

Haina Intelligent Equipment International Holdings Limited

海納智能裝備國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1645

SHARE OFFER

Sole Sponsor



建泉融資有限公司
VBG Capital Limited

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers (in alphabetical order)



東吳證券(國際)
SOOCHOW SECURITIES (INTERNATIONAL)



建泉融資有限公司
VBG Capital Limited



富滙證券
WealthLink
Securities Limited

IMPORTANT

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

Haina Intelligent Equipment International Holdings Limited

海納智能裝備國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Total number of Offer Shares	:	116,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	:	11,600,000 Shares (subject to reallocation)
Number of Placing Shares	:	104,400,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	:	not more than HK\$1.50 per Offer Share and expected to be not less than HK\$1.08 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	1645

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers (in alphabetical order)



Joint Lead Managers (in alphabetical order)



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 delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) but in any event no later than Friday, 29 May 2020. The Offer Price will be not more than HK\$1.50 per Offer Share and is expected to be not less than HK\$1.08 per Offer Share, unless otherwise announced.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares under the Share Offer at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of reduction in the indicative Offer Price range and/or the number of Offer Shares will be published at the website of the Stock Exchange at www.hkexnews.hk and website of our Company at www.fjhaina.com not later than the morning of the last day for lodging applications under the Public Offer. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure and conditions of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before Friday, 29 May 2020, the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including risk factors set out in the section headed "Risk factors" in this prospectus. Pursuant to the Public Offer Underwriting Agreement, the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) have the right in certain circumstances to terminate the obligations of the Public Offer Underwriters at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities laws in the United States, and may not be offered or sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable state securities laws in the US. The Offer Shares are being offered only outside of the United States in offshore transactions in reliance on Regulation S.

20 May 2020

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable, our Company will issue an announcement on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.fjhaina.com.

Application Forms are available from 9:00 a.m. on Wednesday, 20 May 2020

Latest time to complete electronic applications under
White Form eIPO service through the
designated website at www.eipo.com.hk ⁽²⁾ 11:30 a.m. on Monday, 25 May 2020

Application lists open ⁽³⁾ 11:45 a.m. on Monday, 25 May 2020

Latest time for lodging **WHITE** and **YELLOW** Application
Forms and giving **electronic application instructions**
to HKSCC ⁽⁴⁾ 12:00 noon on Monday, 25 May 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 Monday, 25 May 2020

Application lists close ⁽³⁾ 12:00 noon on Monday, 25 May 2020

Expected Price Determination Date ⁽⁵⁾ Monday, 25 May 2020

Announcement of the final Offer Price,
the level of indication of interest in the
Placing, the level of applications
in respect of the Public Offer
and the results and basis of allotment under
the Public Offer to be published
on the websites of Stock Exchange at www.hkexnews.hk
and our Company at www.fjhaina.com on or before Tuesday, 2 June 2020

Announcement of the results of allocations
(with successful applicants' identification
document numbers, where applicable)
to be available through a variety of channels
including the websites of the Stock Exchange
at www.hkexnews.hk and our Company
at www.fjhaina.com ⁽⁶⁾ as described in the section
"How to Apply for Public Offer Shares
— 11. Publication of Results" on or before Tuesday, 2 June 2020

Results of allocations in the Public Offer
will be available at www.iporesults.com.hk
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>)
with a "search by ID" function from Tuesday, 2 June 2020

EXPECTED TIMETABLE⁽¹⁾

Despatch/collection of share certificates or deposit
of Share certificates into CCASS^(7 and 8) in respect
of wholly or partially successful applications pursuant
to the Public Offer on or before. Tuesday, 2 June 2020

Despatch of **White Form** e-Refund payment instructions
and despatch/collection of refund cheques^(8, 9 and 10)
in respect of wholly or partially unsuccessful applications
under the Public Offer on or before. Tuesday, 2 June 2020

Dealings in Shares on the Main Board
to commence at 9:00 a.m. on Wednesday, 3 June 2020

Notes:

1. All times and dates refer to Hong Kong local time and date. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” in this prospectus.
2. You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained 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/are a “black” rainstorm warning, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Monday, 25 May 2020, the application lists will not open and close on that day. Particulars of the arrangements are set forth under the section headed “How to apply for Public Offer Shares — effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Monday, 25 May 2020, the dates mentioned in this section “Expected timetable” may be affected. A press announcement will be made by our Company in such event.
4. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** should refer to the section headed “How to apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or around Monday, 25 May 2020 and, in any event, not later than Friday, 29 May 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company by Friday, 29 May 2020, the Share Offer will not proceed and will lapse.
6. None of the website of our Company or any of the information contained on the website of our Company forms part of this prospectus.
7. Share certificates for the Public Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be on Wednesday, 3 June 2020) provided that (i) the Share Offer becomes unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination” in this prospectus has not been exercised thereto and has lapsed. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

8. Applicants who have made an application using **WHITE** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all information required by the Application Form may collect their refund cheque(s) and/or share certificate(s) in person from the Hong Kong Share Registrar Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on Tuesday, 2 June 2020. Applicants being individuals who are eligible for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with their chops. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity and/or (where applicable) authorisation documents acceptable and satisfactory to the Hong Kong Share Registrar.

If an applicant is using a **YELLOW** Application Form or giving Electronic Application Instructions, the relevant arrangements are set out in the section "How to apply for Public Offer Shares — 14. Dispatch/collection of share certificates and refund monies" in this prospectus.

Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' own risk, to the addresses specified on the relevant applications. Further information is set out in the sections headed "How to apply for Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" and "How to apply for Public Offer Shares — 12. Circumstances in which you will not be allocated Public Offer Shares" in this prospectus.

9. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications under the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.
10. Part of the Hong Kong identity card number/passport number of an applicant or, if there are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the relevant applicant may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. The banker of the relevant applicant may require verification of his/her Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

The above expected timetable is a summary only. You should refer to the sections headed "Structure and conditions of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus for details of the Public Offer, including the conditions of the Public Offer, and the procedures for application for the Public Offer Shares.

CONTENTS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and any of the Underwriters, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Share Offer.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in our Shares.

Various expressions used in this summary are defined in the section headed “Definitions” in this prospectus.

BUSINESS OVERVIEW

Established in 2011, we are a manufacturer engaging in the design and production of automated machines for manufacturing disposable hygiene products, including baby diapers, adult diapers and lady sanitary napkins in the PRC. During the Track Record Period, we designed, developed and produced machines for manufacturing disposable hygiene products under our proprietary brand “Haina Machinery”. We provide comprehensive services to our customers, from collaborating with our customers on product designs, to customising our products based on specifications provided by our customers, conducting quality control, delivering products to customers, installing products for customers and providing after-sales services.

As at the Latest Practicable Date, we operated 16 and six production lines at our Jinjiang Production Base and Hangzhou Production Base (with a total gross floor area of approximately 35,400 sq.m.), respectively, to support our production.

According to the Industry Report, the disposable hygiene product machinery market in the PRC is relatively fragmented with approximately 70 machinery manufacturers in 2019. In terms of revenue generated from sales of disposable hygiene product machinery, the top five disposable hygiene product machinery manufacturers had an aggregate market share of approximately 19.4% in 2019, of which our Group ranked third with approximate market share of 4.0% in terms of revenue. For further information of our market and our competitors, please refer to the section headed “Industry Overview” in this prospectus.

BUSINESS MODEL

We design, develop and produce machines that are used for the production of disposable hygiene products. During the Track Record Period, our products mainly consisted of baby diaper machines, adult diaper machines and lady sanitary napkin machines. For details of our business model, please refer to the section headed “Business — Our Business Model” in this prospectus.

The following table sets out our revenue by product category during the Track Record Period:

	2016		For the year ended 31 December				2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Baby diaper machines	104,866	92.8	246,426	94.4	270,641	80.3	226,320	59.8
Adult diaper machines	5,453	4.8	11,242	4.3	31,072	9.2	112,207	29.7
Lady sanitary napkin machines	1,966	1.8	701	0.3	24,729	7.3	22,541	6.0
Components and parts (Note)	695	0.6	2,616	1.0	10,798	3.2	16,921	4.5
Total	<u>112,980</u>	<u>100.0</u>	<u>260,985</u>	<u>100.0</u>	<u>337,240</u>	<u>100.0</u>	<u>377,989</u>	<u>100.0</u>

Note: Components and parts mainly included customised U-type baby diaper system unit, circular base and transposition unit, etc.

SUMMARY

The following table sets out our revenue based on location of customers during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	106,943	94.7	201,367	77.2	240,320	71.3	217,599	57.5
Indonesia	—	—	9,054	3.5	24,350	7.2	44,370	11.7
The Philippines	6,017	5.2	8,866	3.4	7,219	2.1	28,803	7.6
Vietnam	—	—	—	—	16,235	4.8	27,340	7.1
Pakistan	—	—	—	—	4,137	1.1	14,520	3.8
India	—	—	—	—	—	—	9,761	2.5
Hong Kong	—	—	—	—	—	—	8,407	2.2
Thailand	—	—	—	—	—	—	8,144	2.2
Nigeria	—	—	—	—	7,624	2.3	7,901	2.1
Cambodia	—	—	—	—	9,307	2.8	5,025	1.4
Uzbekistan	—	—	21,896	8.4	—	—	4,708	1.2
Angola	—	—	—	—	9,623	2.9	1,367	0.4
South Korea	—	—	—	—	—	—	20	0.1
Malaysia	20	0.1	—	—	—	—	18	0.1
Bulgaria	—	—	—	—	—	—	6	0.1
Yemen	—	—	—	—	11,528	3.4	—	—
Russia	—	—	—	—	6,807	2.0	—	—
Bangladesh	—	—	19,802	7.5	90	0.1	—	—
Total	112,980	100.0	260,985	100.0	337,240	100.0	377,989	100.0

Note: Our Group's revenue for the three years ended 31 December 2018 mainly derived from customers located in the PRC, which contributed approximately 94.7%, 77.2% and 71.3% of our revenue, respectively. With our Group's continuous proactive efforts in expanding our customer base by visiting our potential customers for our overseas markets, our PRC customer's revenue was 57.5% for the year ended 31 December 2019, and revenue derived from our overseas customers increased throughout the Track Record Period, representing 5.3%, 22.8%, 28.7% and 42.5% of our total revenue, respectively.

The following table sets out our gross profit and gross profit margin by product category during the Track Record Period:

	For the year ended 31 December											
	2016			2017			2018			2019		
	Gross profit RMB'000	Gross profit margin %	% to total gross profit %	Gross profit RMB'000	Gross profit margin %	% to total gross profit %	Gross profit RMB'000	Gross profit margin %	% to total gross profit %	Gross profit RMB'000	Gross profit margin %	% to total gross profit %
Baby diaper machines	23,016	21.9	94.5	52,922	21.5	93.5	61,213	22.6	79.9	54,416	24.0	60.0
Adult diaper machines	863	15.8	3.5	2,700	24.0	4.8	6,658	21.4	8.7	26,610	23.7	29.4
Lady sanitary napkin machines	295	15.0	1.2	49	7.0	0.1	5,457	22.1	7.1	4,284	19.0	4.7
Components and parts	202	29.1	0.8	916	35.0	1.6	3,259	30.2	4.3	5,309	31.4	5.9
Total	24,376	21.6	100.0	56,587	21.7	100.0	76,587	22.7	100.0	90,619	24.0	100.0

COMPETITIVE STRENGTHS

We believe our success and future growth are attributable to the following competitive strengths: (i) we are one of the market leaders in the disposable hygiene product machinery industry in the PRC with high brand recognition; (ii) we have strong research and development capabilities and offer customisation in collaboration with customers on product design and development; (iii) we have strong manufacturing capabilities with in-depth industry knowledge and a high commitment to quality; (iv) we have strong and stable relationship with suppliers; and (v) we have an experienced management team with high caliber and a proven track record.

For details, please refer to the section headed "Business — Competitive Strengths" in this prospectus.

SUMMARY

BUSINESS STRATEGIES

In order to enhance our business prospects and financial performance, we have the following business strategies: (i) continue to strengthen our research and development capabilities to keep abreast of the trend in the disposable hygiene product machinery industry; (ii) increase our production capacity; (iii) increase the competitiveness of our products through acquisitions; and (iv) deepen our penetration in the disposable hygiene product machinery industry in the PRC and overseas market.

For details of our business strategies, please refer to the sections headed “Business — Business Strategies” and “Future Plans and Use of Proceeds” in this prospectus.

CUSTOMERS

Our customers primarily include disposable hygiene product manufacturers. For each of the four years ended 31 December 2019, our Group had a total of 23, 40, 70 and 92 customers which contributed to our revenue, respectively. For each of the four years ended 31 December 2019, revenue from our largest customer accounted for approximately 10.4%, 9.1%, 7.6% and 8.7% of our total revenue, respectively, while our five largest customers in aggregate accounted for approximately 44.8%, 37.8%, 26.5% and 30.2% of our total revenue, respectively.

For details of our customers, please refer to the section headed “Business — Customers” in this prospectus.

Pricing

Our pricing policy is based on a cost-plus pricing model. In determining the selling prices of our products, we take into consideration an array of factors, including our costs of procurement and production. During the Track Record Period, we maintained our gross profit margin range from approximately 21.6% to 24.0%. According to the Industry Report, the gross profit margin for the disposable hygiene product machinery industry in the PRC generally ranges from approximately 15% to 30%. We consider that the fact that our pricing policy has taken into account our cost of sales and targeted margin percentage is the key success factor in maintaining a reasonable profit margin for our Group.

Sales channel

Our sales and marketing team, comprising 17 members as at the Latest Practicable Date, is primarily responsible for conducting market activities. Our sales contracts are sourced primarily through advertisements, participating in trade exhibitions and trade fairs, referrals and business network established by our executive Directors and sales and marketing team members.

For details of our sales channels, please refer to the section headed “Business — Customers — sales and marketing” in this prospectus.

RAW MATERIALS AND SUPPLIERS

We mainly source the components or parts that we use for the manufacture of disposable hygiene product machines from third-party suppliers. The principal raw materials are electrical appliances, processed parts, steel, components and parts and excipients. We purchase our raw materials from approved suppliers which meet our evaluation criteria and are listed on our approved supplier list. We select our suppliers based on quality, pricing, payment method and other contractual terms. Our suppliers are surveyed and selected through a process of formal audits and qualification by our procurement team. During the Track Record Period, we had 170, 318, 404 and 419 suppliers, and purchases from our five largest suppliers accounted for 37.9%, 35.9%, 33.8% and 38.3% of our Group’s total purchase, respectively. Our Directors do not consider our business as dependent on our suppliers. As at the Latest Practicable Date, most of our top five suppliers had between one to nine years of relationship with our Group. We believe that we have maintained stable business relationships with our top suppliers.

For details of our suppliers, please refer to the section headed “Business — Raw Materials and Suppliers” in this prospectus.

SUBCONTRACTING

During the Track Record Period, we subcontracted production process for certain components of our products, such as surface treatment and processing of components used for our products, to subcontractors in order to improve our production efficiency. Our subcontractors carried out the subcontracting arrangements in accordance with our design and specifications subject to our quality assurance and control.

For details of our subcontractors, please refer to the section headed “Business — Raw Materials and Suppliers — Subcontracting” in this prospectus.

SUMMARY

RESEARCH AND DEVELOPMENT

We consider our research and development capabilities to be one of our key competitive advantages and we strive to augment this competitive advantage continuously. Our competitiveness in research and development ability can be proven by the patents obtained by us in the PRC and technologies that can be used in our machines. As at the Latest Practicable Date, we owned 113 utility patents, 12 invention patents and two design patents in the PRC. In 2015, we were named as a Quanzhou Industrial Technology Development Centre (泉州市行業技術開發中心) for disposable diaper machines by Quanzhou Science and Technology Bureau (泉州市科學技術局). Our research and development team also continuously monitors technological advancement in the industry to keep abreast of our knowledge in the disposable hygiene product machinery market.

For details of our research and development, please refer to the section headed “Business — Research and Development” in this prospectus.

THE CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Prestige Name, which is owned as to 45.0% by Mr. Hong, 25.0% by Mr. Zhang, 18.0% by Mr. Su and 12.0% by Mr. He, will hold 75.0% of the issued share capital of the Company. Please refer to the sections headed “Directors and Senior Management” and “History, Development and Reorganisation” in this prospectus for details of our Controlling Shareholders.

By virtue of the shareholding of Prestige Name in the Company and an acting in concert confirmation entered into among Prestige Name, Mr. Hong, Mr. Zhang, Mr. Su and Mr. He on 21 March 2019, Prestige Name, Mr. Hong, Mr. Zhang, Mr. Su and Mr. He will together form a group of Controlling Shareholders within the meaning of the Listing Rules. Please refer to the section headed “Relationship with Controlling Shareholders — The Controlling Shareholders — Acting in Concert Confirmation” in this prospectus for further details.

KEY FINANCIAL INFORMATION

Our key financial data set forth below has been derived from the Accountants’ Report in Appendix I to this prospectus, and should be read in conjunction with our financial information included in such appendix including the accompanying notes and the information set forth in the section headed “Financial Information” in this prospectus.

Selected information extracted from the combined statements of profit or loss and other comprehensive income

The following table sets out the selected financial information of our Group during the Track Record Period, which is derived from, and should be read in conjunction with, the combined financial information set out in the Accountants’ Report in Appendix I to this prospectus.

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	112,980	260,985	337,240	377,989
Cost of sales	(88,604)	(204,398)	(260,653)	(287,370)
Gross profit	24,376	56,587	76,587	90,619
Other income (Note)	3,036	5,731	4,828	8,418
Selling and distribution costs	(3,649)	(8,604)	(9,560)	(14,641)
Administrative and other operating expenses	(12,656)	(17,402)	(22,857)	(36,935)
Impairment loss of trade receivables, net	(84)	(51)	(560)	(428)
Finance costs	(750)	(583)	(58)	(1,014)
Listing expenses	—	—	(3,248)	(9,846)
Profit before tax	10,273	35,678	45,132	36,173
Income tax expenses	(1,646)	(5,647)	(5,905)	(5,085)
Profit for the year	8,627	30,031	39,227	31,088
Other comprehensive income (loss):				
<i>Item that may be reclassified subsequently to profit or loss</i>				
Exchange difference on consolidation/ combination	—	1	(1,405)	(1,119)
Total comprehensive income for the year	8,627	30,032	37,822	29,969

SUMMARY

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Profit for the year attributable to:				
Owners of our Company	8,627	30,031	38,636	26,423
Non-controlling interests	—	—	591	4,665
	<u>8,627</u>	<u>30,031</u>	<u>39,227</u>	<u>31,088</u>
Total comprehensive income for the year attributable to:				
Owners of our Company	8,627	30,032	37,231	25,304
Non-controlling interests	—	—	591	4,665
	<u>8,627</u>	<u>30,032</u>	<u>37,822</u>	<u>29,969</u>

Note: The majority of the other income during the Track Record Period was attributable to government grants. The government grants mainly represent the government grants received from government authorities of Fujian Province such as Jinjiang Finance Bureau, Jinjiang Bureau of Economy and Information Technology and Quanzhou Municipal People's Government, the entitlements of which were unconditional and at the discretion of the relevant authorities. During the Track Record Period, our government grants amounted to approximately RMB2.2 million, RMB4.3 million, RMB2.0 million and RMB7.3 million, respectively.

Our net profit decreased by approximately by 20.7% from approximately RMB39.2 million for the year ended 31 December 2018 to approximately RMB31.1 million for the year ended 31 December 2019. The decrease in net profit margin was primarily attributable to (i) the increase in expenses for business trips and entertainment and depreciation of machines from approximately RMB5.4 million in 2018 by approximately RMB4.0 million or approximately 74.1% to approximately RMB9.4 million in 2019; (ii) the increase in research and development expenses with the reason stated in the section headed "Financial Information — Research and development"; (iii) the increase of total staff costs from approximately RMB22.2 million in 2018 by approximately RMB9.8 million or approximately 44.1% to approximately RMB32.0 million in 2019 which, was primarily due to a salary increment in certain number of our Group's labours; and (iv) the increase in Listing expenses from approximately RMB3.2 million in 2018 by approximately RMB6.6 million or approximately 206.3% to approximately RMB9.8 million in 2019.

Selected information extracted from the combined statements of cash flows

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Operating cash flows before movements in working capital	13,881	39,648	50,731	53,987
Change in working capital	(6,284)	(409)	(84,035)	(25,113)
Income tax paid	(146)	(1,600)	(6,905)	(8,741)
Net cash from (used in) operating activities	7,451	37,639	(40,209)	20,133
Net cash (used in) from investing activities	(23,337)	(16,345)	20,799	(421)
Net cash from (used in) financing activities	14,688	(6,516)	25,337	(11,648)
Net (decrease) increase in cash and cash equivalents	(1,198)	14,778	5,927	8,064
Cash and cash equivalents at the beginning of the year/period	9,606	8,408	23,187	27,709
Effect on exchange rate changes	—	1	(1,405)	(72)
Cash and cash equivalents at the end of the year/period	<u>8,408</u>	<u>23,187</u>	<u>27,709</u>	<u>35,701</u>

SUMMARY

For further information on our Group's cash flows, please refer to the section headed "Accountants' Report" in Appendix I to this prospectus.

We recorded net cash outflow from operating activities of approximately RMB40.2 million for the year ended 31 December 2018, which arose from profit before tax of approximately RMB45.1 million, mainly adjusted for (i) an increase in trade and other receivables of approximately RMB12.1 million in line with the increase of our revenue in 2018; (ii) a decrease in trade and other payables of approximately RMB130.0 million due to the acceleration of settlement of amounts due to our suppliers to secure timely supply of raw materials and keep a good relationship with suppliers; (iii) interest income of approximately RMB1.4 million; (iv) income tax paid of approximately RMB6.9 million; which was offset by (v) a decrease in inventory of approximately RMB58.1 million as we use the enterprise resource planning system to control the procurement volume from suppliers; (vi) depreciation and amortisation of approximately RMB6.1 million; and (vii) loss on disposal of plant and equipment of approximately RMB0.3 million.

Selected information extracted from the combined statements of financial position

The following table sets out our current assets, current liabilities and net current assets as at the date indicated:

	2016 RMB'000	As at 31 December		2019 RMB'000	As at 31 March 2020 RMB'000 (Unaudited)
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Current assets					
Financial assets at fair value through profit or loss	20,000	10,000	—	—	—
Inventories	111,375	167,850	126,528	144,839	165,751
Trade and other receivables	38,994	77,419	103,590	98,527	87,901
Income tax recoverable	—	—	—	1,203	—
Restricted bank deposits	6,467	24,068	14,040	10,000	7,000
Bank balances and cash	8,408	23,187	27,709	35,701	61,731
Subtotal	185,244	302,524	271,867	290,270	322,383
Current liabilities					
Trade and other payables	147,727	242,269	150,682	141,992	165,282
Bank borrowings	5,000	—	—	—	10,000
Lease liabilities	—	—	—	—	—
Obligations under finance leases	3,158	1,444	—	—	—
Amount due to the Controlling Shareholders	11,752	13,967	7,699	52,150	38,391
Amount due to ultimate holding company	—	—	48,936	—	—
Dividends payable	—	3,304	—	6,977	5,170
Income tax payable	866	3,069	2,833	2	1,409
Deferred tax liabilities	—	—	—	1,000	—
Subtotal	168,503	264,053	210,150	201,121	220,252
Net current assets	16,741	38,471	61,717	88,149	102,131

We recorded net current assets of approximately RMB16.7 million as at 31 December 2016, and net current assets of approximately RMB38.5 million as at 31 December 2017, and net current assets of approximately RMB61.7 million as at 31 December 2018. As at 31 December 2019 and 31 March 2020, we recorded net current assets of approximately RMB88.1 million and RMB102.1 million, respectively.

Please refer to the section headed "Financial Information — Net Current Assets" in this prospectus for more details.

