or indirectly, from or on the basis of or in connection with the legal proceedings of any member of our Group which has occurred at any time on or before the Listing Date and non-compliance matters by any member of our Group as described in the subsection headed “Business — Legal compliance and litigation — Non-compliance” in this prospectus or in connection with any other non-compliance of any member of our Group which has occurred at any time on or before the Listing Date.

Each Indemnifier is under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited consolidated accounts of any member of our Group as set out in Appendix I to this prospectus;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2019 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction

with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, other than any such act, omission or transaction:

- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; and
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus;
- (c) to the extent that such taxation or liabilities is/ are discharged by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of such taxation or liabilities;
- (d) to the extent that such taxation liabilities arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such tax liabilities arise or are increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or
- (e) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group or any of its member up to 30 June 2019 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifier' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of such taxation shall not be available in respect of any such liability arising thereafter.

2. Litigation

Our Directors confirmed that as at the Latest Practicable Date, save as disclosed in the subsection headed "Business — Litigation and claims" in the prospectus, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any options which may be granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies that the independence criteria as set out in Rule 3A.07 of the Listing Rules.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$49,920 and are payable by our Company.

We agreed to pay the Sole Sponsor a fee of HK\$4,800,000, which relates solely to services provided by the Sponsor in the capacity of sponsor.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their views and/or opinions and/or advice which are contained in this prospectus:

Name	Qualification
VBG Capital Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Moore Stephens CPA Limited	Certified Public Accountants
King & Wood Mallesons	Qualified PRC lawyers
Appleby	Legal adviser as to the Cayman Islands law
LCH (Asia-Pacific) Surveyors Limited	Professional Surveyor
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant

7. Consents of experts

Each expert stated in the subsection headed “E. Other Information — 6. Qualifications of experts” in this appendix has given and has not withdrawn its written consents to the issue of this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and reference to its name included herein in the form and context in which they respectively appear.

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 of the provisions (other than the 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 Estera Trust (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 otherwise 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. No material adverse change

Save for the expenses of approximately RMB36.1 million (equivalent to approximately HK\$41.8 million) estimated to be incurred in connection with the Listing, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 30 June 2019 (being the date to which the latest audited financial statements of our Group were made up) and up to the date of this prospectus, and there is no event since 30 June 2019 which would materially affect the information shown in our combined financial information included in the Accountant's Report set forth in Appendix I to this prospectus.

11. 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 transfers 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 the 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 the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Share Offer 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.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) 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 our subsidiaries.

- (b) Save as disclosed in this prospectus:
 - (i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
 - (ii) no share or loan capital or debenture of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.

- (c) Save as disclosed in the subsection headed “B. Further Information about the business — 1. Summary of material contracts” in this appendix, none of our Directors or proposed Directors or experts (as named in this prospectus), have any interest, direct or indirect, 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.

- (d) No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

- (e) No equity or debt securities of any company within our Group is presently listed on any stock exchange or traded on any trading system nor is any listing or permission to deal being or proposed to be sought.

- (f) Our Company has no outstanding convertible debt securities or debentures.
- (g) There is no arrangement under which future dividends are waived or agreed to be waived.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

14. Particulars of the Selling Shareholder

The particulars of the Selling Shareholder are set out below:

Name:	Sanvo Fine Chemicals Limited
Place of incorporation:	BVI
Date of incorporation:	16 April 2015
Registered office:	Jayla Place, Wickhams Cay 1, Road Town, Tortola, BVI
Number of the Sale Shares to be sold:	10,000,000 Shares

The Selling Shareholder is an investment holding company and is wholly-owned by Mr. Ernest Chen.

APPENDIX VI DOCUMENTS TO BE DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

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 each of the **WHITE, YELLOW** and **GREEN** Application Forms; (b) the written consents referred to in the subsection headed “E. Other Information — 7. Consents of experts” in Appendix V to this prospectus; (c) certified copies of each of the material contracts referred to in the subsection headed “B. Further Information about the Business — 1. Summary of material contracts” in Appendix V to this prospectus; and (d) the statement of particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of King & Wood Mallesons at 13th Floor, Gloucester Tower, the Landmark, 15 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountant’s Report of our Group from Moore Stephens CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the three years ended 31 December 2018 and the six months ended 30 June 2019;
- (d) the report on unaudited pro forma financial information from Moore Stephens CPA Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the material contracts referred to in the subsection headed “B. Further information about the business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (f) the service agreements and appointment letters referred to in the subsection headed “C. Further information about substantial shareholders, Directors and experts — 2. Particulars of Directors’ service agreements and appointment letters” in Appendix V to this prospectus;
- (g) the rules of the Share Option Scheme;
- (h) the written consents referred to in the subsection headed “E. Other Information — 7. Consents of experts” in Appendix V to this prospectus;
- (i) the PRC legal opinions prepared by King & Wood Mallesons, in respect of certain aspects of our Group and our property interests in the PRC;
- (j) the industry report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. as referred to in the section headed “Industry Overview” in this prospectus;

**APPENDIX VI DOCUMENTS TO BE DELIVERED TO THE REGISTRAR
OF COMPANIES AND AVAILABLE FOR INSPECTION**

- (k) the Companies Law;
- (l) the letter of advice prepared by Appleby summarising certain aspects of the Companies Law referred to in Appendix IV to this prospectus;
- (m) the fair rent letter issued by LCH (Asia-Pacific) Surveyors Limited in respect of the tenancies of our Group;
- (n) the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, the text of which is set out in Appendix III to this prospectus; and
- (o) the statement of particulars of the Selling Shareholder.

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