Pursuant to the sales contracts entered into with our customers, customers are generally required to pay deposits to us after signing the sales contracts. The receipts in advance under the trade and other payables represents the deposits we received from our customers. As at 31 December 2016, 2017, 2018 and 2019, the receipts in advance of approximately RMB46.1 million, RMB69.8 million, RMB63.7 million and RMB63.2 million mainly related to deposits from 14, 27, 23 and 28 sales contracts, respectively. The receipts in advance increased from RMB46.1 million

SUMMARY

as at 31 December 2016 to RMB69.8 million as at 31 December 2017 mainly due to the increase in sales contracts entered with our customers, which in turn increased the deposits we received from our customers. Unless the machines are not manufactured in line with the materials, types, specifications and quality as specified in the sales contracts, our customers are generally not eligible for the refund of the deposits in most of the events including the late delivery of machines.

KEY FINANCIAL RATIOS

	For the year ended 31 December			
	2016	2017	2018	2019
Profitability ratios				
Return on total equity	30.9%	55.0%	47.1%	27.4%
Return on total assets	4.3%	9.3%	13.2%	9.2%
Gross profit margin ratio	21.6%	21.7%	22.7%	24.0%
Net profit margin ratio	7.6%	11.5%	11.6%	8.2%
	At as 31 December			
	2016	2017	2018	2019
Liquidity ratios				
Current ratio (times)	1.1	1.1	1.3	1.4
Quick ratio (times)	0.4	0.5	0.7	0.7
Capital adequacy ratios				
Gearing ratio (%)	46.4%	N/A	34.7%	37.6%
Interest coverage ratio (times)	14.7	62.2	779.1	36.7

Please see the section headed “Financial Information — Key Financial Ratios” in this prospectus for the definition of the above financial ratios and further details.

LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, no member of our Group or our Directors was involved in any litigation, claim or administrative proceedings of material importance, and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of our Group or our Directors. We had certain non-compliance incidents during the Track Record Period, including failure to make social insurance and housing provident fund contributions in full in the PRC. Please refer to the section headed “Business — Legal Proceedings and Compliance” in this prospectus for further details.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group had entered into sales contracts with our customers for the sale and purchase of 24, 13, 149, 13 and two units of baby diaper machine, adult diaper machine, medical disposable face mask machine, lady sanitary napkin machine and underpad machine with aggregate contract values of approximately RMB147.7 million, RMB103.0 million, RMB99.0 million, RMB55.1 million and RMB4.4 million, respectively. There had not been any material changes to our business model, revenue structure or cost structure. Our Directors confirm that there had been no cancellation or delays of orders by any of the Group’s customers due to the outbreak of coronavirus disease (“COVID-19”). Also, our Directors confirm that the suspension period during the outbreak of COVID-19 did not have any significant adverse impact on our operations or financial performance as we were entrusted by the Jinjiang Bureau of Industry and Information Technology to research and develop medical disposable face mask machines due to the outbreak of COVID-19. Our Jinjiang Production Base and Hangzhou Production Base were permitted by the PRC government to resume production on 7 February 2020 and 10 February 2020, respectively. After the outbreak of COVID-19, there is a sharp rise in market demand for medical disposable face mask machines in the PRC and globally. In response to the strong market demand of medical disposable face mask machines, our research and development team started to research and design medical disposable face mask machines as (i) our sizable research and development team has experience and skill set in mechanical engineering or design and our Directors believe that their experience and skill set are useful for the research and design of medical disposable face mask machines; (ii) the technology required for the manufacture of medical disposable face mask machines is similar to the technology that we possessed for the manufacture of other disposable hygiene product machines such as baby diaper machines, adult diaper machines and lady sanitary napkin machines; (iii) the supply chain of raw materials for disposable hygiene product machines also supply the raw materials for the manufacture of medical disposable face mask machines; and (iv) there is a strong demand of medical disposable face mask machines among

SUMMARY

our existing customers. Our Directors believe that there will be a sharp increase in revenue and profit mainly from sales of medical face mask machines for the year ending 31 December 2020. As one of the top disposable hygiene product machinery providers in the PRC, we are entrusted by the PRC government to research and design medical disposable face mask machines. We started to accept and process orders to produce medical disposable face mask machines when our research and development team successfully researched and designed medical disposable face mask machines. While our Directors believe that the demand of these machines may be temporary, these machines, which are currently demanded by our customers, are able to command favourable profit margins for our Group based on the unaudited management accounts of our Group, have a shorter production time and lower production space requirements, and are currently expected to make significant contributions to our revenue for the year ending 31 December 2020, and may also affect our production schedule in the short-term for other types of machines offered by us. Due to the rescheduling of production in response to strong demand of medical disposable face mask machines by our customers, our Directors expect that the number of sales of baby diaper machine will be decreased by at least five units. Up to the Latest Practicable Date, 81 medical disposable face mask machines had been delivered to our customers. In the short run, certain of our planned production of machines other than medical disposable face mask machines had been slightly delayed as capacity had been requested by the PRC governmental authorities to cater for the sudden increase of demand for the manufacture of medical disposable face mask machines. Despite of the short delay in our production plan, our customers are generally not eligible for the refund of the deposits. Based on information currently available to the Directors, medical disposable face mask machines will contribute a significant portion of our revenue for the first half of 2020 and the Group will temporarily increase the number of hours worked by each shift and also to better cooperate with our suppliers in timely delivery of raw materials so as to catch up with the production schedule of diaper and lady sanitary napkin machines as agreed with our customers. Once the supply of medical disposable face masks in the market stabilises, and there is a slow-down in the spread of the COVID-19, our Directors expect that a gradual decrease in global demand for medical disposable face mask machines, our Group will resume the normal production schedules for baby diaper machines, adult diaper machines and lady sanitary napkin machines.

The following table sets out the breakdown of production completed (excluding work-in-progress) by our production plant after the Track Record Period and up to the Latest Practicable Date:

	For the period from 1 January 2020 to the Latest Practicable Date	
	Number of machines produced at Jinjiang Production Base	Number of machines produced at Hangzhou Production Base
Baby diaper machines	2	1
Adult diaper machines	1	—
Lady sanitary napkin machines	—	—
Medical disposable face mask machines	61	20
	<hr/>	<hr/>
Total	64	21
	<hr/> <hr/>	<hr/> <hr/>

Save for (i) the expenses incurred in relation to the Listing; and (ii) the increase in administrative and other operating expenses mainly due to the increase in research and development expense incurred by our technical engineering team and technical design team for innovation, introduction and improvements of the Group's products as well as staff salaries of these departments, our Directors confirm that, since 31 December 2019 and up to the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our combined financial information set out in the Accountants' Report included in Appendix I to this prospectus.

The reporting accountants of our Company concur with our Directors' view that the outbreak of COVID-19 has no significant impact to the measurement, recognition and disclosure of the relevant historical financial information of our Group as set out in the Accountants' Report in Appendix I to this prospectus and will not constitute an adjusting event after the reporting period pursuant to HKAS 10 "Events after the reporting period" taking into consideration the risk management measures as detailed in "Business — Health and Safety" in this prospectus.

As the Group had bank balances and cash of approximately RMB61.7 million as at 31 March 2020, our Directors consider that we have sufficient liquidity for our operation. In the unlikely event that our operation becomes completely suspended or otherwise affected on temporary basis

SUMMARY

due to the outbreak of COVID-19, our Directors estimate that our Group will still be financially viable for next twelve months taking into account the proceeds from the Share Offer, our bank balances and cash, the anticipated level of trade receivable collection and trade payable settlement, bank borrowings, estimated monthly fixed cost such as staff costs, rent and interest expenses, and temporary suspension of capital expenditure under such condition.

For the sensitivity analysis of the estimated decrease of our profit before tax assuming different durations of production suspension, please refer to the section headed “Business — Health and Safety” for further details. After due and careful enquiries and taking into account the sensitivity analysis, the financial resources presently available to our Group, including the balance of our cash and bank balances, cash flows generated from our operating activities and the estimated net proceeds from the Share Offer, our Directors believe that our Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this prospectus should there be a complete or partial suspension of our production facilities.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Share Offer. Listing expenses to be borne by us are estimated to be approximately RMB47.4 million (equivalent to approximately HK\$53.0 million), of which approximately RMB24.2 million (equivalent to approximately HK\$27.0 million) is directly attributable to the issue of Shares to the public and to be capitalised, and approximately RMB23.2 million (equivalent to approximately HK\$26.0 million) has been or is expected to be reflected in our combined statements of profit or loss and other comprehensive income. Approximately RMB3.2 million (equivalent to approximately HK\$3.9 million) and RMB9.8 million (equivalent to approximately HK\$11.3 million) of the listing expenses in relation to services performed has been reflected in our combined statements of profit or loss and other comprehensive income during the year ended 31 December 2018 and 2019, respectively, and the remaining amount of approximately RMB10.2 million (equivalent to approximately HK\$10.8 million) is expected to be reflected in our combined statements of profit or loss and other comprehensive income subsequent to the Track Record Period. The Listing expenses is expected to represent approximately 35.4% of the gross proceeds from the Share Offer assuming the Offer Price is fixed at HK\$1.29 per Offer Share (being the mid-point of the proposed Offer Price range of HK\$1.08 to HK\$1.50 per Offer Share).

DIVIDEND

Our Group’s wholly-owned subsidiary, Jinjiang Haina declared dividends of approximately RMB3.3 million and approximately RMB2.6 million to the then equity owners of the entities now comprising the Group during the years ended 31 December 2017 and 2018 respectively, and both were fully paid during the year ended 31 December 2018.

The declaration, payment and amount of dividends will be subject to our Directors’ discretion. The Board shall consider factors such as our Group’s financial performance, retained earnings and equity position. We do not have any fixed dividend policy or dividend payout ratio, however the Directors expect that after the Listing, the Group’s dividend payout ratio will be not less than 25.0% of its annual distributable net profit. For details of our dividend policy, please refer to the section headed “Financial Information — Dividend Policy” in this prospectus.

RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. Major risks we face include:

- we place strong reliance on disposable hygiene product manufacturers and generate a significant portion of our revenue from a limited number of products;
- our products typically have a relatively long replacement cycle which may limit our growth of business;
- our revenue may vary from period to period due to fluctuations in purchase orders from customers;
- our business is susceptible to fluctuations of purchase costs for raw materials, and such fluctuations may materially and adversely affect our profitability and results of operations; and
- our prospects could be adversely affected by the outbreak of novel coronavirus.

As different investors may have different interpretations and standards 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, before making an investment in the Offer Shares.

SUMMARY

STATISTICS OF THE SHARE OFFER⁽¹⁾

Number of Offer Shares:	116,000,000 Shares (subject to the Over-allotment Option)
Offering structure:	Public Offer: 11,600,000 Shares, representing 10% of the Offer Shares (subject to reallocation)
	Placing: 104,400,000 Shares, representing 90% of the Offer Shares (subject to reallocation and the Over-allotment Option)
Offer Price range:	HK\$1.08 to HK\$1.50 per Offer Share
Board lot:	4,000 Shares

	Based on minimum indicative Offer Price of HK\$1.08	Based on maximum indicative Offer Price of HK\$1.50
Market capitalisation:	HK\$501.1 million	HK\$696.0 million
Unaudited pro forma adjusted combined net tangible assets per Share:⁽²⁾	HK\$0.42	HK\$0.50

Notes:

- The statistics are based on the assumption that the Over-allotment Option is not exercised and an Offer Price of HK\$1.29 per Offer Share (being the mid-point of the indicative Offer Price range) and do not take into account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.
- For the assumptions and calculation method, please refer to the unaudited pro forma financial information set out in Appendix II to this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.29 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$112.8 million (equivalent to approximately RMB100.9 million). We currently intend to apply these net proceeds for the following purposes:

Use of proceeds	% of the net proceeds	HK\$ million	(equivalent to RMB million)
Setting up a new research and development centre in Jinjiang	23.2	26.2	22.4
Strengthening our research and development capabilities	22.2	25.0	21.4
Increasing our production capacity	16.2	18.3	15.6
Increasing the competitiveness of our products through acquisitions	35.1	39.6	38.3
Working capital and general corporate purposes	3.3	3.7	3.2

Please see the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain technical terms are explained in the section headed “Glossary of technical terms” in this prospectus.

“Accountants’ Report”	the accountants’ report prepared by Mazars CPA Limited, the text of which is set out in Appendix I to this prospectus
“affiliate(s)”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Affluent International”	Affluent International Group Limited (盛豐國際集團有限公司), a company incorporated in the BVI with liability limited by shares on 16 January 2019 and a wholly-owned subsidiary of the Company
“Angola”	the Republic of Angola
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) or GREEN Application Form(s), individually or collectively, as the context so requires, any of them, which is used in relation to the Public Offer
“Articles” or “Articles of Association”	the third amended and restated articles of association of our Company conditionally adopted on 8 May 2020 with effect from the Listing Date, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus, and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of our Board
“Bangladesh”	People’s Republic of Bangladesh
“Board” or “Board of Directors”	the board of directors of our Company
“Business Day” or “business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Cambodia”	the Kingdom of Cambodia

DEFINITIONS

“Capitalisation Issue”	the allotment and issue of 347,999,990 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to the section headed in “Statutory and General Information — A. Further Information about our Company — 2. Changes in Share Capital of our Company” in Appendix IV 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
“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 a 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 or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practises, procedures and administrative requirements relating to the operation 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
“China” or “PRC”	the People’s Republic of China and for the purposes of this prospectus only, except where the context requires otherwise, references in this prospectus to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CMTBA”	China Machine Tool & Tool Builders’ Association (中國機床工具工業協會)
“Co-lead Managers”	CM Securities (Hongkong) Company Limited and Red Eagle Securities Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified 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, supplemented or otherwise modified from time to time

DEFINITIONS

“Company”	Haina Intelligent Equipment International Holdings Limited (海納智能裝備國際控股有限公司) (formerly known as Haina International Group Limited (海納國際集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 20 December 2017
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Prestige Name. Please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus for details
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 8 May 2020 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee of each of its subsidiaries) in respect of certain indemnities, further information of which is set out in the section headed “Statutory and general information — I. Other information — 4. Tax and other Indemnities — (e) Deed of Indemnity” in Appendix IV to this prospectus
“Director(s)”	the director(s) of our Company
“ECL”	expected credit loss
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Founders”	Mr. Hong, Mr. Zhang, Mr. Su and Mr. He
“Frost & Sullivan”	Frost & Sullivan Limited, a market research company
“GACC”	General Administration of Customs of the PRC (中華人民共和國海關總署)
“GEM”	GEM operated by the Stock Exchange
“GDP”	gross domestic product
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures

DEFINITIONS

“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider designated by our Company, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	the Company, its subsidiaries and its consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries and consolidated affiliated entities, such subsidiaries and consolidated affiliated entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time
“Haina Technology”	Haina Technology Group Limited (海納科技集團有限公司) (formerly known as City China Limited (兆翔有限公司)), a limited liability company incorporated in Hong Kong on 15 March 2017 and a wholly-owned subsidiary of the Company
“Hangzhou Haina”	Hangzhou Haina Machinery Company Limited (杭州海納機械有限公司), a limited company established in the PRC on 23 May 2017 and a non wholly-owned subsidiary of our Company, which is owned as to 51.00% by Jinjiang Haina, 29.40% by Mr. Xu Yuanquan and 19.60% by Mr. Xu Shuwei. Mr. Xu Yuanquan and Mr. Xu Shuwei are independent third parties (other than as equity interest owners of Hangzhou Haina)
“Hangzhou Production Base”	our production base in Hangzhou, the PRC
“Hengqin Machinery”	Jinjiang City Hengqin Machinery Industry and Trade Company Limited (晉江市恒勤機械工貿有限公司), a limited company established in the PRC on 27 May 2002 and a connected person
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“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
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Hong Kong Takeovers Code” or “Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“independent third party(ies)”	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
“India”	the Republic of India
“Indonesia”	the Republic of Indonesia
“Industry Report”	the industry report prepared by Frost & Sullivan Limited
“Jinjiang Haina”	Jinjiang Haina Machinery Company Limited (晉江海納機械有限公司), a company established in the PRC on 24 January 2011 and a wholly-owned subsidiary of our Company
“Jinjiang Production Base”	our production base in Jinjiang, the PRC
“Joint Global Coordinators” or “Joint Bookrunners”	Soochow Securities International Brokerage Limited, VBG Capital Limited and Wealth Link Securities Limited (in alphabetical order)
“Joint Lead Managers”	BOA MS Capital Limited, DL Securities (HK) Limited, Soochow Securities International Brokerage Limited, TradeMaster Securities (Hong Kong) Limited, VBG Capital Limited, Wealth Link Securities Limited and Zinvest Global Limited (in alphabetical order)
“Latest Practicable Date”	10 May 2020, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Listing”	the listing of the 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 Wednesday, 3 June 2020, on which the Shares are listed and on which dealings in the Shares are first permitted to take place on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“m.”	metre
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange that is independent from and operates in parallel with the GEM of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the third amended and restated memorandum of association of our Company conditionally adopted on 8 May 2020 with effect from the Listing Date, a summary of which is set out in the section headed “Summary of the constitution of our Company and Cayman Islands company law” in Appendix III to this prospectus, and as amended, supplemented or otherwise modified from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. He”	Mr. He Ziping (何子平), one of our Founders, a Controlling Shareholder and our executive Director
“Mr. Hong”	Mr. Hong Yiyuan (洪奕元), one of our Founders, a Controlling Shareholder, our executive Director, our chief executive officer and the chairman of the Board
“Mr. Su”	Mr. Su Chengya (蘇承涯), one of our Founders, a Controlling Shareholder and our executive Director
“Mr. Zhang”	Mr. Zhang Zhixiong (張志雄), one of our Founders, a Controlling Shareholder and our executive Director
“NASDAQ”	the Nasdaq Stock Market LLC
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nigeria”	the Federal Republic of Nigeria
“Nomination Committee”	the nomination committee of our Board
“OFAC”	the United States Office of Foreign Assets Control
“Offer Price”	the final price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Public Offer Shares are to be subscribed for pursuant to the Public Offer and the Placing Shares are to be offered pursuant to the Placing, to be determined as described in the section headed “Structure and conditions of the Share Offer — Pricing and allocation” in this prospectus
“Offer Share(s)”	the Public Offer Shares and the Placing Shares

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters) under the Placing Underwriting Agreement to require our Company to issue up to an additional 17,400,000 Shares, representing 15% of the number of Offer Shares initially available under the Share Offer at the Offer Price, details of which are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Pakistan”	the Islamic Republic of Pakistan
“Placing”	the conditional placing of Offer Shares by the Placing Underwriters on behalf of the Company for cash at the Offer Price with selected professional, institutional and/or other investors in Hong Kong as described in “Structure and Conditions of the Share Offer” in this prospectus
“Placing Shares”	the 104,400,000 Shares being initially offered for subscription and purchased at the Offer Price under the Placing, subject to reallocation and the Over-allotment Option as described under the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the placing underwriting agreement relating to the Placing and expected to be entered into by, among others, our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Placing Underwriters on or about the Price Determination Date, as further described in the section headed “Underwriting — Placing” in this prospectus
“PRC Labour Contract Law”	PRC Labour Contract Law (中華人民共和國勞動合同法), as enacted by the Standing Committee of the National People’s Congress on 29 June 2007 and effective on 1 January 2008, as amended, supplemented or otherwise modified from time to time
“PRC Legal Advisers”	Tian Yuan Law Firm, the PRC legal advisers to our Company
“Prestige Name”	Prestige Name International Limited (威名國際有限公司), a company incorporated in the BVI with liability limited by shares on 22 May 2017 and is owned as to 45.0%, 25.0%, 18.0% and 12.0% by Mr. Hong, Mr. Zhang, Mr. Su and Mr. He, respectively
“Price Determination Agreement”	the agreement to be entered into among our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) at or about the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Monday, 25 May 2020 (Hong Kong time) and in any event no later than Friday, 29 May 2020, on which the Offer Price is to be fixed by an agreement between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters)

DEFINITIONS

“Principal Share Registrar and Transfer Office”	Conyers Trust Company (Cayman) Limited
“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 subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure and conditions of the Share Offer — The Public Offer” in this prospectus
“Public Offer Shares”	the 11,600,000 Shares initially being offered for subscription in the Public Offer (subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer as listed in the section headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 19 May 2020 relating to the Public Offer, entered into by our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Public Offer Underwriters, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Public Offer” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the reorganisation of the corporate structure of the Group, further details of which are described in the section headed “History, Development and Reorganisation – The Reorganisation” in this prospectus
“Russia”	the Russian Federation
“SAFE”	the State Administration of Foreign Exchange of the PRC (國家外匯管理局)
“SAIC”	the State Administration of Market Regulation (國家市場監督管理總局) (formerly known as the State Administration for Industry and Commerce (國家工商管理總局))
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)

DEFINITIONS

“SCNPC”	the Standing Committee of National People’s Congress of the PRC (全國人民代表大會常務委員會)
“SEC”	the Securities and Exchange Commission of the United States
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	The Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary shares with a par value of HK\$0.01 each in the share capital of the Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 8 May 2020, the principal terms of which are summarised under the section headed “Statutory and General Information — H. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“Shengrong Machinery”	Jinjiang City Shengrong Machinery Equipment Company Limited (晉江市盛榮機械設備有限公司), a limited company established in the PRC on 3 May 2017 and a connected person
“Sole Sponsor”	VBG Capital Limited
“sq.m.”	square metre
“Stabilising Manager”	Soochow Securities International Brokerage Limited, the stabilising manager in respect of the Share Offer
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Prestige Name and the Stabilising Manager on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“The Philippines”	the Republic of the Philippines
“Track Record Period”	the four financial years ended 31 December 2019
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement

DEFINITIONS

“United States” or “US” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD” or “US dollars”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Uzbekistan”	the Republic of Uzbekistan
“Vietnam”	the Socialist Republic of Vietnam
“ WHITE Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicant’s own name
“ White Form eIPO ”	the application for the Public Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“ YELLOW Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be deposited directly into CCASS
“Yemen”	the Republic of Yemen
“%”	per cent

In this prospectus, if there is any inconsistency between the Chinese names of the entities, authorities, organisations, institutions or enterprises established in the PRC or awards and certificates given in the PRC and their English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions or usage of those terms.

“CAGR(s)”	compound annual growth rate(s), representing the year-over-year growth rate of a value over a specified period of time, taking into account the effects of compounding
“circular base(s)”	component(s) of disposable hygiene product machine for feeding stock material during operation
“CNC machine(s)”	computer numerical control machine(s) which convert the design produced by a computer software programme into specific cutting pattern and shaping of steel materials
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, the Swiss Confederation, for assessing the quality systems of business organisations
“ISO 9001”	ISO 9001 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance in design, development, production, installation and servicing
“ISO 14001”	ISO 14001 is an internationally recognised standard for the environmental management of businesses. It aims at recognising the desirable behaviour of businesses concerning the environment. It prescribes controls for an encompassing range of corporate activities which include the use of natural resources, handling and treatment of waste and energy consumption
“pull-up diaper(s)”	disposable pant-type diaper(s) that can be pulled down easily, which is also used as an aid for potty training and night training of toddlers
“transposition unit(s)”	component(s) in disposable hygiene product machinery, automated production line and packaging machine, which can move into a new position quickly and precisely during operation
“U-type baby diaper system”	pull-up baby diaper production system

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases the words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions, and the negative of these words, are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our Group’s business and operating strategies and plans of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group’s business;
- our Company’s dividend distribution plans;
- our financial conditions;
- availability of bank loans and other forms of financing;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operate;
- estimates of capacities and operating costs;
- future developments in the industry in which our Group operates; and
- the trend of the economy of Hong Kong, the PRC and the world in general.

These statements reflect the current views of our Directors with respect to future events, operations, liquidity and capital resources, and are based on several assumptions, including those regarding our Group’s present and future business strategies and the environment in which our Group will operate in the future.

Our Group’s future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group’s future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk factors” and “Financial information” in this prospectus, many of which are not within our Company’s control.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

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

RISK FACTORS

You should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Share Offer. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial condition and future prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could fall due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; (iv) risks relating to the Share Offer; and (v) risks relating to the statements made in this prospectus. You should consider carefully our business and prospects in light of the challenges we face, including the ones discussed in this section.

RISKS RELATING TO OUR BUSINESS

We place strong reliance on disposable hygiene product manufacturers and generate a significant portion of our revenue from a limited number of products

Our products were primarily sold to disposable hygiene product manufacturers during the Track Record Period. As such, the general growth and viability of the disposable hygiene product manufacturing industry and any economic or political factors or events affecting the disposable hygiene product manufacturing industry such as the demand for disposable hygiene products from downstream customers, the price index of disposable hygiene product machinery and the laws and regulations affecting disposable hygiene product manufacturing industry will inevitably have a direct impact on the demand of disposable hygiene product machinery, which will in turn affect our business, results of operations and profitability as our revenue is primarily generated from the sales of production lines for baby diapers, adult diapers and lady sanitary napkins. For the four years ended 31 December 2019, our revenue generated from production machines of baby diapers accounted for approximately 92.8%, 94.4%, 80.3% and 59.8% of our total revenue, respectively. Accordingly, our business, prospects and profitability depend, to a significant extent, on customers' demand for these production lines. Any material adverse change in market demand and market prices for these production lines or the general growth and viability of the disposable hygiene product manufacturing industry could have a material adverse effect on our business, financial condition, results of operations and profitability.

RISK FACTORS

Our products typically have a relatively long replacement cycle which may limit our growth of business

According to the Industry Report, disposable hygiene product manufactures in the PRC tend to replace or upgrade their machines once in every three to five years. Due to the relatively long replacement cycle of our products, our customers may not make recurring purchases until they plan for production expansion or upgrade of their production facilities. Moreover, our customers' needs for product replacement may be low due to the quality and stability of our products. As such, if we fail to secure new customers for our products or develop new products which fulfil the evolving technical and capacity requirements of our new and existing customers, the growth of our revenue from sales of products may be limited, and as a result, our business, financial performance and results of operations may be adversely affected.

Our revenue may vary from period to period due to fluctuations in purchase orders from customers

We do not enter into long-term sales contract with any of our customers. The purchasing patterns from our customers are affected by a variety of factors which are beyond our control, including but not limited to the market demand for our customers' products, the production capacity of our customers' production facilities, their production expansion plans and the preference of our customers. Our revenue and results of operations may fluctuate from period to period primarily due to the purchasing patterns of our customers.

In addition, due to the relatively high selling prices of our products, a single or a small number of purchase orders may account for a substantial portion of our sales during a particular period. As we recognise revenue upon receipt of our customers' acknowledgement and acceptance of our products after successful completion of on-site installation, testing and inspection of our products, the timing of a single or a small number of purchase orders with significant contract value completed during a particular period may significantly affect our results of operations during that period. Likewise, the loss of one or more of our significant customers or any material breach of sales contracts by them could have a material adverse effect on our business, results of operations and financial condition.

Our business is susceptible to fluctuations of purchase costs for raw materials, and such fluctuations may materially and adversely affect our profitability and results of operations

Our profitability depends to a large extent on our ability to anticipate and react to changes in the purchase costs of our principal raw materials. Our total cost of raw materials accounted for approximately 83.4%, 90.6%, 88.1% and 85.3% of our total cost of sales for the four years ended 31 December 2019, respectively. The major raw materials used in our production include electrical appliances such as melting machines, processing parts such as curved blades and gearboxes and steel with electrical appliances as our principal raw materials, representing approximately 56.2%, 53.1%, 47.5% and 45.5% of our cost of raw materials for the four years ended 31 December 2019, respectively. The source of electrical appliances which we purchased was mainly from the PRC and the United States. The price of electrical appliances in these countries could be affected by various factors which are beyond our control, which include, among others, market conditions and respective local policies as well as market competition. Should there be any significant increases in the price of our major raw materials, and our Group is unable to pass on such increased costs to our customers after signing the contract, our business and profitability may be adversely affected.

RISK FACTORS

Our prospects could be adversely affected by the outbreak of novel coronavirus

Since the first report from Wuhan, the PRC, on 31 December 2019, cases of the coronavirus disease (“COVID-19”) have been reported from every province of the PRC and overseas countries we have customers such as Vietnam, the Philippines, Cambodia and Russia. To prevent the spread of this outbreak, the PRC government may require our Group to suspend our production plants or restrict transportation among cities and provinces, which may affect the supply of raw materials for our production and the delivery of our products to our customers both domestically and overseas. As at the Latest Practicable Date, there were substantial uncertainties relating to how this pandemic would develop and the Company could not yet fully ascertain the expected impact on the Group’s operations or its financial position, and also the impact on its customers or suppliers. If our production plants were forced to halt or the supply of raw materials was disrupted, our Group’s ability to deliver products timely according to the delivery terms stipulated in the contracts may be affected. If we fail to honour our contracts, our business reputation, financial performance and results of operations may be adversely affected.

Other countries may also impose travel restrictions on our Group’s personnel, impacting our overseas sales efforts. Any local restrictions in the PRC could also affect our sales efforts domestically. Furthermore, adverse impact of COVID-19 on the PRC and global economies may result in lessened demand for certain types of our products. Our customers may cancel the orders they placed previously before the outbreak of COVID-19 or request for delay in payments. Any material adverse change in demand of our products or financial health of our PRC and overseas customers would affect our business, financial condition, results of operations and profitability. As we intend to apply a certain portion of the net proceeds from the Share Offer to increase our production capacity, any material adverse change in demand of our products may also cause potential delays in our intended application of the net proceeds from the Share Offer.

As our products are highly customised, any material breach of contracts by our customers after we commence the manufacturing process may have an adverse effect on us

Our products are highly customised in accordance with the technical specifications and requirements of our customers. If our customers breach their sales contracts to a material extent after we commence the manufacturing process of our products, we may incur unnecessary manufacturing costs, waste raw materials and other resources and delay our overall manufacturing timetables. As such, we are subject to risks relating to disruption of manufacturing and sales timetables should our customers breach their sales contracts, and the failure of our customers to comply with sales contracts may have an adverse effect on our business, results of operations, financial condition and cash flows.

We might not be able to implement our business development strategies or expansion plans successfully

The successful implementation of our Group’s business strategies is subject to various uncertainties and contingencies, such as the growth of the disposable hygiene product machinery industry, availability of funds, competition and government policies. Factors such as delay in the delivery of raw materials, labour disputes, compliance with laws and regulations, delays in securing requisite government approvals, economic downturn or changes in market conditions or performance, may delay or impede the implementation of our Group’s business strategies. Any delay or failure to successfully implement our Group’s business strategies could result in the loss or delay in sales and failure to meet profit projections, any of which may adversely affect our Group’s business, operational results and financial condition.

RISK FACTORS

We depend heavily on our key personnel, and the loss of such key personnel could harm our business

Our future business and results of operations depend on, to a substantial extent, the continuous contributions of our Directors and senior management. In particular, Mr. Hong, Mr. Zhang, Mr. Su and Mr. He, who are our executive Directors and our Controlling Shareholders, have led our senior management team in building up our market position in the disposable hygiene product machinery industry in the PRC since the establishment of our Group. The loss of any of their services could have a material adverse effect on our Group. Our Directors and members of our senior management are key to our Group's success because of their expertise and experience in the disposable hygiene product machinery industry, market development, and their contributions to technology development and expertise in managing the operations of our Group. In addition, the relationship and reputation that our management team has established and maintained with customers of our Group are among the successful factors of our Group.

We expect that our Directors, our senior management team and our technical staff will continue to play an important role in the future growth and success of our business. Our ability to effectively implement our business strategy will depend upon, among other factors, the successful recruitment and retention of new highly skilled and experienced management and other key personnel. There is no assurance that we will be able to hire or retain such personnel and any failure to do so could adversely affect our business, financial condition and results of operations.

Our Group might be subject to liability in connection with industrial accidents happened during our production process at our production bases

As our production process at our production bases inevitably involves the operation of tools, equipment and machinery, industrial accidents resulting in employee injuries or even deaths may occur. There is no assurance that these industrial accidents, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. 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 authorities 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 have purchased insurance for personal injuries arising from our operation. For details, please refer to the section headed "Business — Insurance" in this prospectus. However, our insurance coverage might not be sufficient to cover all of our liabilities in connection with industrial accidents. In the event that our insurance policies do not or cannot sufficiently compensate for the liabilities, we may have to pay for the difference ourselves, and our business, financial position, results of operations and prospects may be adversely affected.

RISK FACTORS

Some of our customers are subcontracted by downstream participants for the manufacturing of disposable hygiene products, our business operations and results of operations may in turn be impacted if there is a decline of demand from the downstream participants

We are a disposable hygiene product machinery manufacturer and positioned as upstream participants along the value chain. Majority of our customers are midstream disposable hygiene products manufacturers and some of them are subcontracted by downstream participants such as wholesalers, distributors and retailers for the manufacturing of disposable hygiene products. Our business and financial performance tie closely to the demand ultimately from the downstream disposable hygiene product manufacturing market. Decline of market demand of disposable hygiene products from downstream participants may in turn decrease the demand of our machines from our customers. In addition, disposable hygiene product machinery market is considered service-oriented. If our customers are not able to cope with the requirements of the downstream participants, our customers may lose business relationship with the downstream participants. The downstream disposable hygiene products market is relatively concentrated and featured with several multinational consumer-packaged goods and fast-moving consumer goods conglomerates. In general, the downstream participants own diverse product categories and brands, and may engage different midstream disposable hygiene products manufacturers located in different countries as their subcontractors for respective product categories. Considering that the downstream disposable hygiene products market is relatively concentrated, our customers may not be able to find new downstream participants, which in turn negatively affect the demand of our machines from our customers. As shown, our business operations and results of operations may be materially and adversely affected if there is a decline of demand from the downstream participants.

We are subject to credit risk in collecting the trade receivables due from the customers

Our Group faces credit risk in collecting the trade receivables due from the customers. The trade receivables turnover days of our Group was 73 days, 41 days, 60 days and 70 days for the years ended 31 December 2016, 2017 and 2018 and 2019, respectively. As at 31 December 2016, 2017, 2018 and 2019, our trade receivables amounted to approximately RMB18.5 million, RMB40.5 million, RMB70.6 million and RMB74.3 million, respectively. As at 31 December 2019, our trade receivables (before allowance for ECL of trade receivables) that were past due amounted to approximately RMB48.4 million. Our Directors believe that no write-off is necessary for our trade receivables that were past due as there has not been any sign of significant adverse change in credit strength of our customers. However, our Directors consider that a long credit period inevitably increases the potential credit risk of our Group. There is no assurance that all such outstanding trade receivables due to our Group will be settled on time or at all. Our Group's performance, liquidity and profitability will be adversely affected if significant trade receivables due to our Group are not settled on time. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

We may not be able to efficiently manage our inventory risks

Our scale and business model require us to manage a large volume of inventory effectively. As at 31 December 2016, 2017, 2018 and 2019, our inventory amounted to approximately RMB111.4 million, RMB167.9 million, RMB126.5 million and RMB144.8 million, respectively. The value of inventories accounted for approximately 55.8%, 52.1%, 42.7% and 43.2% of our total assets respectively as at 31 December 2016, 2017, 2018 and 2019. The inventory turnover days during the Track Record Period were 409 days, 250 days, 207 days and 173 days, respectively. After the end of the Track Record Period, there were also occasions that our customers requested our Group to

RISK FACTORS

delay the scheduled delivery of our products under the sales contract because their production sites were still under construction and were not ready for on-site installation of our products. If more customers request for the extension of the scheduled delivery of our products, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, high inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

We recorded net cash outflow from operating activities for the year ended 31 December 2018. If we are unable to meet our payment obligations, our business, financial condition and results of operations may be materially and adversely affected

We recorded net cash outflow from operating activities of approximately RMB40.2 million for the year ended 31 December 2018. For further information, please refer to the paragraph headed “Financial Information — Cash Flows — Net cash from operating activities” in this prospectus. Our Directors expect to continue to fund our operation through cash generated from operation and external financing. We cannot assure you that we will not experience net cash outflow in the future. If adequate funds are not available from external borrowings, whether on satisfactory terms or at all, or from our operating activities, we may be forced to delay or curtail our development and expansion plans. Therefore, net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Product liability claims might materially and adversely affect our Group’s financial position and reputation, whereas our Group does not have any insurance coverage to cover such significant product liability claims

Our business is inherent to the risk of product liability claims. We cannot guarantee that all products produced by us are defect-free. If our products failed to perform their specifications steadily or caused or alleged to have caused property damage and bodily injury, we would be subject to product liability claims. Any product liability claim against us and any legal proceedings, arbitration or administrative sanctions or penalties arising therefrom, irrespective of the outcome or the merits of such claims, would adversely affect our business, financial condition, results of operations as well as our corporate image and reputation. Even if we are able to defend any such claim successfully, we cannot assure you that our customers will not lose confidence in our products as a result of such claim, which may in turn adversely affect our future business.

We have not purchased any product liability insurance for claims of bodily injury and/or property damage caused by our products, and a portion of the contract sum for products sold to our customers is usually retained by them to cover our Group’s product quality warranty. Should our products be found defective and/or should they cause property damage or personal injury, we may have to devote significant resources to defend any such claims, provide compensation and/or the retained sum may be forfeited, and our business, financial condition, results of operations and prospects may be adversely affected.

Litigation or disputes may adversely affect our performance

We may get into disputes with our customers, suppliers, subcontractors, employees and other parties during the ordinary course of business for various reasons. Disputes may arise due to substandard production or late delivery of shipments. Contractual claims may arise as a result of outstanding fees with our customers and suppliers. Personal injury compensation claims may arise as a result of industrial accidents which may occur at our production bases.

RISK FACTORS

Our Group might be unable to constantly anticipate and respond to trends in technology development and evolving industry standards in an efficient and timely manner

We may not be able to accurately predict what technologies will be required by our customers in the future, and therefore may not be able to utilise suitable capital expenditures to expand our production capability with technology necessary for our customers. Conversely, we may misjudge the market and expand our capacity with technologies for which the customer base is small or demand is low.

We cannot assure you that we will be successful in responding to the technological development and evolving industry standards. New technologies may render our existing products offerings or technologies less competitive. If we are unable to anticipate the trends in technology development and rapidly develop and implement new and innovative technology that our customers require, we may not be able to produce sufficiently advanced products at competitive prices. Accordingly, unless we continually upgrade our capability to manufacture new products that our customers demand, our customers may use the services of our competitors instead of ours and the average sales prices of our products may fall, which could adversely affect our business, results of operations and financial condition.

Our products might be subject to counterfeiting, imitation, and/or infringement by third parties, as well as intellectual property infringement claims by third parties

We cannot assure you that counterfeiting or imitation of our own-branded products will not occur in the future or, if it does occur, that we will be able to detect or address the problem effectively. Any occurrence of counterfeiting or imitation of our own-branded products could negatively affect our reputation and brand image, leading to a loss of consumer confidence in our brands, and as a consequence, adversely affect our results of operations. Any litigation to prosecute counterfeiting and infringements of our rights and products could be expensive and will divert our management's attention as well as other resources away from our business.

Our success depends, to a certain extent, on our ability to use our technology and know-how without infringing third-party intellectual property rights. As we aim to gradually increase our market presence in the industry, we face an increased risk of being the subject of intellectual property infringement claims relating to third parties' proprietary rights, especially where similar technical know-how are registered in the relevant target markets. Furthermore, our current or potential competitors that have substantial resources may have made substantial investments in competing technologies or may obtain patents that will prevent, limit or interfere with our ability to make or sell our products in the PRC and overseas.

The validity and scope of claims concerning technologies relating to the manufacturing of our products may involve complex scientific, legal and factual questions and analysis and, as a result, the determination of such claims may be highly uncertain. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we become a party could result in our having to pay damages, redesign our products or become subject to injunctions, each of which could prevent us from carrying on some or all of our business, which could result in our customers or potential customers limiting or cancelling their purchase or use of our products. This could materially adversely affect our business, financial condition and results of operations.

RISK FACTORS

We are not required under the PRC or Hong Kong laws to maintain, and do not maintain, any insurance coverage against litigation costs. If we face any litigation proceedings, we will have to bear the costs arising therefrom to the extent that we may not be able to recover them from the relevant parties. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We have limited insurance cover, and any uninsured losses incurred could be substantial and therefore adversely affect our operations and financial condition

Under PRC law, we are not obliged to maintain personal injuries or business interruption insurance policies. Should there be any personal injuries or business disruption, our production process may be delayed, and we may be required to make payments which may affect our Group's operation and financial position. In addition, although we maintain insurance coverage we believe to be adequate based on the industry we operate in such as insurance for asset losses, there may be circumstances (such as earthquakes, war, floods, transportation disruption, power shortages and disruption of or damage to our production bases, 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.

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.

Our operations may be subject to transfer pricing adjustment

We have adopted transfer pricing arrangements to regulate intra-group transactions among members of our Group. In particular, we may generate income from our Hong Kong subsidiary namely, Haina Technology, in the future if our customers purchase our products through Haina Technology. In such event, we will implement transfer pricing arrangements among Jinjiang Haina, Hangzhou Haina and Haina Technology to regulate such intra-group transactions. Our Group's tax position may be subject to review and possible challenge by the relevant governmental authorities in Hong Kong and the PRC and any possible change or challenge in laws and regulations in Hong Kong and the PRC. The tax authorities may review and challenge our Group's transfer pricing policy. If the relevant tax authorities later consider that the transfer prices and terms that our Group has applied are not appropriate, they may require our Group to re-assess the transfer prices and re-allocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and results of operations of our Group.

Our financial performance and results of operations could be adversely affected by import restrictions imposed by the countries to which our products are imported

During the Track Record Period, a substantial amount of our products were sold to overseas customers. Many countries may have restrictions that prohibit items from being imported entirely, while others may impose taxes or require special licences in order to trade products. Among the most common forms of import restrictions are tariffs, subsidies, quotas and full-scale import bans. Each of these tools is used in certain situations where a government feels compelled to regulate the flow of goods.

RISK FACTORS

We cannot assure you that the countries to which our products are imported will not impose any restrictions on the import of disposable hygiene product machines. If such restrictions are imposed, our business, financial condition, results of operations and prospects could be adversely affected.

Our business benefits from non-recurring nature of government grants, which are non-recurring in nature and preferential tax treatment. Expiration of, or changes to, these incentives or policies could have an adverse effect on our financial performance

Our operating subsidiaries have received grants from local governments during the Track Record Period. The government grants represent grants received from government authorities of Fujian Province such as Jinjiang Finance Bureau, Jinjiang Bureau of Economy and Information Technology and Quanzhou Municipal People's Government, the entitlements of which were unconditional and at the discretion of the relevant authorities. The amount of government grants vary from year to year. During the Track Record Period, our government grants amounted to approximately RMB2.2 million, RMB4.3 million, RMB2.0 million and RMB7.3 million, respectively. If we are no longer entitled to the government grants in the future or government decide to reduce or eliminate such grants at any time, such income may decrease and our financial performance may be adversely affected.

Our financial performance is affected by the level of taxation that we are obliged to pay and the level of preferential tax treatment to which we may be entitled to. During the Track Record Period, Jinjiang Haina which was recognised as a High and New-tech Enterprise and was entitled to a preferential tax rate of 15% for three years from 2016 and which was subsequently renewed in December 2019 for additional three years. During the Track Record Period, our taxation amounted to approximately RMB1.6 million, RMB5.6 million, RMB5.9 million and RMB5.1 million, respectively. If our Group no longer enjoys such preferential tax treatments in the future, our income tax expenses may increase and our financial performance may be adversely affected.

In short, we cannot assure you of the continued availability of the government grants and preferential tax treatment currently enjoyed by some of our operating subsidiaries.

We are uncertain about the recoverability of the deductible value-added tax and other tax recoverable, which may affect our financial positions in the future

The value-added tax ("VAT") recoverable represents the credit balance of output tax for the period after deducting input tax for the period. As at 31 December 2016, 2017, 2018 and 2019, our VAT and other tax recoverable, amounting to Nil, approximately RMB4.8 million, RMB8.4 million and RMB10.7 million respectively, mainly consisted of VAT recoverable where the input tax exceeds the output tax for the periods pursuant to the Provisional Regulations of the PRC on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) effective from 1 January 1994 and their implementing rules. Generally, the excess VAT may be carried forward indefinitely rather than resulting in a refund and used to offset output VAT. In this context, we cannot guarantee the recoverability of the deductible VAT and other tax recoverable, and to what extent they may affect our financial positions in the future.

RISK FACTORS

Historical financial conditions and results of operations may not be indicative of our future growth

For the four years ended 31 December 2019, our total revenue amounted to approximately RMB113.0 million, RMB261.0 million, RMB337.2 million and RMB378.0 million respectively, while our gross profit amounted to approximately RMB24.4 million, RMB56.6 million, RMB76.6 million and RMB90.6 million, respectively.

We cannot assure that we will be able to operate our business as successful in the future or that the disposable hygiene product machinery industry will not deteriorate. Our financial condition and results of operations may be adversely affected if we fail to operate our business as successful or the disposable hygiene product machinery industry becomes unfavourable. You should not rely on our historical results to predict the future performance of our operations.

We are exposed to foreign exchange risks

Payments received from our customers and costs incurred during our production are mainly denominated in US\$ and RMB. We are therefore exposed to foreign exchange risks as the exchange rates at the time we receive our payments from our customers may be substantially different from those when we are required to make payments to our suppliers and subcontractors. In addition, if exchange rate fluctuations cause our cost of sales to increase, we may not be able to adjust our selling price, which would negatively affect our profits. Consequently, our financial condition may be adversely affected.

Our prospects could be adversely affected by acts of war, terrorism, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God.

We could be adversely affected by any negative developments or uncertainties resulting from acts of war, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God. The occurrence of war, civil unrest, riots and strikes could impede administration and management, cause damages to infrastructures necessary to our operations and impact all aspects of our business. The countries or regions in which we operate and to which our products are sold may be under the threat of flood, earthquake, rainstorm or drought. In addition, natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu, severe acute respiratory syndrome (“SARS”), ebola virus or zika virus and other natural disasters and acts of God are beyond our control and may adversely affect the global economy, infrastructure and people’s livelihood.

For instance, the PRC reported a number of cases of SARS in 2003. Since its outbreak in 2004, there have been reports on occurrences of avian flu in various parts of the PRC, including several confirmed human cases and deaths. Furthermore, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008, resulting in tremendous loss of life and injury, as well as destruction of assets in the region. In 2009, there were reports of the occurrence of H1N1 influenza in certain region of the world, including the PRC, where we operate our business. In 2014 and 2015, there have been ebola virus and Middle East Respiratory Syndrome, or MERS outbreak which have yet to be completely contained. In 2015, there has been Zika virus outbreak in certain regions of the world which is still ongoing. Any future outbreak of SARS, avian flu, Zika virus or other similar adverse epidemics may, among other things, significantly disrupt our business. An outbreak of infectious disease may also severely restrict the level of economic activity in affected areas, which in turn may have a material and adverse effect on our business and financial condition and operating results.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

Downturn in our downstream industries and birth rate will have a material impact on our performance

The demand for our products is largely dependent on the demand for the products of our downstream industries. As our customers use our products to manufacture disposable hygiene products of, among other industries, baby product industry, feminine product industry and adult incontinence product industry, downturn in those industries will have material adverse impact on the demand of our products. Downturn in our downstream industries may be contributed by a variety of factors, including but not limited to the fluctuations in the demand of the end products, a declining birth rate, and any change or abolishment of those governmental policies and regulations affecting our downstream industries. Such factors may have material adverse effect on our business, results of operations and prospects.

Moreover, our future plan to increase our production capacity and continue to research and develop new products is partly based on our anticipation of the growth in demand for disposable hygiene products such as baby diapers, adult diapers and lady sanitary napkins. Accordingly, if the growth in demand for these products slows down or is not as fast as we expect, demand for our products may be lower than what we anticipate. This may also decrease the utilisation rate of our production bases and slow down our expansion.

We are facing increasing competition from competitors, and this could affect our business and profitability

We face competition from both domestic and international disposable hygiene product machinery manufacturers. Some of our competitors may have certain advantages over us, including greater financial resources, more advanced technologies, greater economies of scale, better brand reputation and better relationships in the market. Increasing competition may result in price and gross profit margin reduction, and loss of our market share, any of which could adversely affect our business and profitability. For information about our market share, the competition landscape and our major competitors, please refer to the section headed “Industry Overview” in this prospectus.

RISKS RELATING DOING BUSINESS IN THE PRC

The legal system in the PRC embodies uncertainties which could limit the legal protections available to us

The legal system in the PRC is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in the PRC evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or their preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

RISK FACTORS

Political and economic policies of the PRC government could affect our Group's business

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the commencement of the PRC government's effort to reform the Chinese economy in 1978, the PRC government introduced changes to its economic system, as well as the government structure. These reforms have led to significant economic growth and progress in social development. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies have placed much emphasis on creating autonomous enterprises and the utilisation of market mechanisms. Factors that may cause the PRC government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation.

Our Directors anticipate that the PRC Government will continue to further implement these reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations based in the PRC, our operation and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. We may not be able to capitalise on economic reform measures adopted by the PRC government. We cannot assure you that the PRC government will not impose economic and regulatory controls that may adversely affect our Group's business, financial positions and results of operations.

Failure to comply with relevant regulations relating to social insurance and housing provident fund may subject us to supplementary payment and/or penalties

In accordance with relevant PRC laws and regulations, we are required to contribute to certain employee social welfare schemes, including social insurance and the housing provident fund. For more details, please refer to the sections headed "Regulatory Overview — Law Supervision Over Labour — The Laws and Regulations on Social Security Insurance" and "Regulatory Overview — Law Supervision Over Labour — The Regulations on the Administration of Housing Provident Funds" in this prospectus. However, during the Track Record Period, we were not in strict compliance with the contribution requirements for some of our PRC employees. The aggregate outstanding amount payable by us as at 31 December 2019 in relation to social insurance contributions was RMB2.6 million, while the maximum aggregate outstanding amount of housing provident fund contributions payable by us was approximately RMB0.4 million. For more details, please refer to the section headed "Business — Non-compliance incidents" in this prospectus.

As at 31 December 2016, 2017, 2018 and 2019, we have made provisions in the sum of approximately RMB7.0 million, RMB7.5 million, RMB7.9 million and RMB7.3 million for the outstanding social insurance fund contributions and housing provident fund contributions, respectively. However, we cannot assure you that we will not be subject to supplementary payment and/or penalties by the relevant PRC authorities for our past non-compliance. Any supplementary payment and/or penalties imposed on us could have an adverse impact on our cash flow, business operations, and reputation.

RISK FACTORS

Government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. FIEs are required to apply to relevant bank for direct investment-related foreign exchange registration.

Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payments are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE, its local branches or relevant banks. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

Furthermore, in 2005, the PRC revalued the exchange rate of the RMB to the US dollars and abolished the RMB to peg solely to the US dollars as applied in the past. Instead, it is pegged against a basket of currencies which can rise or drop by as much as 0.3% each day. We cannot assure you that in the future PRC will not revalue RMB or permit its substantial appreciation. Any increase in the value of RMB may adversely affect the growth of the PRC economy and competitiveness of various industries in the PRC, including the industries in which our Group operates, which could in turn affect the financial condition and operations of our Group.

Currently, some of our revenue, expenses and bank loans are denominated in RMB, however we cannot guarantee that our financial portfolio will be free from any foreign currencies denominated securities or investments in the future.

The global financial crisis in 2008 has adversely affected the United States and other world economies. Although there are signs of recovery in the global and Chinese economy, there can be no assurance that any such recovery is sustainable. The ongoing uncertainties in the global investment environment may cause fluctuations in exchange rates which may in turn adversely affect the value of our net assets, earnings or any declared dividends. Also, any unfavourable movement in the exchange rate or the value of US dollars may lead to an unfavourable exposure to foreign exchange losses, which could in turn materially and adversely affect our financial conditions and results of operations.

Distribution and transfer of funds may be subject to restrictions under the PRC law

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries. Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of distributable after-tax profits, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profits that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profits under the PRC accounting principles is different in many respects from Hong Kong accounting principles. Distributions by our subsidiaries in the PRC to our Company may be subject to

RISK FACTORS

bank procedures and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by the PRC SAFE its local branch or relevant banks. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities in banks in the future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

There are uncertainties with respect to indirect transfers of assets (including equity interests) of our PRC subsidiaries

In February 2015, the SAT issued the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (as amended on 17 October 2017 and 29 December 2017) (“**Circular 7**”). Circular 7 provides comprehensive guidelines relating to, and also heightens the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”).

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares on a public market by our non-resident enterprise Shareholders or to any future acquisition by us outside of the PRC involving PRC Taxable Assets. Please refer to the section headed “Regulatory Overview — Law Supervision over Taxation and Foreign Exchange” in this prospectus for further details. As a result, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards or bring original actions in the PRC against us or our Directors and senior management

Our Company is incorporated under the laws of the Cayman Islands, but a substantial portion of our operations and assets and all of our executive Directors and senior management are located in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

RISK FACTORS

Furthermore, an original action may be brought in the PRC against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from being able to distribute profits and could expose us and our PRC resident Shareholders to liability under the PRC laws

The Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas 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》), which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (“**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“**Offshore SPV**”) that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing. Pursuant to the Circular 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》), which was promulgated by SAFE on 13 February 2015, the aforesaid registration shall be reviewed and handled by the banks and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks. Following the initial registration, the PRC Resident is also required to make registration for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures above may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s Chinese subsidiary to distribute dividends to its overseas parent.

Our Group may not be entitled to preferential tax treatment, which may adversely affect its results of operations and financial condition.

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and its Implementation Regulations (《中華人民共和國企業所得稅法實施條例》), enterprises in the PRC, including domestic and foreign invested enterprises, shall pay EIT at the unified rate of 25%. The EIT Law also provides a preferential tax treatment for high and new technology enterprises in the form of a preferential enterprise income tax rate of 15% subject to the competent authorities’ review and approval.

According to the Administrative Measures for Certification of High and New Technology Enterprises (《高新技術企業認定管理辦法》), Jinjiang Haina, our Group’s major operating subsidiary, is recognised as a “High and New Technology Enterprise” by Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office, SAT (福建省國家稅務局) and Fujian Local Taxation Bureau (福建省地方稅務局) and was entitled to the preferential enterprise income tax rate of 15% for the three years from 2016 and renewed in December 2019 for additional three years.

RISK FACTORS

The renewal of the recognition as a “High and New Technology Enterprise” will be subject to a three-year review by the relevant authorities in the PRC. Preferential tax treatment granted to Jinjiang Haina by the relevant authorities is subject to such review and may be adjusted or revoked at any time. There can be no assurance that our Group can successfully renew the recognition of Jinjiang Haina as a “High and New Technology Enterprise” or continue to enjoy the same preferential tax treatments in the future. In the event that the PRC government changes its tax policy of supporting new technology development, or Jinjiang Haina ceases to be eligible for such preferential tax treatments, our Group may be subject to higher enterprise income tax rates. Our Group’s performance and profitability may be adversely affected by any unfavourable changes in PRC tax policies.

PRC tax law may affect tax liabilities on dividends received by our Company and Shareholders and increase our enterprise income tax rate

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in the BVI and Hong Kong. The EIT Law has become effective as at 1 January 2008. If our subsidiary is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our subsidiary, unless our subsidiary is entitled to reduction or elimination of such tax, including by tax treaties. Under an arrangement between the PRC and Hong Kong, such dividend withholding tax rate is reduced to 5% if a Hong Kong tax resident enterprise owns over 25% of the equity interests of the PRC company distributing the dividends. Pursuant to the Announcement on Promulgating the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《關於發佈非居民納稅人享受協定待遇管理辦法的公告》), which came into effect on 1 January 2020, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the collection and preservation of relevant materials for review pursuant to the measures and the subsequent administration by the tax authorities.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Share Offer, no public market for our Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which the Shares will be publicly traded. We cannot assure our investors that an active trading market for our Shares will be developed or be sustained after the Share Offer. In addition, we cannot assure our investors that our Shares will be traded in the public market subsequent to the Share Offer at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by the Price Determination Agreement, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares could be materially and adversely affected.

RISK FACTORS

The trading volume and share price of the Shares may fluctuate

The price and trading volume of the Shares may be highly volatile, which may be subject to a number of factors, including but not limited to:

- variations in our revenue, earnings and cash flow;
- announcements made by us or our competitors;
- environmental accidents suffered by us;
- loss of key personnel;
- developments in the disposable hygiene product machinery industry;
- immediate dilution in the unaudited pro forma adjusted combined net tangible asset value to HK\$0.42 per Share based on the Offer Price of HK\$1.08 or HK\$0.50 per Share based on the Offer Price of HK\$1.50 per Share;
- changes in ratings by financial analysts and credit rating agencies;
- involvement in litigation;
- fluctuations in stock market prices and volume;
- fluctuations in the market prices for the products sold; or
- future disposal or perceived disposal of a substantial number of Shares of our existing Shareholders in the public market.

There is no assurance that our major Shareholders would not dispose of their shareholdings. Any significant disposal of our Shares by any of the major Shareholders could materially affect the prevailing market price of our Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of our Shares.

We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations or any future acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro-rata basis to existing Shareholders our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Shares would diminish and/or such newly issued securities may have rights, preferences and privileges superior to the Shares of our existing Shareholders.

RISK FACTORS

There is no assurance that we will pay dividends in the future

There is no assurance that our Group will declare dividends. The declaration and payment of dividends during the Track Record Period should not be considered as a guarantee or indication that we will declare and pay dividends in such manner in the future, or will declare and pay any dividends in the future at all. Whether dividends will be distributed and the amount of dividends to be paid will depend upon, among other things, our profitability, financial condition, business development requirements, future prospects and cash requirements of our Group. For further details, please refer to the section headed “Financial Information — Dividend Policy” in this prospectus. We cannot assure investors when or whether we will pay dividends in the future.

The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders

Our Controlling Shareholders have significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires by virtue of their shareholding in our Group. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group’s business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders’ interest may be adversely affected as a result.

Since there will be a gap of a number of business days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins

The Offer Price of our Offer Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be a number of business days after the Price Determination Date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of price determination and the time trading begins.

RISKS RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there may be press and media coverage regarding the Share Offer and us. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information.

Certain facts, forecast and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information 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 or that any fact has been omitted that would render such information false or

RISK FACTORS

misleading. Nevertheless, such information has not been independently verified by us, the Sponsor, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters. The words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would”, and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in this section. Accordingly, such statements are not a guarantee of future performance and investors should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules. Details of the waivers are described below.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of the a new applicant's executive directors must be ordinarily resident in Hong Kong.

Since the core business operations of our Group are managed and conducted outside of Hong Kong, and all of our executive Directors ordinarily reside outside of Hong Kong, our Company considers that it would be practically difficult and commercially undesirable to arrange for two of our executive Directors to be ordinarily resident in Hong Kong, either by means of relocating incumbent executive Directors or appointment of additional executive Directors. Our Company does not have, and does not contemplate in the foreseeable future that we would have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We would however ensure that there is an effective channel of communication between the Stock Exchange and our Company by way of the following arrangements:

- (a) **Authorised Representatives:** We have appointed Mr. Hong, our executive Director, chairman of our Board and our chief executive officer, and Mr. Lau Wai Piu Patrick, our company secretary, as our authorised representatives (the "**Authorised Representatives**") for the purpose of Rule 3.05 of the Listing Rules. They will act as our principal communication channel at all times between the Stock Exchange and the Company. Although Mr. Hong resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Mr. Lau resides in Hong Kong. The Authorised Representatives will also provide their usual contact details, and each of the Authorised Representatives has confirmed that he will be readily contactable by the Stock Exchange and will be available to meet with the Stock Exchange to discuss any matters within a reasonable period of time frame upon request of the Stock Exchange;
- (b) **Directors:** When the Stock Exchange wishes to contact our Directors on any matter, each of the Authorised Representatives will have all necessary means to contact all our Directors (including our non-executive Director and independent non-executive Directors) promptly at all times. To enhance communication among the Stock Exchange, our Authorised Representatives and our Directors, we have implemented the following measures: (i) each Director must provide his mobile number, office number, e-mail address and facsimile number to the Authorised Representatives; (ii) in the event that a Director expects to travel and/or otherwise be out of office, he will provide phone number of the place of his accommodations or other contact details to the Authorised Representatives; and (iii) we have provided the mobile number, office number, e-mail address and facsimile number of each Director to the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have two independent non-executive Directors, namely Mr. Chan Ming Kit and Mr. Ng Tat Fung, who are ordinarily resident in Hong Kong and will act as a additional channel of communication between the Stock Exchange and us.

Each of our Directors who does not ordinarily reside in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong within a reasonably short period of time. Accordingly, each of our Directors will be able to meet with the Stock Exchange within a reasonable period of time upon prior notice from the Stock Exchange;

- (c) **Compliance Adviser:** We have appointed VBG Capital Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rule 3A.19 of the Listing Rules, who will provide us with professional advice on the continuing obligations under the Listing Rules and act as our additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Adviser will act as our principal channel of communication with the Stock Exchange when the Authorised Representatives are not available.

We shall ensure that the Compliance Adviser retained by us will have access at all times to our Authorised Representatives, our Directors and other officers. We shall also procure that such persons will provide promptly such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser’s duties as set forth in Chapter 3A of the Listing Rules. We shall ensure that there are adequate and efficient means of communication between our Company, our Authorised Representatives, our Directors and other officers and the Compliance Adviser, and will keep the Compliance Adviser informed of all communications and dealings between us and the Stock Exchange; and

- (d) **Legal Advisers:** We shall also retain legal advisers after the Listing (i) to inform us on a timely manner of any amendment or supplement to the Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to us, (ii) to provide advice to us on the continuing requirements under the Listing Rules and applicable Hong Kong laws and regulations, and (iii) to provide advice to us on the application of the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The Group entered into and is expected to continue with certain transactions which would constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules following completion of the Listing. The Company has applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with certain requirements under Chapter 14A of the Listing Rules in relation to the non-exempt continuing connected transactions. Details of these non-exempt continuing connected transactions and the waiver granted are set out in the section headed “Connected Transactions — Non-exempt Continuing Connected Transaction” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

UNDERWRITING

This prospectus is published solely in connection with the Public Offer which forms part of the Share Offer. Details of the terms of the Share Offer are described in the section headed "Structure and conditions of the Share Offer" in this prospectus and in the related Application Forms.

The Listing is sponsored by the Sole Sponsor and the Share Offer is managed by the Joint Global Coordinators. The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters.

OVER-ALLOTMENT OPTION AND STABILISATION

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

RESTRICTIONS ON SALE OF 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, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any such circumstances such 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 or the related Application Forms and the offering and sales 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. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No action has been taken to register or qualify the Offer Shares or the Share Offer, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offer of the Offer Shares described in this prospectus.

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

Under Section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All the Offer Shares will be registered on the Hong Kong share register to be maintained by Computershare Hong Kong Investor Services Limited. Dealings in the Offer Shares registered on our Company's branch share register maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal share register of our Company maintained by Conyers Trust Company (Cayman) Limited in the Cayman Islands will not be subject to the Cayman Islands stamp duty, save for those which hold interests in land in the Cayman Islands.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Share Offer are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, their respective directors or any other person involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Offer Shares or the exercise of their rights thereunder.

ROUNDING

Any discrepancies in any table between totals and sum of amounts listed therein are due to rounding.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the section headed “How to apply for Public Offer Shares” in this prospectus and on the related Application Forms.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares and our Company’s compliance 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 Listing Date or, under contingent situation, 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. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on or about Wednesday, 3 June 2020. The Shares will be traded in board lots of 4,000 Shares each.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations of certain RMB and USD amounts into Hong Kong dollars at a specified rate. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rate indicated or at all. Unless we indicate otherwise, the translations of RMB and USD amounts into Hong Kong dollars have been made at the rate of RMB1.00 to HK\$1.1367 and USD1.00 to HK\$7.8475, respectively.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Hong Yiyuan (洪奕元)	Room 2707, Building 1 Shangyuecheng, Hongjiang Middle Road Qiaotou Community Anhai Town Jinjiang City PRC	Chinese
Mr. Zhang Zhixiong (張志雄)	Room A1208, Jia Ying Hao Yuan Anhai Town Jinjiang City PRC	Chinese
Mr. Su Chengya (蘇承涯)	No.66, Wushancun North Road Anhai Town Jinjiang City PRC	Chinese
Mr. He Ziping (何子平)	115-28-03, Dongli Road Hongta Community Anhai Town Jinjiang City PRC	Chinese
Non-executive Director		
Mr. Chang Chi Hsung (鄭志雄)	68 Redhill CL #06-74 Singapore 150068	Malaysian
Independent non-executive Directors:		
Mr. Chan Ming Kit (陳銘傑)	Flat 2905, 29/F, Block A Chui Wu House Sheung Chui Court 376 Sha Tsui Road Tsuen Wan Hong Kong	Chinese
Dr. Wang Fengxiang (汪鳳翔)	Room 1601, Expert Apartment Quanzhou Institute of Equipment Manufacturing No. 166, Xidong Road Su'nei Community, Luoshan Street Jinjiang City PRC	Chinese
Mr. Ng Tat Fung (吳達峰) <i>(Member of the Hong Kong Institute of Certified Public Accountants)</i>	Flat C, 47/F, Block 3, Sky Tower 38 Sung Wong Toi Road To Kwa Wan Hong Kong	Chinese

For details of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

VBG Capital Limited

A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
18/F, Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

Joint Global Coordinators and Joint Bookrunners

Soochow Securities International Brokerage Limited

A corporation licensed to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
Level 17, Three Pacific Place
1 Queen's Road East
Hong Kong

VBG Capital Limited

A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
18/F, Prosperity Tower
39 Queen's Road Central
Central
Hong Kong

Wealth Link Securities Limited

A corporation licensed to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
Suite 1504, 15/F, Bangkok Bank Building
28 Des Voeux Road Central
Central, Hong Kong

Joint Lead Managers

BOA MS Capital Limited

A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
16/F, Kam Sang Building
No. 257 Des Voeux Road
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DL Securities (HK) Limited

A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Flat 01 28/F Vertical Square
28 Heung Yip Road
Wong Chuk Hang, Hong Kong

Soochow Securities International Brokerage Limited

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

Level 17, Three Pacific Place
1 Queen's Road East
Hong Kong

TradeMaster Securities (Hong Kong) Limited

A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO

21/F, Hip Shing Hong Centre
55 Des Voeux Road Central
Hong Kong

VBG Capital Limited

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

18/F, Prosperity Tower
39 Queen's Road Central
Central, Hong Kong

Wealth Link Securities Limited

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

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Zinvest Global Limited

A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO

Room 1702B, 17/F, Lippo Center Tower 2

89 Queensway

Hong Kong

Co-lead Managers

CM Securities (Hongkong) Company Limited

A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

24/F, China Taiping Tower

8 Sunning Road

Causeway Bay, Hong Kong

Red Eagle Securities Limited

A corporation licensed to carry out Type 1 (dealing in securities) regulated activities under the SFO

Unit 1107, 11/F., Cosco Tower

Grand Millennium Plaza

183 Queen's Road Central

Hong Kong

Legal adviser to our Company

As to Hong Kong law

Fangda Partners

26/F, One Exchange Square

8 Connaught Place

Central

Hong Kong

As to Cayman Islands law

Appleby

2206-19 Jardine House

1 Connaught Place

Central

Hong Kong

As to PRC law

Tian Yuan Law Firm

10/F, China Pacific Insurance Plaza

28 Fengsheng Lane

Xicheng District

Beijing

PRC

Legal adviser to the Sole Sponsor and the Underwriters

As to Hong Kong law

Loeb & Loeb LLP

21st Floor, CCB Tower

3 Connaught Road Central

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to PRC law

Jingtian & Gongcheng

34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing
PRC

Auditors and reporting accountants **Mazars CPA Limited**
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Internal Control Consultant **APEC RISK MANAGEMENT LIMITED**
2202, 22/F, West Exchange Tower
322 Des Voeux Road Central
Sheung Wan
Hong Kong

Industry Consultant **Frost & Sullivan Limited**
Room 1706, One Exchange Square
8 Connaught Place
Central
Hong Kong

Receiving bank **Bank of China (Hong Kong) Limited**
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office in the Cayman Islands	Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office and Principal Place of Business in the PRC	Wuli Technology Park Economic Development Area Jinjiang City PRC
Principal Place of Business in Hong Kong	Flat C, 21/F, Max Share Centre 373 King's Road North Point Hong Kong
Company's Website Address	http://www.fjhaina.com/ <i>(The contents on this website do not form part of the prospectus)</i>
Company Secretary	Mr. Lau Wai Piu Patrick (劉偉彪) <i>(Fellow of the Hong Kong Institute of Certified Public Accountants)</i> Unit B, 13th Floor Winsan Tower 98 Thomson Road Wan Chai Hong Kong
Authorised Representatives (for the purpose of the Listing Rules)	Mr. Hong Yiyuan (洪奕元) Room 2707, Building 1 Shangyuecheng, Hongjiang Middle Road Qiaotou Community Anhai Town Jinjiang City PRC Mr. Lau Wai Piu Patrick (劉偉彪) Unit B, 13th Floor Winsan Tower 98 Thomson Road Wan Chai Hong Kong
Audit Committee	Mr. Ng Tat Fung (吳達峰) (Chairman) Mr. Chang Chi Hsung (鄭志雄) Dr. Wang Fengxiang (汪鳳翔) Mr. Chan Ming Kit (陳銘傑)

CORPORATE INFORMATION

Remuneration Committee	Mr. Chan Ming Kit (陳銘傑) (<i>Chairman</i>) Mr. Hong Yiyuan (洪奕元) Mr. Zhang Zhixiong (張志雄) Mr. Ng Tat Fung (吳達峰) Dr. Wang Fengxiang (汪鳳翔)
Nomination Committee	Mr. Hong Yiyuan (洪奕元) (<i>Chairman</i>) Mr. Chan Ming Kit (陳銘傑) Dr. Wang Fengxiang (汪鳳翔) Mr. Ng Tat Fung (吳達峰)
Cayman Islands Principal Share Registrar and Transfer Office	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Bankers	Industrial Bank Co., Ltd. (Jinjiang Anhai Branch) Xingsheng Building No. 135 - 151, Chenggong East Road Anhai Town, Jinjiang City PRC Industrial and Commercial Bank of China Limited (Jinjiang Branch) ICBC Tower Chongde Road, Qingyang Town Jinjiang City PRC

INDUSTRY OVERVIEW

The information contained in this section and elsewhere in this prospectus have been derived from various official government publications and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters 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 disposable hygiene product market, disposable hygiene product machinery market in the PRC and other selected overseas market. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Industry Report. We agreed to pay Frost & Sullivan a fee of HK\$567,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 45 offices with more than 1,800 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 Industry Report in this prospectus because we believe this information facilitates an understanding of disposable hygiene product market, disposable hygiene product machinery market in the PRC and other selected overseas market for the prospective investors. The Industry Report includes information of disposable hygiene product machinery market in the PRC and other selected overseas market as well as other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of disposable hygiene product market, disposable hygiene product machinery market in the PRC and other selected overseas market. Primary research involved interviews with industry participants and industry experts. Secondary research involved reviewing independent research reports and data based on Frost & Sullivan's own research database, and official public sources of data, figures, information. Projected data was 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, save for the foreseeable impact resulted from COVID-19 outbreak, Frost & Sullivan assumed that (i) the social, economic and political environments in the relevant markets are assumed to be stable during the forecast period, (ii) the demand and preferences of the ultimate users of disposable hygiene products have no material change in the relevant markets, which ensures the steady development of disposable hygiene product machinery market in the PRC and other selected overseas market. In preparation of the forecast data, Frost & Sullivan also assumed that the outbreak of COVID-19 in the PRC and overseas markets are likely under effective control in second half of 2020 with a gradual resumption of economic performance thereafter, as supported by (i) declining number of confirmed COVID-19 cases in the PRC since mid of March, and (ii) estimated recovery of real GDP growth at approximately 1.2% and 9.2% in 2020 and 2021 respectively, according to the latest estimates of International Monetary Fund which assumed that COVID-19 outbreak will fade in the second half of 2020.

OVERVIEW OF MACROECONOMIC ENVIRONMENT IN THE PRC

Female population by age structure

According to the National Bureau of Statistics of China, the total female population in the PRC registered a steady growth from approximately 667.0 million in 2014 to 681.9 million in 2018. In particular, female population aged between 20 and 64, as the largest consumer group in female population, has experienced growth, increasing from 455.6 million in 2014 to 461.4 million in 2018. According to Frost & Sullivan, the total female population in the PRC is expected to increase continuously, reaching approximately 703.2 million in 2023.

INDUSTRY OVERVIEW

Population of high age group

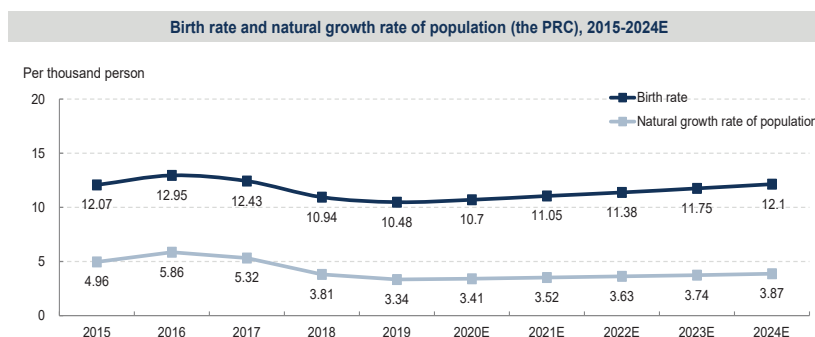
With the previous implementation of the “One Child Policy” and increasing life expectancy, China has entered an aging society. From 2015 to 2019, the population is aging rapidly in China with people aged above 65 grew at a CAGR of approximately 5.2% over the period. According to the National Bureau of Statistics of China, individuals aged above 65 years old were approximately 176.0 million in 2019, which accounted for approximately 12.6% of the total population. The number of individuals aged above 65 years old is growing at a fairly fast pace and is expected to continue its growth momentum into the future. This number of people is expected to reach approximately 220.2 million by 2024, which represents approximately 15.5% of the total population in China in 2024.

Birth rate and natural growth rate of population

After the partial implementation of the two-child policy in 2013, the number of newborn babies increased. In 2014, the population of age group between 1 and 14 years old began to increase. In 2015, the number of newborn babies decreased slightly due to the reduction of women of the best child-bearing age between 20 to 39.

As the PRC has implemented a comprehensive two-child policy since 2016 to boost the birth rate, as a result, the birth rate has increased from approximately 12.1 per thousand persons to approximately 13.0 per thousand persons from 2015 to 2016. However, due to the preference of delaying pregnancy by young couples, decrease in number of women at child-bearing age and continuous increase in population base, in particular the high-aged group which increased at a relatively fast pace, the growth of birth rate in the PRC is expected to slow down during 2020 to 2024.

The following chart sets out the birth rate and natural growth rate of population during 2015 to 2024.



Source: National Bureau of Statistics of China, Frost & Sullivan

OVERVIEW OF DISPOSABLE HYGIENE PRODUCT MARKET IN THE PRC

Definition and classification of disposable hygiene product

Disposable hygiene product refers to single-use hygiene product primarily designed for collection of human body waste streams and will be recycled or disposed as solid waste after use. Disposable hygiene product generally consists of multiple layers made of natural fibres and polymers, including absorption layers, distribution layers and two sheets of nonwoven fabric.

Absorbent hygiene products and wet wipes are major product categories of disposable hygiene product in the PRC. Absorbent hygiene products are generally classified based on product types and age groups of consumers, which include baby diapers, feminine hygiene products and adult incontinence products.

Product categories of absorbent hygiene products

Descriptions

Baby diapers

Baby diapers include taped and pull-up types of diapers. Pull-up diapers are disposable pant-type diapers that can be pulled down and up easily, which is also used as an aid for potty training and night training of toddlers.

Feminine hygiene products

Feminine hygiene products refer to personal disposable hygiene products used by female during menstruation. Common types of feminine hygiene products include sanitary towels, tampons and pantliners.

Adult incontinence products

Adult incontinence products are designed for adults under conditions of urinary incontinence, mobility impairment, and health care. Common adult incontinence products include adult taped and pull-up diapers, diaper pads and under pads.

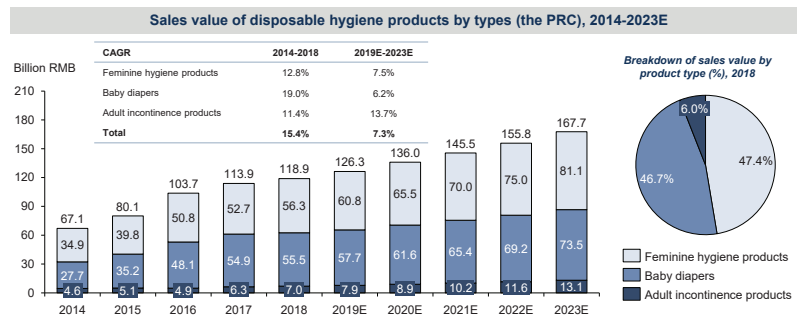
Source: Frost & Sullivan

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Sales value of disposable hygiene product in the PRC

According to China National Household Paper Industry Association (“CNHPIA”), the total sales value of disposable hygiene products in the PRC has increased significantly from approximately RMB67.1 billion in 2014 to RMB118.9 billion in 2018, representing a CAGR of approximately 15.4%. The growth is mainly driven by the penetration and sales of baby diapers and feminine hygiene products and the sales value of baby diapers and feminine hygiene products recorded a significant growth at a CAGR of approximately 19.0% and 12.8%, respectively from 2014 to 2018. Baby diapers and feminine hygiene products accounted for approximately 46.7% and 47.4%, respectively, of total sales value of disposable hygiene products in the PRC in 2018, and adult incontinence products accounted for approximately 6.0%.

With the continued expansion of consumer market for disposable hygiene products, the total sales value of disposable hygiene products is expected to increase at a CAGR of approximately 7.3% from 2019 to 2023. The growing sales performance of disposable hygiene products reflects the increase in demand of machinery for production.



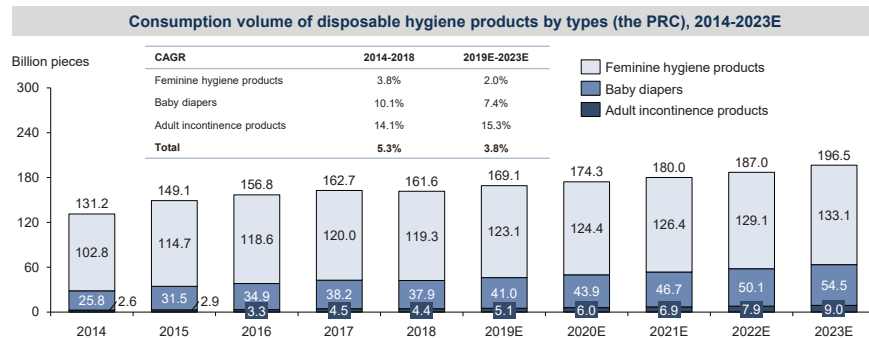
Note: The latest available official figure was recorded in 2018.

Source: CNHPIA, Frost & Sullivan

Consumption volume of disposable hygiene product in the PRC

According to CNHPIA, the total consumption volume of disposable hygiene products in the PRC increased from approximately 131.2 billion pieces in 2014 to 161.6 billion pieces in 2018, representing a CAGR of approximately 5.3%. In particular, the consumption volume of adult incontinence products registered a substantial growth at a CAGR of approximately 14.1% from 2014 to 2018 due to the increasing number of the elderly and growing acceptance of such products among consumers. Meanwhile, with the implementation of the supportive policy (e.g. the two-child policy) to encourage new born in the country, the consumption volume of baby diapers in the PRC increased at a CAGR of approximately 10.1% from 2014 to 2018.

The total consumption volume of disposable hygiene products in the PRC is estimated to increase at a CAGR of approximately 3.8% from 2019 to 2023. Consumption volume of baby diapers and adult incontinence products are set to increase at a CAGR of approximately 7.4% and 15.3% respectively from 2019 to 2023.



Note: The latest available official figure was recorded in 2018.

Source: CNHPIA, Frost & Sullivan

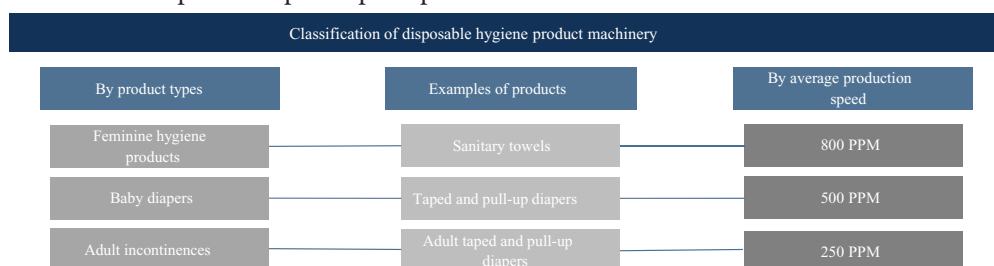
OVERVIEW OF DISPOSABLE HYGIENE PRODUCT MACHINERY MARKET IN THE PRC

Definition and classification of disposable hygiene product machinery

Disposable hygiene product machinery refers to production lines and equipment for manufacture and packaging of various disposable hygiene products, including baby diapers, feminine hygiene products and adult incontinence products. Disposable hygiene product machinery is specifically designed and operates with certain major production processes, such as (i) producing pulp and superabsorbent polymers (“SAP”) mixed absorbent core, (ii) combining

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the absorbent core with top sheet, surge layer, absorbent core and bottom sheet, and (iii) cutting the finished products into specific sizes and packaging them up. In addition, disposable hygiene product machinery is always customised based on the product types as disposable hygiene products generally vary in product design, specification, size and material used. Accordingly, disposable hygiene product machinery produces designated product types only and are not capable of producing other types of products. As such, disposable hygiene product machinery can be classified based on the product types (e.g. baby diapers, feminine hygiene products and adult incontinence products) with different requirements in respect of technology, specifications and performance of machinery. Specifically, the average production speed of machinery could reach 800 pieces per minute (“PPM”) for sanitary towels, 500 PPM for baby taped and pull-up diapers, and 250 PPM for adult taped and pull-up diapers.



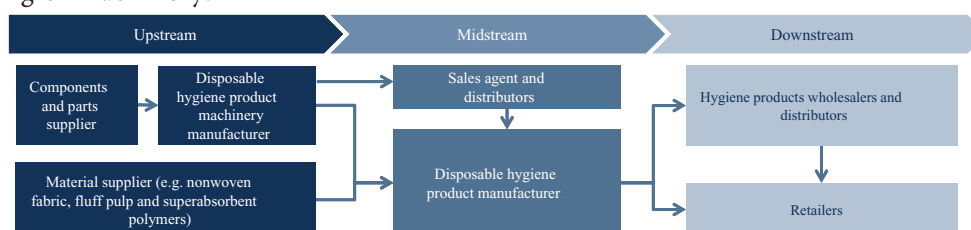
Source: Frost & Sullivan

Value chain analysis

The overall disposable hygiene products industry comprises upstream suppliers such as machinery manufacturers and material suppliers for nonwoven fabric, fluff pulp and SAP, mid-stream disposable hygiene products manufacturers, as well as downstream participants for sales and distribution of disposable hygiene products, such as wholesalers, distributors and retailers.

Disposable hygiene product machinery manufacturers are positioned as upstream participants along the value chain, which provide customised machinery and spare parts and packaging materials for disposable hygiene products manufacturers to fulfil their production requirements. Majority of the disposable hygiene product machinery are sold directly from manufacturers with a small portion sold through agents or distributors. According to CNHPIA, Fujian and Guangdong provinces are currently the manufacturing hub for disposable hygiene products in the PRC where over 700 disposable hygiene product manufacturers were located in the aforesaid provinces in 2018. Thus, the disposable hygiene product machinery manufacturers in the PRC demonstrate a higher geographical concentration in the aforesaid provinces.

In general, it is not uncommon for disposable hygiene product machinery manufacturers in the PRC to engage third parties for assembly of certain components for manufacturing of machinery for their customers. Furthermore, it is not uncommon for machinery manufacturers in the PRC, including disposable hygiene product machinery manufacturers, to arrange payment settlement with their suppliers or receive the payment from customers through bank acceptance bills due to the high volume of cash flow involved amongst large number of suppliers and customers. It is not uncommon for disposable hygiene product machinery in the PRC to have overlapping customers and suppliers as certain customers may provide their own parts and components for disposable hygiene product machinery during product development and manufacturing of machinery.



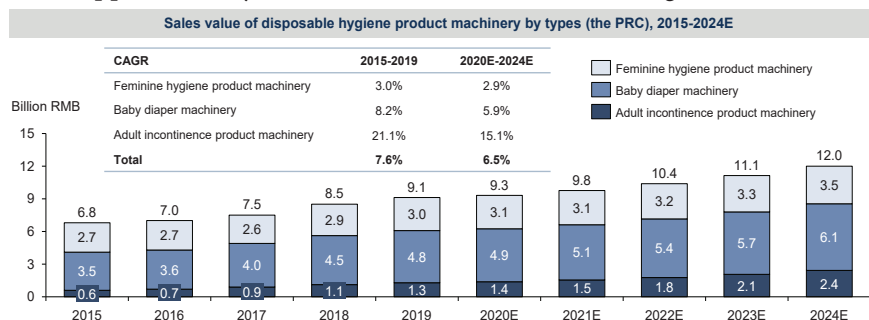
Source: Frost & Sullivan

Sales value of disposable hygiene product machinery in the PRC

Attributable to the increasing demand for disposable hygiene product manufacturing resulted from growing acceptance to disposable hygiene product in the PRC market and overseas emerging markets such as Southeast Asia, the sales value of disposable hygiene product machinery in the PRC increased from approximately RMB6.8 billion in 2015 to RMB9.1 billion in 2019, representing a CAGR of approximately 7.6%.

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In view of the temporarily decline of market demand for disposable hygiene product machinery due to the shift of capacity by downstream disposable hygiene product towards production of disposable medical face mask in the midst of outbreak of COVID-19, the growth of sales value of disposable hygiene product machinery is expected to slowdown in 2020. However, with the continuous expansion of downstream market and regular upgrade and replacement of machinery, the demand for disposable hygiene product machinery in the PRC and overseas markets, including Southeast Asia, India, Pakistan and South Africa, are set to recover from 2021 onward and the sales value of disposal hygiene product machinery in the PRC is estimated to increase at a CAGR of approximately 6.5% from 2020 to 2024, reaching RMB12.0 billion in 2024.



Note: The data is based on sales value generated from domestic sales, import sales and export sales of disposable hygiene product machinery (excluding parts and components) manufactured in the PRC. The forecast data for the period from 2020 to 2024 is compiled based on the assumption that the outbreak of COVID-19 is effectively controlled in the second half of 2020.

Source: Frost & Sullivan

Market drivers and opportunities

Increasing income level, living and hygiene standard – According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households witnessed an increase from RMB26,467 in 2014 to approximately RMB42,359 in 2019, representing a CAGR of approximately 9.9%. The rise of disposable income indicates the growing consumption power of population which supported the consumption economy in the PRC. With the improving living standard and growing awareness towards personal hygiene, disposable hygiene products have seen a growing penetration and traditional hygiene products such as cloth diapers are gradually replaced. Thus, with the growing adoption to disposable hygiene products, a rising demand for machinery is expected among disposable hygiene products manufacturers in the PRC.

Implementation of “Two-child Policy” and ageing population – Pursuant to the “Law of the People’s Republic of China on Population and Family Planning (2015 Amendment)” (《中華人民共和國人口與計劃生育法》(2015修正)), residents in the PRC are encouraged to have a second child. Following the amendment of policy, different local and provincial government had proposed beneficial policies, such as prolonged maternity leave, to stimulate the birth rate in the country. As a result, according to the National Bureau of Statistics of China, the birth rate in the PRC recorded a growth from approximately 12.1 per thousand persons to approximately 13.0 per thousand persons from 2015 to 2016. The expected growth in birth rate and urbanisation may boost the penetration and demand for baby taped and pull-up diapers in the future. Moreover, according to the National Bureau of Statistics of China, population aged above 65 years old had accounted for approximately 12.6% of the total population in 2019 and is expected to reach approximately 15.5% in 2024. The trend of ageing population underpinned the demand for adult incontinence products in the PRC and thus the demand for production machinery.

Expansion in overseas markets – Pursuant to the “13th Five-Year Plan for Foreign Trade Development” (《對外貿易發展“十三五”規劃》), the PRC aims to promote the export of high-tech products through strategic development of trade relationship with participating countries under the “Belt-and-road” initiatives. Accordingly, disposable hygiene product machinery in the PRC may expand their business coverage to overseas markets, especially in developing countries with rapid economic growth and undergoing rapid urbanisation. With the rising living standard in emerging countries, the consumption of disposable hygiene products in emerging economies such as Southeast Asia are expected to be higher, resulting in surge in demand for production equipment and machinery. Specifically, Italy, Japan and the PRC are the leading source countries of disposable hygiene product machinery in Southeast Asia and machinery from the PRC demonstrates a significant price advantage over the other countries. Furthermore, the implementation of “Belt-and-road” initiatives place high emphasis on the economic co-operation among countries and foster trading business between the PRC and countries involved. As a result, the foreign demand for the PRC disposable hygiene product machinery is expected to increase.

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Key development trends

Upgrade of downstream disposable hygiene products – Attributable to keen market competitions, disposable hygiene product manufacturers are dedicated to regularly review their product lines and develop new products with better stretchability, breathability and absorbency. In particular, baby diapers manufacturers are developing products with better breathability and other features such as wet indication and deodorisation. Some disposable hygiene brands also apply natural materials like polylactic acid and bamboo charcoal fibre in sanitary towels and launch high-end feminine products such as menstrual pants. Accordingly, the disposable hygiene machinery manufacturers are required to upgrade their production lines to cope with the requirement of downstream customers. According to Frost & Sullivan, disposable hygiene product manufacturers in the PRC tend to replace or upgrade their machinery once in every 3 to 5 years, subject to the conditions of machinery and demand of new hygiene product.

Collaborative research and development activities – Disposable hygiene product machinery market is considered service-oriented and ties closely to downstream disposable hygiene product manufacturing market. To cope with the rapid changing market situation and diversified needs of consumers, there is a growing trend for stakeholders along the value chain in disposable hygiene product market to collaborate and develop diversified and customised products and machinery. Disposable hygiene products manufacturers tend to work with material suppliers and machinery suppliers to jointly develop new products with advanced processing requirement and conditions based on latest technologies. Accordingly, machinery manufacturers are required to allocate additional resources in research and development for new machinery and solution with higher level of automation, production efficiency, safety of operation, functionality, quality standard, as well as strengthening production efficiency. For example, domestic U-shape full surrounded baby pull-up diapers machinery has been invented for production of U-shape pull-up diapers in the PRC market.

Higher price competitiveness of domestic players – Currently, the PRC disposable hygiene product machinery market is featured with several foreign participants with strong capability in research and development and demonstrate premium product quality in respect of useful life and production speed. In contrast, apart from the competitiveness of product pricing, domestic market participants are dedicated to improve machinery performance and some leading domestic machinery manufacturers introduced advanced technologies such as ultrasonic bonding technology to replace traditional hot-melt adhesives in certain parts of diapers. Given the downstream disposable hygiene product in the PRC is currently on the rapid growing phase and is relatively fragmented with more than a thousand of manufacturers in the market, many of these domestic disposable hygiene product manufacturers are relatively price sensitive and prefer domestic made machinery at an affordable price. Domestic machinery is also preferred in overseas markets due to lower price and higher cost efficiency. In addition, under the PRC government initiatives to upgrade the manufacturing process with strong emphasis put on product innovation, domestically produced disposable hygiene product machinery is expected to demonstrate better performance. For example, advanced machinery with higher degree of automation, touch screen and alarming system has also been developed to save human resources for control, monitoring and inspection during operation.

Growing demand for baby pull-up diapers machinery – Following the change from “One-child policy” to “Two-child policy” in the PRC in 2016, residents are encouraged to bear two children and the new policy may stimulate the birth rate in the future. Coupled with the higher income level and living standards, Chinese parents tend to consume more baby diapers, especially baby pull-up diapers. According to CNHPIA, pull-up diapers accounted for 24.9% of total sales volume of baby diaper in 2017 and the share had increased by 5% compared to 2016. The share of sales volume of pull-up diapers has increased continuously in 2018 according to CNHPIA. Hence, with the growing market demand for pull-up diapers, machinery manufacturers are set to invest more in the baby pull-up diapers machinery accordingly.

Growing demand for adult incontinence product machinery – With the growing trend of ageing population and growing adoption towards elderly care products in global market and the PRC, the market demand for adult incontinence products such as adult taped and pull-up diapers is expected to increase. According to CNHPIA, the consumption volume of adult incontinence products in the PRC recorded a substantial growth from approximately 2.6 billion pieces in 2014 to approximately 4.4 billion pieces in 2018, representing a CAGR of approximately 14.1%. As a result, the corresponding demand for adult incontinence product machinery, especially adult taped and pull-up diaper machinery, has seen a substantial growth in demand in the PRC.

Market challenges and constraints

Fragmentation in the market and keen price competition among machinery manufacturers – The PRC disposable hygiene product machinery market is relatively fragmented and domestic manufacturers generally compete in terms of product pricing without strong focus on production innovation. In particular, small-scale disposable hygiene product machinery manufacturers

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generally offer homogeneous products and product pricing serves as a key differentiation and factor of competition in the market. Attributable to the price sensitivity of customers, machinery with higher cost efficiency becomes preferred. The continued price war in the market may impact the profit level of market participants, especially when the manufacturing cost (e.g. material and labour cost) of machinery becomes higher in the PRC during recent years.

Fluctuation of raw material prices and exchange rate – Disposable hygiene product machinery manufacturers in the PRC may be affected by fluctuation of raw materials price as raw materials such as parts and components formed a significant portion in cost structure of machinery manufacturers. In addition, disposable hygiene product machinery manufacturers in the PRC with export business are susceptible to the fluctuation of exchange rate which leads to impact on profit level.

Labour cost and raw material cost

The average monthly salary of employed people in manufacturing industry experienced a steady growth from RMB3,437.1 in 2014 to RMB4,493.9 in 2018, representing a CAGR of approximately 6.9%. The growth was primarily attributable to the higher demand for workers in manufacturing industry. The average monthly salary of employed persons in manufacturing industry is expected to increase at a CAGR of approximately 6.7% from 2019 to 2023.

The price of steel experienced a growth from 2015 to 2019 as the Chinese government has formulated structural production capacity adjustment policies and increased production cuts in excess capacity, specifically in steel industry.

	2015	2016	2017	2018	2019	2020E	2024E	CAGR (2014- 2019)	CAGR (2020E- 2024E)
Unit									
Steel price RMB/Ton	1,789	2,911	3,794	4,060	4,340	4,561	5,635	24.8%	5.4%

Source: Frost & Sullivan

The producer price index of machinery parts manufacturers in the PRC has seen a steady growth from 100.0 in 2015 to 109.3 in 2019, representing a CAGR of approximately 2.2%. The growth of producer price index of machinery parts manufacturers in the PRC may reflect the higher purchasing cost on machinery parts for disposable hygiene product machinery manufacturers in the PRC.

Price range of disposable hygiene product machinery in the PRC

According to Frost & Sullivan, the price range of disposable hygiene product machinery sold by domestic machinery manufacturers in the PRC generally ranges from approximately RMB3 million to RMB20 million (with majority of machinery sold at approximately RMB3 million to RMB8 million). On the other hand, the price range of disposable hygiene product machinery sold by foreign-invested manufacturers in the PRC generally range from approximately RMB15 million to RMB 50 million. The selling price of disposable hygiene product machinery varies based on performance (e.g. production speed), type of disposable hygiene products produced and level of automation. For example, baby diaper machinery with higher production speed generally sold at a higher price and adult incontinence product machinery, which is considered a more advanced type of machinery, may sell at higher price than machinery for feminine hygiene product machinery and baby diaper machinery.

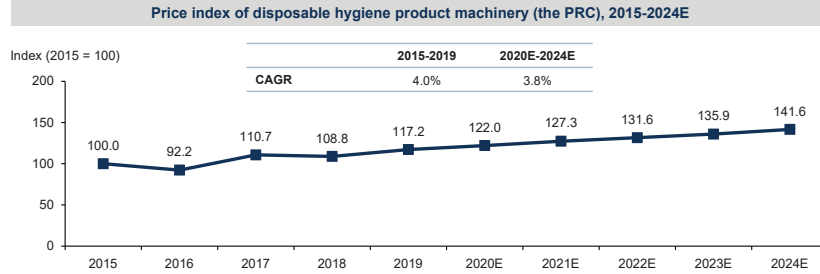
According to Frost & Sullivan, overseas customers in Southeast Asia and South Asia generally prefer to purchase disposable hygiene product machinery from manufacturers in the PRC due to better cost performance as compared to machines imported from other countries in Europe and Japan, as well as limited local development capability of certain disposable hygiene product machinery. In the PRC, the selling price of disposable hygiene product machinery with similar specifications sold to overseas customers is generally higher (e.g. 10% to 20%) than the selling price to domestic customers as overseas customers may have specific technical requirements and specifications in respect of product design, production speed and etc. For example, U-shape baby diapers or pants-type baby diapers become increasingly popular for consumers in Southeast Asia and India in recent years and machines for the aforesaid disposable hygiene products generally have a more integrated features and functions (e.g. melting, packaging) with higher production speed as compared to other types. In addition, the higher selling price of disposable hygiene product machinery for the machines sold to overseas customers is also attributable to the transportation cost required.

Price trend of disposable hygiene product machinery in the PRC

Due to the rise in demand for disposable hygiene product machinery from downstream customers, the price index of disposable hygiene product machinery achieved an overall growth from 100.0 in 2015 to 117.2 in 2019, representing a CAGR of approximately 4.0%. With the sustained expansion of downstream disposable hygiene product manufacturing industry resulting

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in demand for higher efficiency disposable hygiene product machinery, the price index of disposable hygiene product machinery in the PRC is expected to maintain a steady growth at a CAGR of approximately 3.8% from 2020 to 2024.



Source: Frost & Sullivan

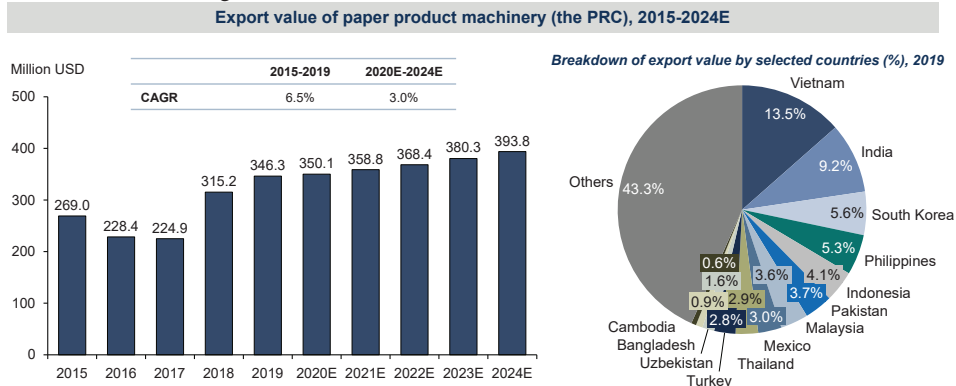
Import value of disposable hygiene product machinery in the PRC

The import value of paper product machinery (covering disposable hygiene products machinery) in the PRC has decreased from USD104.8 million in 2015 to USD17.7 million in 2019, representing a CAGR of approximately -35.9%. Due to the expanding market shares of domestic manufacturers and the rising number of machinery production facilities established by foreign manufacturers in the PRC, the import value of disposable hygiene product machinery in the PRC have experienced a fall from 2015 to 2019. Going forward, the import value of disposable hygiene product machinery is expected to decrease at a CAGR of approximately -9.2% from 2020 to 2024.

Export value of disposable hygiene product machinery in the PRC

The export value of paper product machinery (covering disposable hygiene products machinery) in the PRC recorded a growth from approximately USD269.0 million in 2015 to approximately USD346.3 million in 2019, representing a CAGR of approximately 6.5%. As domestically manufactured disposable hygiene product machinery is primarily sold to local customers, there was a slight fall in the export value of disposable hygiene product machinery in the PRC from 2015 to 2017. The outbreak of COVID-19 globally is expected to affect the demand for paper product machinery manufactured in the PRC in 2020 due to disruption of foreign trade activities. However, on the basis that the COVID-19 outbreak is effectively controlled in the second half in 2020 and supported by the continuous growth in population and living standards in Southeast Asian countries, the demand for paper products including disposable hygiene products is expected to increase and recover from 2021 onwards. As such, the export value of paper product machinery in the PRC is anticipated to rise at a CAGR of approximately 3.0% during 2020 to 2024.

In 2019, Vietnam accounted for approximately 10.7% of the total export value of paper product machinery in the PRC, followed by India, South Korea, The Philippines, Indonesia, Pakistan, Malaysia, Mexico, Thailand, Turkey. Our Group had exported disposable hygiene product machinery to overseas markets such as the Philippines, Uzbekistan, Bangladesh, Cambodia and Indonesia during the Track Record Period.



Note: Data is extracted from Trade Map under HS Code 84418090: Machinery for making up paper pulp, paper or paperboard. The export value of paper product machinery is disclosed instead of export value for disposable hygiene products machinery as the official data for specific country breakdown of export value for disposable hygiene products machinery is not available due to limited official information published. Based on Frost & Sullivan's analysis including review of (i) the unit of disposable hygiene products machinery exported from the PRC published by CNHPIA and (ii) trade interviews, disposable hygiene products machinery is categorised as part of paper product machinery and accounted for approximately 35% to 43% of export value in this category during 2015 to 2019. The forecast data for the period from 2020 to 2024 is compiled based on the assumption that the outbreak of COVID-19 is effectively controlled in the second half of 2020.

Source: CNHPIA, Trade Map, Frost & Sullivan

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Analysis of market demand for disposable hygiene product machinery in selected overseas markets

The Philippines

According to Bangko Sentral ng Pilipinas (BSP) (the central bank of the Republic of the Philippines), the foreign direct investment in the Philippines registered a steady growth from approximately USD5.6 billion in 2015 to approximately USD6.4 billion in 2019, representing a CAGR of approximately 3.4%. The increase in foreign direct investment supported the growth of manufacturing sector in the Philippines. Furthermore, the growing population also drives the demand for disposable hygiene products. According to the Philippine Statistics Authority, population aged 0-4 years old accounted for approximately 11.6% of Philippine population in 2010 and it is expected to increase from approximately 10.8 million in 2013 to approximately 11.5 million in 2020. Specifically, the import value of machinery and mechanical appliances in the Philippines registered a significant growth from approximately USD8.2 billion in 2015 to approximately USD12.5 billion in 2019, representing a CAGR of approximately 11.3%. In particular, the import value of machinery and mechanical appliances from the PRC increased substantially from approximately USD1.6 billion in 2015 to approximately USD3.0 billion in 2019, representing a CAGR of approximately 17.4%.

Uzbekistan

Demand for disposable hygiene manufacturing machinery in Uzbekistan is mainly driven by the expansion of downstream manufacturing sector and the trade performance. Manufacturing sector in Uzbekistan is benefitted by the favourable policies for foreign investment. For example, manufacturing enterprises in small industrial zones may enjoy exemption of unified tax and custom duties for several years. In addition, Uzbekistan had maintained a strong trade partnership with the PRC and Uzbekistan is expected to strengthen the cooperation with the PRC under the “Belt-and-road” initiatives. According to Trade Map, China was the largest import market of Uzbekistan which accounted for approximately 26.6% of total import value in the country in 2019. Specifically, import of machinery and equipment accounted for approximately 39.1% total import value in Uzbekistan in 2019. As a result, attributable to the strengthened trade relationship between the PRC and Uzbekistan, the demand for disposable hygiene manufacturing machinery from the PRC in Uzbekistan is set to become higher.

Bangladesh

As an important trading partner of Bangladesh, the PRC exports different products, including machinery to Bangladesh. Since September 2018, Bangladesh announced the provision of 10 to 70% tariff preference for the PRC, including machinery. According to Trade Map, Bangladesh imported approximately USD5.8 billion of machinery from the PRC in 2019 and the PRC was the largest source country of machinery which accounted approximately 38.0% of import value of machinery in Bangladesh in the same year. Moreover, under the “Belt-and-road” initiatives, the PRC proposed to set up BCIM Economic Corridor covering Dhaka in Bangladesh and the Chinese government has pledged to finance infrastructure in Bangladesh. Thus, a stronger trading partnership between the two countries is expected. Along with the strong economic development, the demand for disposable hygiene products in Bangladesh is likely to increase and contribute to the strong demand for disposable hygiene product machinery.

Cambodia

Cambodia is one of the rapid growing economies in Southeast Asia. According to the International Monetary Fund, the nominal GDP of Cambodia recorded a significant growth from USD16.7 billion in 2014 to approximately USD24.5 billion in 2018, representing a CAGR of approximately 10.1%. In addition, according to the World Bank, the urbanisation rate in Cambodia increased from approximately 21.8% in 2014 to approximately 23.4% in 2018. Attributable to availability of low-cost labour and rapid urbanisation, Cambodia becomes a preferred option for foreign investment which is favourable for development of manufacturing industry. Furthermore, as a participant under the “Belt-and-road” initiatives, Cambodia is set to strengthen the trade activities with the PRC and other countries. According to Trade Map, the total import value of machinery and mechanical appliances in Cambodia from the PRC increased substantially from USD291.1 million in 2014 to approximately USD495.9 million in 2018. Meanwhile, Cambodia also provides various investors with import tax duties exemption for certain qualified investment projects with depreciation allowance of 20% for machinery. Hence, in view of the growing domestic demand for disposable hygiene products resulted from population growth and urbanisation, steady growth of external trade with other countries, as well as government incentives to encourage investment in machinery, the demand for disposable hygiene product machinery in Cambodia is expected to increase.

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Indonesia

Along with the growth of economy and population in Indonesia, the sales of disposable hygiene products are also driven by urbanisation and rising living standard. Some international disposable hygiene products brands have invested in the Indonesian market, such as Unicharm, Pampers and Huggies, showing the strong growth potential of disposable hygiene product machinery in Indonesia. According to Trade Map, the PRC was the largest trading partner of Indonesia which accounted for approximately 24.1% of total import value in the country in 2018. Moreover, the PRC accounted for approximately 36.3% of total import value of machinery in Indonesia in 2018. As Indonesia is one of the important partners under the “Belt-and-road” initiatives, and the PRC has invested approximately USD3.4 billion in Indonesia, this will bring a favourable environment for the import of Chinese disposable hygiene product machinery in Indonesia in the future.

India, South Africa and Pakistan

Attributable to the rapid economic growth, urbanisation and growing awareness to personal hygiene, other emerging economies such as India, South Africa and Pakistan also witnessed a strong growth in market demand for disposable hygiene products. In particular, India is currently the second most populated country in the world and recorded a significant growth of nominal GDP of over 7% during the past five years, according to International Monetary Fund. The domestic consumption and also hygiene products are therefore expected to witness a robust growth. Furthermore, Indian government is dedicated to develop rural areas, support manufacturing industries and attract foreign investment. Specifically, baby diaper market in India may see an enormous market potential given the high number of newborns in the country. Meanwhile, multinational disposable hygiene product manufacturers had set foot in India and plan to invest for local manufacturing. Similarly, compared to developed countries, South Africa has a relatively large youth population base and high birth rates, which can be translated into key drivers for disposable hygiene products such as baby diapers and both retailers and manufacturers are relatively price-sensitive. On the other hand, the Federal Board of Revenue of Pakistan has announced the plan to exempt 10% sales tax on import of machinery in 2018, in response to request made by certain established disposable hygiene product manufacturers in the country. Subsequently, the market demand for imported disposable hygiene product machinery in the aforesaid markets is expected to demonstrate a significant growth.

Impact of COVID-19 outbreak on disposable hygiene product machinery market in the PRC

Since early 2020, the new coronavirus first reported in the PRC, namely COVID-19, has been escalated into a global pandemic affecting over 4 million of people globally. The COVID-19 outbreak has imposed negative impacts to the economic activities globally due to the necessary quarantines, travel restriction and social distancing measures taken by different countries to prevent the spread of COVID-19. Specifically, the outbreak of COVID-19 has caused disruption to the operation of disposable hygiene product machinery manufacturers temporarily during the first two months of 2020 due to the government order and advice in relation to the temporary closure of workplace and disruption of logistics and material supply for production of disposable hygiene product machinery. In response to the surge of market demand for medical disposable face mask in the PRC and other overseas markets in the midst of COVID-19 outbreak and “Notice on Supportive Role of Government Reserves on Increasing Production and Supply of Shortage Materials in Outbreak” (《關於發揮政府儲備作用支持應對疫情緊缺物資增產增供的通知》) jointly promulgated by the National Development and Reform Commission, the Ministry of Finance, and the Ministry of Industry and Information Technology, some of the disposable hygiene product manufacturers in the PRC have commenced to engage in production of medical disposable face mask and some leading disposable hygiene product machinery manufacturers in the PRC, including our Group, Company C and Company D, have been working with local authorities to develop medical disposable face mask machines, and are required to allocate their resources such as shifting their capacity from production of disposable hygiene product machinery to medical disposable face mask machine to fulfil such urgent order requirements on a temporarily basis. Subsequently, the market demand for medical disposable face mask is expected to witness a substantial growth in 2020 while the market demand and order fulfilment process for other disposable hygiene product machinery may be affected temporarily. In addition, the export trade of disposable hygiene product machinery in the PRC is likely affected during the COVID-19 outbreak in the overseas markets.

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Based on the assumption that the outbreak of COVID-19 is effectively controlled in the second half of 2020 as supported by the substantial decline of COVID-19 confirmed cases in the PRC from mid of March 2020 onwards, the impact of COVID-19 outbreak on disposable hygiene product machinery market in the PRC could be mitigated subsequent to the recovery and normalisation of economic and trade activities. In addition, the COVID-19 outbreak has not been adversely affected the market demand for end products of disposable hygiene product machinery such as feminine hygiene product and baby diaper, which are considered necessities for urban residents in the PRC. The growing personal hygiene awareness subsequent to the control of COVID-19 outbreak may further drive the consumption of disposable hygiene product in the PRC, and expedite the upgrade and replacement process of disposable hygiene product machinery by downstream disposable hygiene product manufacturers in the next few years.

COMPETITIVE LANDSCAPE OF DISPOSABLE HYGIENE PRODUCT MACHINERY MARKET IN THE PRC

Overview of market competition

The disposable hygiene product machinery market in the PRC is relatively fragmented with approximately 70 machinery manufacturers in 2019. In terms of revenue generated from sales of disposable hygiene product machinery, the top five disposable hygiene product machinery manufacturers, comprising both foreign-invested and local companies, had an aggregate market shares of approximately 19.4% in 2019. Our Group was the third largest disposable hygiene product machinery manufacturer in the PRC with market share of approximately 4.0% in terms of revenue in 2019.

Leading disposable hygiene product machinery manufacturers (the PRC), 2019

Rank	Market participant	Year of establishment	Headquarters	Background	Revenue (Million RMB)	Market share (%)
1	Company B	1963	Japan	Company B is a key disposable hygiene products machinery manufacturer focusing on disposable sanitary napkin machinery, diaper machinery. Company B also develops in-house processing capability for complex parts and components and provides automatic high precision equipment and automatic packaging machinery.	509.4	5.6%
2	Company C	1988	The PRC	Company C is a leading manufacturer headquartered in Anhui province, the PRC. Company C offers baby diaper, adult diaper, feminine hygiene product and automatic packaging machinery with in-house processing capability for precision components used in machinery.	424.6	4.7%
3	Our Group	2011	The PRC	Our Group is one of the leading local disposable hygiene product machinery manufacturers with strong focus in the PRC market and also engages in sales of machinery to overseas market.	361.1	4.0%
4	Company D	1989	The PRC	Company D is a local manufacturer and principally engages in development and sales of disposable hygiene product machinery in the PRC.	287.8	3.2%
5	Company A	1975	Italy	Company A is a global leading disposable hygiene product machinery manufacturer with key product lines covering feminine hygiene, baby care, adult incontinence, automatic high precision equipment and automatic packaging machinery with in-house processing capability for complex parts and components. Company A principally engages in export sales of machinery to overseas markets.	190.8	2.1%
				Sub-total	1,773.6	19.4%
				Others	7,345.6	80.6%
				Total	9,119.2	100.0%

Note: The ranking is based on revenue generated from domestic sales, import sales and export sales of disposable hygiene product machinery (excluding parts and components) manufactured in the PRC for the year ended 31 December 2019.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Factors of market competition

Product quality and service level – Quality and production efficiency of disposable hygiene product is highly associated with the machinery involved. Disposable hygiene product manufacturers demand a high degree of reliability, accuracy and performance from their equipment and are highly selective when choosing suppliers to meet their stringent technical specifications and quality standard. Disposable hygiene product machinery manufacturers which can fulfil customer’s requirements by offering high quality and customised machinery are more competitive over their industry peers. In addition, sizeable disposable hygiene product manufacturers usually expect value-added services from their machinery suppliers, including pre-sales technical support, customised machinery design and after-sales services.

Product pricing and performance – Currently, domestic disposable hygiene product machinery manufacturers in the PRC demonstrate a competitive edge in terms of product pricing as downstream customers are relatively price sensitive and, subject to the production requirement, machinery are often replaced or upgraded once in several years. As a result, machinery with high price-to-performance ratio is highly preferred by customers in the PRC market.

Business relationship with various parties – Leading disposable hygiene product machinery manufacturers in the PRC generally maintain a close business relationship with key stakeholders including raw materials suppliers and customers for procurement, performing research and development activities to provide customised machinery. Besides, machinery manufacturers can keep up with market trends and technology development by strengthening the business relationship with various stakeholders.

Industry experience and brand reputation – Industry experience is essential for disposable hygiene product machinery manufacturers to design and supply desired machinery to their customers. Downstream disposal hygiene products manufacturers prefer established machinery suppliers with good brand recognition, capability of product innovation and outstanding machinery performance in order to support the production requirement.

Entry barriers

Capital investment – Investment on setting up production, research and testing facilities are considered key entry barriers of disposable hygiene product machinery market in the PRC. Specifically, established market participants generally allocate sufficient financial resources on research and develop machinery based on requirements and latest standards adopted by customers. Furthermore, machinery manufacturers are required to maintain a team of professionals such as mechanical engineers to researchers and labour cost also constitutes a key cost component for market participants.

Industry and technical knowledge – Competent disposable hygiene product machinery manufacturers generally demonstrate a strong know-how towards the specifications including design, materials and core production technology of disposable hygiene product, and are capable of delivering solutions of machinery to their customers. In particular, machinery manufacturers are required to keep abreast of new product development and industry standards in order to offer advanced machinery and upgrading services to their customers.

Business relationship and sales capability – In view of the fragmented nature of downstream customers and market competition, existing disposable hygiene product machinery manufacturers generally maintained an established business relationship with their key customers and developed a strong product portfolio. New market entrants without previous track record are difficult to compete with existing market participants in sales of their machinery, especially for customers in overseas markets where certain domestic machinery manufacturers have expanded their export business.

COMPETITIVE STRENGTHS OF OUR GROUP

Please refer to the section headed “Business – Competitive Strengths” in this prospectus for a details of the competitive strengths of our Group.

DIRECTORS’ CONFIRMATION

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

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PRC LAWS AND REGULATIONS

At present, China's machinery manufacturing industry is mainly managed by the NDRC and the MIIT in line with the principle of market orientation. In addition, industry associations including China Machinery Industry Federation and the CMTBA play a coordination role among the government, domestic and foreign machine-related industries and users.

FOREIGN INVESTMENT IN THE PRC

The Catalogue for the Guidance of Foreign Investment Industries (2017 Revision) (《外商投資產業指導目錄(2017年修訂)》) the "Catalogue" was issued by the NDRC and the MOFCOM on 28 June 2017 and became effective from the same date. Pursuant to the Catalogue, foreign-invested industries are classified into two categories, namely (i) encouraged foreign-invested industries and (ii) restricted foreign-invested industries and prohibited foreign-invested industries, setting out the restriction measures such as shareholding requirements and qualifications of the senior management. Any industry not listed in the Catalogue is a permitted industry. On 30 June 2019, the Special Administrative Measures for Access of Foreign Investment (2019 Version) (the "Negative List") (《外商投資准入特別管理措施(負面清單)》(2019年版)) was promulgated by the NDRC and the MOFCOM, which sets out the revised list of restricted foreign-invested industries and prohibited foreign-invested industries in lieu of that set out in the Catalogue. These restrictive measures include requirements for shareholding and senior officers, but do not include restrictive measures consistently applicable to domestic and foreign investments and restrictive measures irrelevant to access. According to the Negative List, no foreign investor may engage in prohibited items listed in the Negative List, and no foreign-invested partnership may be established for the engagement in prohibited items subject to limitations on proportion of foreign investment. Our principal business of manufacturing and trading mechanical equipment for the production of hygiene products falls within the permitted industries in accordance with the Catalogue and the Negative List.

The Company Law of the PRC

According to the PRC Company Law (《中華人民共和國公司法》) (the "PRC Company Law"), adopted by the SCNPC on 29 December 1993 and last amended on 26 October 2018. Under the PRC Company Law, companies are generally classified into two categories, namely, limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested limited liability companies. In accordance with the PRC Company Law, any stipulations by other PRC laws governing foreign investment shall prevail over the PRC Company Law.

Law of the PRC on Foreign Investment

The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "Foreign Investment Law") was adopted by the National People's Congress of the PRC on March 15, 2019, which came into force on January 1, 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law, and became the legal foundation for foreign investment in the PRC. Under the Foreign Investment Law, the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment, according to which the treatment given to foreign investors and their investments during the investment access stage shall be not lower than that given to their domestic counterparts, and the State shall give

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national treatment to foreign investment beyond the negative list where special administrative measures for the access of foreign investment in specific fields is specified. Besides, the State shall protect foreign investors' investment, earnings and other legitimate rights and interests within the territory of China in accordance with the law. The State shall take measures to prompt foreign investment such as ensuring fair completion for foreign-invested enterprises to participate in government procurement activities, and protection of intellectual property rights of foreign investors and foreign-invested enterprises. In respect of administration of foreign investment, foreign investment shall go through relevant verification and record-filing formalities if required by relevant state laws and regulations. While the organisation form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the Company Law or the Partnership Enterprise Law of the PRC, if applicable.

On December 26, 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》), which came into effect on 1 January 2020. The Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law (《中華人民共和國外資企業法實施細則》) and the Regulations on Implementing the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法實施細則》). were repealed simultaneously.

On December 30, 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on 1 January 2020 and replaced the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Since 1 January 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

Provisions on Mergers and Acquisitions

According to the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006 and became effective on 8 September 2006 and subsequently amended on 22 June 2009, mergers and acquisitions of domestic enterprises by foreign investors must be reviewed and approved by the MOFCOM or its provincial branches.

However, pursuant to the Measures for the Reporting of Foreign Investment Information, foreign investors are required to submit the initial report through the enterprise registration system instead when they undergo the registration procedures of changes to the acquired enterprises for acquisition of domestic enterprises.

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LAW SUPERVISION OVER SAFE PRODUCTION

Production Safety Law of the PRC

According to the Production 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, enterprises shall meet with the conditions for work safety as required by relevant laws and regulations. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on work safety to ensure that the employees have the necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, and acquire safe operation skills required for their respective positions. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on work safety and hold the qualification certificate for performing such special functions.

LAW SUPERVISION OVER PRODUCT QUALITY, COMPETITION AND PRICE

Product Quality Law of the PRC

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was amended on and became effective on 29 December 2018. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. According to the Product Quality Law, consumers or other victims who suffer personal injury or property loss due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or the producer may be ordered to suspend operation and its business licence may be revoked. Criminal liability may be incurred in serious cases.

According to the PRC Tort Liability Law (《中華人民共和國侵權責任法》), which was promulgated on 26 December 2009 and became effective from 1 July 2010, producers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the producer or the seller. Where the product defect is caused by the producer, the seller may, after paying compensation, claim against the producer for the same, and vice versa. With respect to the environment, the PRC Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by their environmental pollution, irrespective of whether they have breached national environmental protection regulations or not.

Competition Law

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) amended on 4 November 2017 and became effective from 1 January 2018 and last amended on 23 April 2019, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result

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of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it or he may institute proceedings in a people's court. In comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

Price Law

According to the Price Law of the PRC (《中華人民共和國價格法》) promulgated on 29 December 1997 and became effective from 1 May 1998, the operators shall, in determining prices, abide by the principle of fairness, being in conformity with the law, honesty and credibility. Production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

The operators shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. The operators shall not sell commodities with additional price besides the marked price and shall not collect any fee undisplayed. Furthermore, the operators shall not commit unfair price acts such as manipulating market price to the detriment of the lawful rights and interests of other operators or consumers and so on. Any operator who commits any of the unfair price acts prescribed in the Price Law shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed with a fine of less than five times the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations for rectification, or revocation of the business licence by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay more prices for illegal price acts should refund the portion overpaid; where damage has been caused, liability for compensation shall be borne according to law. Any operator who violates the provision of clearly marked prices shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

LAW SUPERVISION OVER FIRE PROTECTION AND ENVIRONMENTAL PROTECTION

Fire Protection Law of the PRC

According to the Fire Protection Law of the PRC (《中華人民共和國消防法》) amended by the SCNPC on 23 April 2019 and became effective on the same date and the Provisions on the Supervision and Administration of Fire Protection of Construction Projects (《建設工程消防監督管理規定》), promulgated by the Ministry of State Security on 30 April 2009 amended on 17 July 2012 and became effective on 1 November 2012, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The employer, as well as the designing, construction, project supervision and other entities, shall be responsible for the quality of fire protection design and construction according to law. Where any construction project which shall be subject to fire protection design review in accordance with the law by the fire department of a public security authority fails to undergo fire protection design review and as-built fire protection inspection, and has been put into use without authorisation, penalties shall be imposed respectively, but executed on a consolidated basis.

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Environmental Protection Law of the PRC

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) adopted by the SCNPC on 26 December 1989, and amended on 24 April 2014 and became effective on 1 January 2015, facilities for the prevention and control of pollution must be designed, built and put into operation simultaneously with the principal part of the construction project. Enterprises discharging pollutants must report to and register with the competent environmental protection administration authorities. Enterprises discharging pollutants in excess of the prescribed national or local discharge standards shall pay a fee for excessive discharge and assume responsibility for eliminating and controlling the pollution.

Enterprises in the PRC must comply with the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was promulgated by the SCNPC on 11 May 1984 and amended on 27 June 2017, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) amended on 26 October 2018 and the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》), which was amended and became effective on 29 December 2018. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control and noise emission. Pursuant to these laws, all the enterprises that may cause environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection. Enterprises are required to adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities. Enterprises must obtain the licence for discharge of waste water and atmospheric pollutants and such pollutants shall meet the applicable national and local standards.

According to the Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), which was adopted on 30 October 1995, subsequently amended on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016, manufacturers, vendors, importers and users must seek to prevent and control the discharge of solid wastes.

Environmental Impact Assessment of the PRC

According to the Environmental Impact Assessment of the PRC (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on 28 October 2002 and last amended on 29 December 2018, and the Regulations on the Administration of Environmental Protection for Construction Project (《建設項目環境保護管理條例》) promulgated by the State Council on November 29, 1998 and became effective on 29 November 1998; amended on 16 July 2017 by the State Council and took effect on 1 October 2017, an environmental impact assessment is required to be completed prior to the construction of a project and a three-tier system for the environmental impact assessments shall be established. In the case of a construction project that may cause significant environmental impacts, a report of environmental impacts shall be completed by a qualified institution and includes a full assessment of environmental impacts. In the case of a construction project that may cause mild environmental impacts, a report form shall be completed by a qualified institution and includes an analysis or special assessment of environmental impacts. In the case of a construction project that may cause minimal environmental impact, an environmental impact assessment is unnecessary and a registration form shall be completed. The catalogue for the classified management of environmental impact assessments for construction

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projects is formulated and issued by the environmental protection administration department of the State Council. The environmental impact report and the environmental impact report form shall be submitted to the competent administrative department responsible for environmental protection for review and approval, and in the absence of such approval, the permission for construction of the project will not be granted and the construction is not allowed to be commenced.

According to the Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects (建設項目竣工環境保護驗收暫行辦法) promulgated by the Ministry of Environmental Protection of the PRC on 20 November 2017, unless otherwise stipulated by laws and regulations, entities which are required to provide assessment reports and statements shall undertake the responsibility of acceptance inspections of the environmental protection facilities by itself upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

LAW SUPERVISION OVER INTELLECTUAL PROPERTY

Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) revised by the SCNPC on 27 December 2008 and taking effect on 1 October 2009, as well as the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) promulgated by the State Council on 15 June 2001, amended on 28 December 2002 and 9 January 2010, when an invention or utility model patent is granted, unless otherwise stipulated in the Patent Law and its Implementation Rules, without the approval of the patent owner, no entity or person shall implement the relevant patent, that is, manufacture, use, offer to sell, sell or import the patented products for business purpose, or use the patented method and use, offer to sell, sell or import the products directly obtained with the patented method. When the appearance design patent is granted, without the approval of the patent owner, no entity or person shall implement the relevant patent, that is, manufacture, use, offer to sell, sell or import the patented products incorporating the patented design.

Implementing the patent without the approval of the patent owner constitutes the infringement of patent rights. Any dispute in connection with this shall be resolved by the relevant parties through negotiation. If the relevant parties refuse to negotiate or the negotiation fails, the patent owner or the relevant stakeholders may file a lawsuit in the people’s court or turn to the patent administration authorities for handling. If the relevant patent administration authority determines that there exists infringement, it shall order the infringer to stop the infringement immediately. The party concerned that disagrees to the order may bring a lawsuit in a people’s court according to the Administrative Procedure Law of the PRC (《中華人民共和國行政訴訟法》) in 15 days after receiving the handling notice. If the infringer neither raises litigation nor stops in the infringement upon the expiry of the 15-day period, the relevant patent administration authority may turn to the people’s court for enforcement. The relevant patent administration authority may, upon the request of the relevant parties, conduct mediation on the compensation for the patent infringement. If the mediation fails, the parties concerned may bring a lawsuit in a people’s court according to the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》).

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Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》(the “**Trademark Law**”)) revised by the SCNPC on 30 August 2013 and taking effect on 1 May 2014 and subsequently amended on 23 April 2019 and became effective on 1 November 2019, the registered trademark has a validity period of 10 years starting from the registration date. The trademark registrant enjoys the exclusive right to use the trademark. According to Article 57 of the Trademark Law, any of the following acts shall be an infringement of the exclusive right to use a registered trademark:

- Using a trademark that is identical with a registered trademark in respect of the same goods without the authorisation from the trademark registrant;
- Using a trademark that is similar to a registered trademark in respect of the same goods or using a trademark that is identical with or similar to a registered trademark in respect of the similar goods, which can cause confusion, without the authorisation from the trademark registrant;
- Selling goods that infringe the exclusive right to use a registered trademark;
- Counterfeiting, or making, without authorisation, representations of a registered trademark of another person, or selling such representations of a registered trademark as were counterfeited, or made without authorisation;
- Replacing the trademark registrant’s registered trademark without authorisation, and selling goods bearing such a replaced trademark;
- Facilitating the infringement on the exclusive right of another person to use a registered trademark, or helping another person to commit the infringement on the exclusive right to use a registered trademark;
- Causing, in other respects, prejudice to the exclusive right of another person to use a registered trademark.

Any dispute in connection with the activities the infringe the exclusive right to use a registered trademark set out in Article 57 of the Trademark Law shall be resolved by the relevant parties through negotiation. If the relevant parties refuse to negotiate or the negotiation fails, the trademark registrant or the relevant stakeholders may file a lawsuit in the people’s court or turn to the industrial and commercial administrative department for handling.

If the industrial and commercial administrative department determines that there exists infringement, it shall order the infringer to stop the infringement, confiscate and destroy the infringing goods and the tools used to manufacture the infringing goods and counterfeiting the registered trademark, and impose a penalty of less than 5 times of the illegal business income if the illegal business income exceeds RMB50,000 , or impose a penalty of less than RMB250,000 if there is no illegal business income or the illegal business income is less than RMB50,000. If the infringer commits the trademark infringement for more than twice in 5 years or there is any other severe situation, a heavier punishment shall be given. If the seller does not know the goods he sells infringe the exclusive right to use a registered trademark and proves that the goods are obtained by him legally, and discloses the goods supplier, the industrial and commercial administrative department shall order him to stop selling the relevant goods.

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In case of any dispute in connection with the compensation for the infringement on the exclusive right to use a registered trademark, the relevant parties may ask for mediation by the industrial and commercial administrative department or file a lawsuit in the people's court according to the Civil Procedure Law of the PRC. If the relevant parties fail to reach agreement after the mediation by the industrial and commercial administrative department or the mediation agreement is not performed, the relevant parties may file a lawsuit in the people's court according to the Civil Procedure Law of the PRC.

LAW SUPERVISION OVER LABOUR

The Labour Law of the PRC

The Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994, came into effect on 1 January 1995, and was amended on 27 August 2009 and 29 December 2018, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health systems, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection equipment that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer must develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the PRC and its implementation regulations

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and came into effect on 1 July 2013, and the Implementation Regulations on Labour Contract Law (《中華人民共和國勞動合同法實施條例》) which was promulgated on 18 September 2008, and came into effect on the same day, regulate employer and the employee relations and contain specific provisions involving the terms of the labour contract. Labour contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. In the event that no written labour contract is concluded at the time when a labour relationship is established, such a contract shall be concluded within one month as of the date when the employing unit employs a worker. An employer may legally terminate a labour contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

REGULATORY OVERVIEW

The Laws and Regulations on Social Security Insurance

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on 28 October 2010, and revised on 29 December 2018, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Provisional Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), the Regulation on Work-Related Injury Insurance (《工傷保險條例》), the Regulation of Unemployment Insurance (《失業保險條例》), the Decision of the State Council on Setting up Basic Medical Insurance System for Staff Members and Workers in Cities and Towns (《國務院關於建立城鎮職工基本醫療保險制度的決定》), enterprises are obliged to provide their employees in the PRC with welfare schemes covering basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. If an enterprise fails to pay social insurance premiums in full within the time period specified by the authorities, a daily fine of 0.05% on any delinquent payments may be imposed on it. If an enterprise fails to make such payments on time, it may be liable to a fine equal to one to three times the overdue amount.

The Regulations on Work-Related Injury Insurance

According to the Regulations on Work-Related Injury Insurance (《工傷保險條例》) revised by the State Council on 20 December 2010 and came into effect on 1 January 2011, employing entities and their staff members and workers shall abide by the laws and regulations on work safety and prevention and treatment of occupational diseases, follow rules on and standards for health and safety, prevent occurrence of work-related accidents. In case of work injuries to their staff members and workers, employing entities shall take appropriate measures to ensure immediate rescue and treatment of injured staff members and workers. A staff member or worker is entitled to work-related injury medical benefits when such staff member or worker needs to receive medical treatment due to the injury caused by any work-related accident or due to the affliction of any occupational disease. A staff member or worker shall receive medical treatment of work-related injury at a medical institution with which a service agreement has been concluded, or may first go to a medical institution nearby for emergency treatment in case of an emergency.

The Regulations on the Administration of Housing Provident Funds

According to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which were revised by the State Council and came into effective on 24 March 2002 and last amended on 24 March 2019 and became effective on the same day, enterprises should undertake registration at the competent managing center of housing fund and then, upon the examination by such managing center of housing fund, undergo the procedures of opening the account of housing fund for their employees. Enterprises are also obliged to timely pay and deposit the housing fund in the full amount. In the event that an enterprise fails to pay housing provident fund within the time period according to the regulation, the PRC authorities may order it to pay the fund within a time limit. If the enterprise still fails to make overdue contributions, such relevant PRC authorities may apply to court for compulsory execution. If the enterprise fails to undertake registration of housing provident fund or fail to open housing fund account for its employees, the competent PRC authorities shall order the enterprise to complete such registration procedure regarding housing provident fund within a prescribed time limit. If the enterprise fails to do so within the prescribed time limit, a penalty ranging from RMB10,000 to RMB50,000 may be imposed.

REGULATORY OVERVIEW

LAW SUPERVISION OVER NEGOTIABLE INSTRUMENTS

According to the Negotiable Instruments Law of PRC (《中華人民共和國票據法》), which was revised by the SCNPC on 28 August 2004 and became effective on 28 August 2004, the issue, acquisition and negotiation of an instrument shall follow the principle of good faith and reflect the true relationship of transaction and between the creditor and the debtor. In respect of a bill of exchange presented for acceptance, the drawee shall accept or refuse to accept it within three days after receipt of the bill. On receiving a bill of exchange presented for acceptance by the holder, the drawee shall write out a receipt to the holder. The receipt shall specify the date of presentment for acceptance and shall be signed. When accepting a bill of exchange, the drawee may not attach any conditions thereto. An acceptance to which a condition is attached is deemed non-acceptance. After accepting a bill of exchange, the drawee shall bear the liability for paying the bill at its maturity.

LAW SUPERVISION OVER TAXATION AND FOREIGN EXCHANGE

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated by the National People’s Congress (the “NPC”) on 16 March 2007, came into effect on 1 January 2008, and amended on 24 February 2017 and 29 December 2018, and the Implementation Regulations on the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated by the State Council on 6 December 2007, came into effect on 1 January 2008 and amended on 23 April 2019, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in the PRC, except for the High and New Technology Enterprise provided by the state, which will be subject to enterprise income tax at the reduced rate of 15%.

Pursuant to the EIT Law, the Implementation Rules and the transfer pricing regulations in the PRC including the Announcement of the State Administration of Taxation on Matters Relating to the Improvement of Affiliated Declaration and Contemporaneous Document Management (《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》) promulgated and became effective on 29 June 2016 and the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures (《國家稅務總局關於發佈特別納稅調查調整及相互協商程序管理辦法的公告》) promulgated on 17 March 2017 and became effective on 1 May 2017, related party transactions should comply with the arm’s length principle and if the related party transactions fail to comply with the arm’s length principle resulting in the reduction of the enterprise’s taxable income, the tax authority has power to make adjustments. When implementing transfer pricing investigation, the tax authority shall conduct comparability analysis and select a reasonable transfer pricing method for the analysis of the related party transactions. The transfer pricing methods include comparable uncontrolled price method, resale price method, cost-plus method, net profit method, profit split method and other methods in line with the arm’s length principle.

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Circular 7

According to the Public Notice on Certain Issues for the Enterprise Income Tax on Incomes from Indirect Property Transfers between Non-resident Enterprises 《關於非居民企業間轉讓財產企業所得稅若干問題的公告》 (“Circular 7”), issued by the SAT on 3 February 2015, if a non-resident enterprise indirectly transfers assets (including equity interests) in a PRC resident enterprise by entering into arrangements without reasonable commercial purposes but to evade EIT, the nature of this indirect transfer shall be reclassified and recognised as a direct transfer of assets of a PRC resident enterprise. The relevant provisions in Circular 7 are not applicable if the overall arrangement regarding the indirect transfer of the PRC Taxable Assets meets any of the following circumstance: (i) such non-resident enterprise obtain income from an indirect transfer of PRC Taxable Assets by acquiring and disposing of the equity interests of the same offshore listed company in a public market; or (ii) such non-resident enterprise directly holds and transfers the PRC Taxable Assets in accordance with applicable tax treaty or arrangement which exempts the transfer from relevant EIT in the PRC.

Withholding tax and international tax treaties

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong 《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》, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once record filings have been performed with the relevant tax authorities.

Pursuant to the Notice of the State Administration of Taxation on the Several Issues of 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》, which was promulgated by the State Administration of Taxation (the “SAT”) and came into effect on 20 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

After-tax profit

According to the Article 34 of the Company Law of the PRC 《中華人民共和國公司法》) revised and became effective on 26 October 2018, the dividends shall be distributed to shareholders in proportion to the actual capital contributions paid by them, unless otherwise agreed upon by all the shareholders. In the event of capital increase of the company, the shareholders shall have the priority to subscribe for capital contribution proportionate to their actual paid-up capital contributions, unless otherwise agreed upon by all the shareholders.

REGULATORY OVERVIEW

According to the Company Law of PRC, when a company distributes its after-tax profit of the current year, 10% of the profit shall be allocated to its statutory common reserve fund. The company is not required to do so once the cumulative amount of the statutory common reserve fund reaches 50% of more of the company's registered capital. After having been used to cover the losses and make allocation to the common reserve fund, the remaining after-tax profit shall be distributed in accordance with Article 34 of the Company Law of the PRC, in the case of a limited liability company; or in proportion to the shares held by each shareholder, in the case of a company limited by shares, unless otherwise specified in its articles of association. Where the shareholders' meeting, general meeting or board of directors violates the preceding Paragraph and distributes profit to shareholders before the company covers the losses and accrues the statutory common reserve fund, the shareholders shall return to the company the profit distributed in violation. A company shall not distribute profits to its holdings of its own shares.

Value-added tax

According to Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) issued by the State Council on 13 December 1993 and taking effect on 1 January 1994 and amended respectively on 5 November 2008, 6 February 2016 and 19 November 2017 (“**Provisional Regulations on VAT**”), the Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the PRC (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011修訂)》) revised by SAT on 28 October 2011 and came into effect on 1 November 2011, all the entities and persons engaged in sales of goods or provision of processing, repair and maintenance labour, sales of services, intangible assets or real estate or import of goods in China shall be subject to value-added tax. The taxable value shall be calculated based on the output tax and input tax. Unless otherwise specified by the Provisional Regulations on VAT, for the sales of goods, labour, tangible asset lease services or import of goods by the tax payer, the VAT rate shall be 17%; for the sales of transportation, postal, basic telecom, construction and real estate lease service, sales of real estate, transfer of land use right, sales and import of special goods listed in the Provisional Regulations on VAT by the tax payer, the VAT rate shall be 11%; for the sales of services and intangible assets by the tax payer, the VAT rate shall be 6%. Unless otherwise specified, the VAT rate for the export of goods by the tax payer shall be zero; and the VAT rate for the cross-border sales of services and intangible assets within the scope as specified in the regulations of the State Council by the domestic institutions and individuals shall be zero.

On 23 March 2016, the Ministry of Finance and the SAT jointly issued the Circular on Full Implementation of Business Tax to Value-added Tax Reform (《關於全面推開營業稅改徵增值稅試點的通知》) which has been partially repealed and amended on 1 July 2017, 1 January 2018 and 20 March 2019, confirms that business tax would be completely replaced by VAT from 1 May 2016.

On 4 April 2018, the SAT and the MOF jointly issued Circular on Adjusting Value-added Tax Rate (《關於調整增值稅稅率的通知》) to further adjust the VAT rate, including the change of tax rate from 17% and 11% to 16% and 10% respectively for the taxable sales or import of goods by the tax payer.

On 20 March 2019, the SAT, the GACC and the MOF jointly issued Announcement on Policies Concerning Deepening the Reform of Value-added Tax (《關於深化增值稅改革有關政策的公告》) which came into effect as of April 1, 2019 to further adjust the VAT rate, including the change of tax rate from 16% and 10% to 13% and 9% respectively for the taxable sales or import of goods by the tax payer.

REGULATORY OVERVIEW

Administrative Regulations of the PRC on Foreign Exchange

According to the Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996 and amended and became effective on 5 August 2008, Renminbi is freely convertible without the approval from the SAFE of its local counterpart for current account transactions, including payment of dividends to foreign investors, payment of interests, international trade of goods, service-related foreign exchange transactions, on a basis of true and lawful transactions, while capital account transactions including direct investments and repayment of foreign currency loans are subject to significant foreign exchange control and require the prior approval of the SAFE or its local counterpart and/or registration with the authority.

Circular 37, Circular 13 and Circular 16

Pursuant to the Circular on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through 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》) (“**Circular 37**”) promulgated by the SAFE and became effective on 4 July 2014, a “special purpose vehicle” means an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. And the registration for and the relevant foreign exchange administration over a special purpose vehicle established by a domestic resident shall be subject to the Circular 37.

According to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies (《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》) (“**Circular 13**”), the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment, including the registration of PRC residents who engage in overseas investment and financing and inbound investment via special purpose vehicles under the Circular 37, is directly reviewed and handled by banks, and the SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration through local banks. The Circular 13 also simplified handling formalities for certain direct investment-related foreign exchange business, for example, simplifying the administration of the confirmation and registration of foreign investors' contribution under domestic direct investment, canceling the filing of overseas re-investment foreign exchange, and canceling annual inspection of the direct investment-related foreign exchange.

According to the Notice of the State Administration of Foreign Exchange on Reforming and Standardising the Administrative Provisions on Capital Account Foreign Exchange Settlement (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (“**Circular 16**”) promulgated by SAFE and became effective on 9 June 2016, domestic enterprises may all settle their external debts in foreign currencies according to the method of voluntary foreign exchange settlement. A domestic institution may use its foreign exchange earnings under capital account and the RMB funds obtained from the settlement thereof for current account expenditure within the scope of its business, as well as for capital account expenditure permitted by laws and regulations.

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LAWS SUPERVISION OVER FOREIGN TRADE AND CUSTOMS

Foreign Trade Law of the PRC

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) adopted by the SCNPC on 12 May 1994 and amended on April 2004 and became effective on 1 July 2004, and last amended on 7 November 2016, any foreign trade business operator that is engaged in the import and export of goods or technologies shall make registration for record with the administrative department of foreign trade of the State Council or the institution entrusted by it, but those that are exempted from registration for record by laws, administrative rules and rules of the department in charge of foreign trade under the State Council shall be excluded. If the foreign trade business operator fails to complete such registration for record, the customs will not process the procedures of declaration, inspection and release for the import or export of goods.

Customs Law of the PRC

According to the Customs Law of the PRC (《中華人民共和國海關法》) adopted by the SCNPC on 22 January 1987 and last amended on 4 November 2017 and took effect on 5 November 2017, and 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》) effective as of 1 July 2018, the import and export of goods are subject to the customs' control. Consignees of import goods and consignors of export goods have the obligation to make true declarations to the customs. Duties shall be levied by the customs in respect of the goods allowed to be imported and exported. Consignees of import goods and consignors of export goods are required to be registered with the local customs.

HONG KONG LAWS AND REGULATIONS

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “TDO”), as amended by the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance, prohibits unfair trade practices deployed by traders against consumers. A trade description in relation to goods means an indication of (among other things) quantity, size or gauge, fitness for purpose, performance, compliance with a standard specified or recognised by any person, price, approval by any person or conformity with a type approved by any person, and place of origin. Under section 7(1) of the TDO, it is an offence for any person to apply a false trade description to any goods or supplies or offers to supply any goods to which a false trade description is applied in the course of any trade or business. Under sections 13E, 13F, 13G, 13H and 13I of the TDO, misleading omissions, aggressive commercial practices, bait advertising bait and switch and wrongly accepted payments are prohibited.

A person who commits an offence under sections 7, 13E, 13F, 13G, 13H and 13I of the TDO shall be guilty of an offence and shall be liable on conviction on indictment to a maximum fine of HK\$500,000 and to imprisonment for five years, and on summary conviction to a maximum fine of HK\$100,000 and to imprisonment for two years.

REGULATORY OVERVIEW

Competition Ordinance (Chapter 619 of the Laws of Hong Kong)

The Competition Ordinance prohibits and deters undertakings in all sectors from adopting anticompetitive conduct which has the object or effect of preventing, restricting or distorting competition in Hong Kong. It provides for general prohibitions in two major areas of anti-competitive conduct described as the first conduct rule and the second conduct rule.

The first conduct rule prohibits undertakings from making or giving effect to agreements or decisions or engaging in concerted practices that have as their object or effect the prevention, restriction or distortion of competition in Hong Kong. The second conduct rule prohibits undertakings that have a substantial degree of market power in a market from engaging in conduct that has as its object or effect the prevention, restriction or distortion of competition in Hong Kong.

Pursuant to section 82 of the Competition Ordinance, if the Competition Commission has reasonable cause to believe that (a) a contravention of the first conduct rule has occurred; and (b) the contravention does not involve serious anti-competitive conduct, it must, before bringing proceedings in the Competition Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a notice to the undertaking.

However, under section 67 of the Competition Ordinance, where a contravention of the first conduct rule has occurred and the contravention involves serious anti-competitive conduct or a contravention of the second conduct rule has occurred, the Competition Commission may, instead of bringing proceedings in the Competition Tribunal in the first instance, issue a notice (an “**infringement notice**”) to the person against whom it proposes to bring proceedings, offering not to bring those proceedings on condition that the person makes a commitment to comply with requirements of the infringement notice. “Serious anti-competitive conduct” means any conduct that consists of any of the following or any combination of the following — (a) fixing, maintaining, increasing or controlling the price for the supply of goods or services; (b) allocating sales, territories, customers or markets for the production or supply of goods or services; (c) fixing, maintaining, controlling, preventing, limiting or eliminating the production or supply of goods or services; (d) bid-rigging.

In the event of breaches of the Competition Ordinance, the Competition Tribunal may make orders including: imposing a pecuniary penalty if satisfied that an entity has contravened a competition rule; disqualifying a person from acting as a director of a company or taking part in the management of a company; prohibiting an entity from making or giving effect to an agreement; modifying or terminating an agreement; and requiring the payment of damages to a person who has suffered loss or damage.

Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) sets out certain provisions in relation to transfer pricing. Section 20(2) of the IRO provides that where a resident person conducts transactions with a “closely connected” non-resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. Section 20A of the IRO gives the

REGULATORY OVERVIEW

Inland Revenue Department (the “**IRD**”) wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO. On 13 July 2018, the Inland Revenue (Amendment) (No.6) Ordinance 2018 (the “**Amendment Ordinance**”) was gazetted and has become effective. Section 20 of the IRO was repealed as a result of the Amendment Ordinance become effective. The Amendment Ordinance includes significant changes to codify transfer pricing regulations in Hong Kong. It implements various minimum standards arising from the OECD’s latest requirements on base erosion and profit shifting and introduces mandatory transfer pricing documentation requirements. According to the Amendment Ordinance, the arm’s length principle is the fundamental transfer pricing rule in Hong Kong. Where a transaction between two related persons does not comply with the arm’s length principle and has created tax advantage, the IRD is empowered to adjust the profits or losses of that person. The fundamental transfer pricing rule applies retrospectively to year of assessment on or after 1 April 2018.

HISTORY, DEVELOPMENT AND REORGANISATION

OUR HISTORY

Our Group was founded in 2011 by our Founders, who had extensive experience in the design, development and production of disposable hygiene product machine for baby diapers, adult diapers and lady sanitary napkins. Leveraging on our Founders' experience and the foresight of our management team in the development of the disposable hygiene product industry in the PRC, our Group has experienced steady growth since its establishment, and according to the Industry Report, we were the third largest disposable hygiene product machinery manufacturer in the PRC in terms of market share in 2018. In 2018, Hangzhou Haina became part of our Group.

As at the Latest Practicable Date, our Group comprised our Company, Affluent International, Haina Technology, Jinjiang Haina and Hangzhou Haina.

KEY BUSINESS AND CORPORATE MILESTONES

The following events are the key business and corporate development milestones of our Group:

Year	Milestones
2011	Jinjiang Haina was established in the PRC
2013	Jinjiang Haina was first awarded and recognised as “High and New Technology Enterprise” (高新技術企業) of Fujian province jointly by Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office, SAT (福建省國家稅務局), and Fujian Local Taxation Bureau (福建省地方稅務局)
2014	Jinjiang Haina was certified as a scientific and technological enterprise (科技型企業) by Fujian Provincial Department of Science and Technology (福建省科學技術廳)
2015	Jinjiang Haina was named as Quanzhou City Technology Development Centre for the Disposable Diapers Machinery Industry (泉州市紙尿褲機械行業技術開發中心) by Quanzhou Municipal Science and Technology Bureau (泉州市科學技術局)
2017	Jinjiang Haina was recognised as a scientific and technological enterprise (科技型企業) by Fujian Provincial Department of Science and Technology (福建省科學技術廳) Jinjiang Haina was recognised as a specialised and novel small to medium enterprise of Fujian Province (福建省專精特新中小企業) jointly by Fujian Provincial Department of Industry and Information Technology (福建省經濟和信息化委員會) and Fujian Provincial Department of Finance (福建省財政廳)
2018	Hangzhou Haina became part of our Group

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE HISTORY AND DEVELOPMENT

We set out below the corporate history and major shareholding changes of our Group companies.

Jinjiang Haina

Jinjiang Haina was established in the PRC on 24 January 2011 with a registered capital of RMB0.50 million. Jinjiang Haina is principally engaged in the design and production of disposable hygiene products machines. On 14 March 2011, the registered capital of Jinjiang Haina increased from RMB0.50 million to RMB5.00 million, which was fully paid up. Upon completion, Jinjiang Haina was owned as to 45.00%, 25.00%, 18.00% and 12.00% by Mr. Hong, Mr. Zhang, Mr. Su and Mr. He, respectively. On 6 May 2014, the registered capital of Jinjiang Haina was increased to RMB15.00 million, which was fully paid up with the then equity interests holders contributed in proportion to their equity interests.

On 15 March 2016, Jinjiang Haina was converted into a joint stock limited company. On 28 July 2017, Jinjiang Haina was converted into a limited liability company.

On 7 November 2017, the registered capital of Jinjiang Haina was increased from RMB15.00 million to RMB15.80 million, which was fully paid up, of which Mr. Lin Wei Cheng (“**Mr. Lin**”), an independent third party, contributed RMB0.79 million with the remaining capital contributed by the then equity interests holders in proportion to their equity interests in Jinjiang Haina. Upon completion of the capital injection, Jinjiang Haina was owned as to 42.75%, 23.75%, 17.10%, 11.40% and 5.00% by Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Mr. Lin, respectively.

Since April 2017 and up to the Latest Practicable Date, Mr. Lin has been a manager (marketing and technical) of Jinjiang Zhaoyi Machinery Co. Ltd (晉江兆億機械有限公司), a company established in the PRC that is principally engaged in manufacturing of metal cutting machines and industrial automatic control systems, which was one of the top five suppliers of our Group in 2017. Before joining Jinjiang Zhaoyi Machinery Co. Ltd, Mr. Lin was a general manager for Kingdom Machinery Co., Ltd., a Taiwan company principally engaged in the design and/or production of machines and machine parts, which was also one of Jinjiang Haina’s suppliers in 2016.

Mr. Lin completed a five-year junior college program of mechanical engineering at Ta Hwa Institute of Technology (currently known as Ta Hwa University of Science and Technology (大華科技大學)) in Taiwan in August 1999. He is also a creator of several patents registered at the Intellectual Property Office, Ministry of Economic Affairs of Taiwan (台灣經濟部智慧財產局).

Mr. Lin has confirmed that he invested in our Group because of our growth potential and general prospects in the disposable hygiene product machinery market in the PRC, the past business performance of our Group and the implementation of the “Two-child Policy” in the PRC.

In May 2018, Mr. Lin wished to recover his investment in Jinjiang Haina for his own financial needs, and he sold his 5% equity interests in Jinjiang Haina to Haina Technology for a consideration of US\$120,000, which was approximately equivalent to his initial contribution of RMB0.79 million. The consideration was determined by reference to the net asset value of Jinjiang Haina as at 30 September 2017, taking into account his initial capital contributions in November 2017 and the period of time he had invested in our Group. Mr. Lin confirmed that the source of funding for his investment in Jinjiang Haina was from his personal savings. Saved as disclosed, Mr. Lin does not and did not has any other past or present relationships (whether business, employment, family, trust, financing or otherwise) with the Company, its subsidiaries, their shareholders, directors, senior management or any of their respective associates.

HISTORY, DEVELOPMENT AND REORGANISATION

Pursuant to equity transfer agreements dated 31 May 2018, the then equity holders of Jinjiang Haina agreed to transfer their entire equity interests to Haina Technology for an aggregate consideration of US\$2.42 million, which was determined based on arm's length negotiation and by reference to the capital contributions made by each of the then equity interests holders of Jinjiang Haina. Upon completion of such transfer, Jinjiang Haina became a wholly-owned subsidiary of Haina Technology and Mr. Lin who held 5.00% in Jinjiang Haina, ceased to have any interest in the Group.

On 6 June 2018, the registered capital of Jinjiang Haina was increased from RMB15.80 million to RMB30.00 million, which was fully paid up. On 5 September 2018, the registered capital of Jinjiang Haina was further increased from RMB30.00 million to RMB50.00 million, which was fully paid up.

As advised by our PRC Legal Advisers, (i) Jinjiang Haina has obtained all necessary approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for its establishment; (ii) the reorganisation steps set out above including the transfers of equity interests were legal, valid, duly completed and settled in compliance with all the applicable laws and regulations in the PRC, and (iii) all necessary approvals as required by the relevant authorities have been obtained.

Hangzhou Haina

Hangzhou Haina was established in the PRC on 23 May 2017 with a registered capital of RMB1.25 million, of which Ms. Li Xiao (李筱) and Mr. Xu Shuwei (徐書唯) held 60.00% and 40.00%, respectively. Hangzhou Haina is principally engaged in the sale and production of machines and equipment for disposable hygiene products.

On 29 June 2018, Ms. Li Xiao transferred her entire equity interest in Hangzhou Haina to Mr. Xu Yuanquan (徐源泉), an independent third party and husband of Ms. Li Xiao, at a consideration of RMB0.75 million, which was determined by the registered capital of Hangzhou Haina. Upon completion of the said transfer, Hangzhou Haina was owned as to 60.00% and 40.00% by Mr. Xu Yuanquan and Mr. Xu Shuwei, respectively. Mr. Xu Yuanquan and Mr. Xu Shuwei are independent third parties (other than as equity interest holders of Hangzhou Haina). At the time of Hangzhou Haina's establishment, none of Ms. Li Xiao, Mr. Xu Shuwei or Mr. Xu Yuanquan (together the "**Hangzhou Partners**") had any past or present relationships (including business, employment, family, trust, financing or otherwise) with the Company, its subsidiaries, their shareholders, directors, senior management or any of their respective associates.

Jinjiang Haina had agreed to make additional capital contribution to Hangzhou Haina and to become a majority shareholder of Hangzhou Haina, and taking into account the ongoing capital needs and the plan to expand the production capabilities of Hangzhou Haina, on 12 July 2018, the registered capital of Hangzhou Haina was increased from RMB1.25 million to RMB20.00 million, and the said capital contribution consisted of Jinjiang Haina's capital commitment of RMB10.20 million, and Mr. Xu Yuanquan's and Mr. Xu Shuwei's capital commitments of RMB5.13 million and RMB3.42 million, respectively. As a result, Jinjiang Haina became a 51.00% equity interest holder of Hangzhou Haina with the remaining 49.00% owned as to 29.40% by Mr. Xu Yuanquan and 19.60% by Mr. Xu Shuwei. As at the Latest Practicable Date, the registered capital required to be contributed in accordance with the articles of association of Hangzhou Haina and the relevant PRC Law had been paid up.

HISTORY, DEVELOPMENT AND REORGANISATION

Acquisition of Hangzhou Haina

In 2017, we were approached by the Hangzhou Partners, who were seeking to cooperate with an established market participant in the disposable hygiene product machines in the PRC with a recognised brand and strong technical capabilities. The Hangzhou Partners and their team had experience in the industry of disposable hygiene product machinery in particular lady sanitary napkins.

Below sets forth the relevant industry experience of each of the Hangzhou Partners:

- Mr. Xu Shuwei has over 10 years of experience working in the technical departments for various companies that manufacture disposable hygiene product machineries, and he was named as an inventor of a patent that relates to the packaging of personal hygiene products. Before he co-founded Hangzhou Haina, he was the chief engineer of automation of Hangzhou Haoruite Machinery Manufacturing Co., Ltd. (杭州珂瑞特機械製造有限公司), a company incorporated in the PRC which principally engaged in manufacturing disposable hygiene product machinery;
- Mr. Xu Yuanquan has over 10 years of experience working in companies that manufacture disposable hygiene product machineries. Before he joined Hangzhou Haina, he was a deputy general manager of Hangzhou Haoruite Machinery Manufacturing Co., Ltd., (杭州珂瑞特機械製造有限公司) and he was also named as the inventor or co-inventor of at least five patents that relate to machines that produces and packages disposable personal hygiene products; and
- Ms. Li Xiao has over 12 years of experience in sales and related matters in various machinery-related companies. She was a sales assistant of Hangzhou Zhongyeda Electrical Co. Ltd (杭州眾業達電器有限公司) from May 2004 to November 2006 and a commercial administrator of Hangzhou Gongpei Electrical Engineering Co. Ltd. (杭州功陪電器工程有限公司) from March 2007 to June 2015. Before she co-founded Hangzhou Haina, she was a commercial administrator of Hangzhou Hanrui Electrical Technology Co., Ltd. (杭州瀚睿電器科技有限公司).

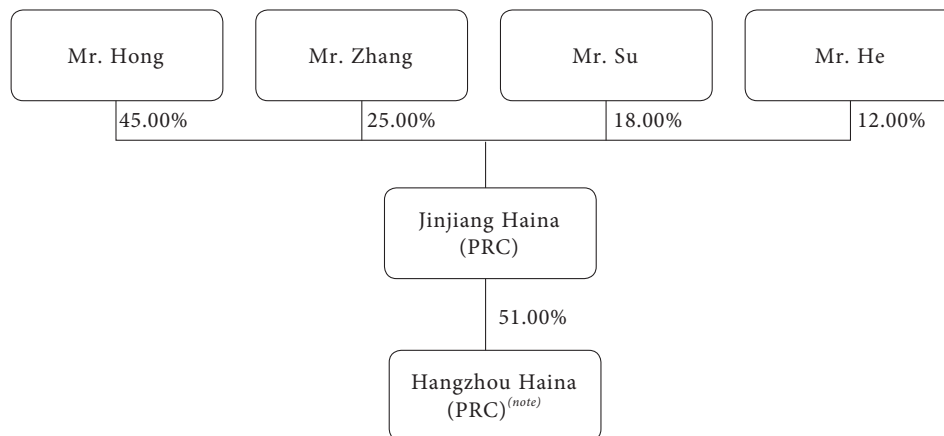
DISPOSAL OF A SUBSIDIARY

Maanshanxin Haina Machinery Manufacturing Co., Ltd. (馬鞍山鑫海納機械製造有限公司) was established in the PRC on 22 May 2014 as a limited liability company. Immediately before its disposal on 24 October 2016, it was wholly-owned by Jinjiang Haina and was inactive. Jinjiang Haina disposed of its entire equity interest in Maanshanxin Haina Machinery Manufacturing Co., Ltd. to independent third parties on 24 October 2016 at nil consideration.

HISTORY, DEVELOPMENT AND REORGANISATION

THE REORGANISATION

The shareholding and corporate structure of our Group immediately before the reorganisation is set out below:



Note: Hangzhou Haina is owned as to 51.00% by Jinjiang Haina, 29.40% by Mr. Xu Yuanquan and 19.60% by Mr. Xu Shuwei, who are independent third parties (other than as equity holders of Hangzhou Haina).

In preparation for the Listing, our Group underwent a series of reorganisation, details of which are set out below:

1. Incorporation of Prestige Name

Prestige Name was incorporated in the BVI as a company with liability limited by shares on 22 May 2017 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. It is owned by Mr. Hong, Mr. Zhang, Mr. Su and Mr. He as to 45.00%, 25.00%, 18.00% and 12.00%, respectively. Prestige Name is an investment holding company.

2. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 December 2017 with an authorised share capital of HK\$380,000.00 divided into 3,800,000 ordinary shares with par value of HK\$0.10 per share. One fully paid share was allotted and issued to an initial subscriber, which was transferred to Prestige Name at nominal value on 20 December 2017.

On 28 January 2019, our Company changed its name from Haina International Group Limited (海納國際集團有限公司) to Haina Intelligent Equipment International Holdings Limited (海納智能裝備國際控股有限公司). On 18 March 2019, our Company's Shares with par value HK\$0.10 per share were subdivided into 10 Shares with par value HK\$0.01 per Share in the share capital of our Company. Following such share subdivision, the authorised share capital of our Company is HK\$380,000.00 divided into 38,000,000 Shares of par value HK\$0.01 per share.

On 8 May 2020, the authorised share capital of our Company was increased from HK\$380,000.00 divided into 38,000,000 Shares of par value HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 Shares of par value HK\$0.01 each, by the creation of additional 1,962,000,000 Shares.

HISTORY, DEVELOPMENT AND REORGANISATION

3. Incorporation of Haina Technology

Haina Technology was incorporated in Hong Kong as a company with limited liability on 15 March 2017 with an issued share capital of HK\$1.00 comprising one share. One fully paid share with par value of HK\$1.00 was allotted and issued to an initial subscriber, which was transferred to Mr. Hong at nominal value on 9 May 2017.

On 19 January 2018, Mr. Hong transferred the one share, which represented the entire shareholding of Haina Technology to our Company for a consideration of HK\$1.00. Haina Technology is principally engaged in trading and investment holding and is an indirect wholly-owned subsidiary of our Company.

4. Transfer of the entire equity interests in Jinjiang Haina to Haina Technology

The entire equity interests in Jinjiang Haina was transferred to Haina Technology on 6 June 2018 at an aggregate consideration of US\$2.42 million, which was determined through arm's length negotiation by reference to the capital contributions made by the then equity interests holders of Jinjiang Haina. Jinjiang Haina is an indirect wholly-owned subsidiary of our Company.

5. Incorporation of Affluent International

Affluent International was incorporated in the BVI as a BVI business company with liability limited by shares on 16 January 2019 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. Upon its incorporation, one fully paid share was allotted and issued to our Company. Affluent International is an investment holding company and is a direct wholly-owned subsidiary of our Company.

6. Share transfer of Haina Technology

On 11 March 2019, the entire issued share capital of Haina Technology was transferred to Affluent International at nil consideration.

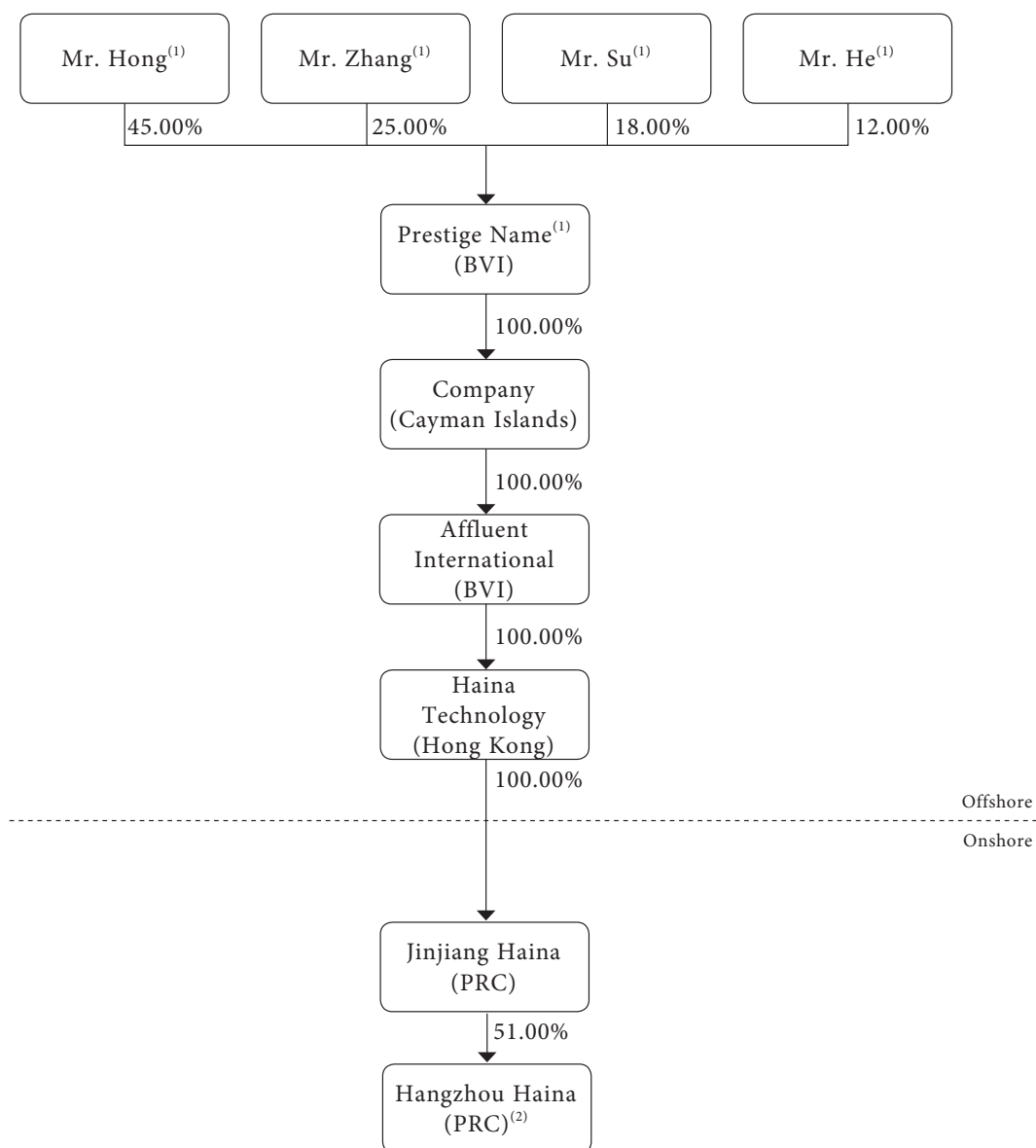
As advised by our PRC Legal Advisers, all of the above mentioned transfers are effective, legally binding, duly settled and in compliance with the PRC laws and regulations and all approvals and consents necessary for the above transactions have been obtained from the relevant PRC authorities.

CAPITALISATION ISSUE AND SHARE OFFER

Our shareholding and corporate structure immediately after completion of the Reorganisation but before the Capitalisation Issue and the Share Offer

The following chart illustrates the shareholding and corporate structure of our Group immediately after the Reorganisation but before the Capitalisation Issue and the Share Offer (without taking into account of the Shares to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):

HISTORY, DEVELOPMENT AND REORGANISATION



Notes:

- (1) Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Prestige Name are parties acting in concert.
- (2) The remaining 49.00% is held as to 29.40% by Mr. Xu Yuanquan and 19.60% by Mr. Xu Shuwei, who are independent third parties (other than as equity holders of Hangzhou Haina).

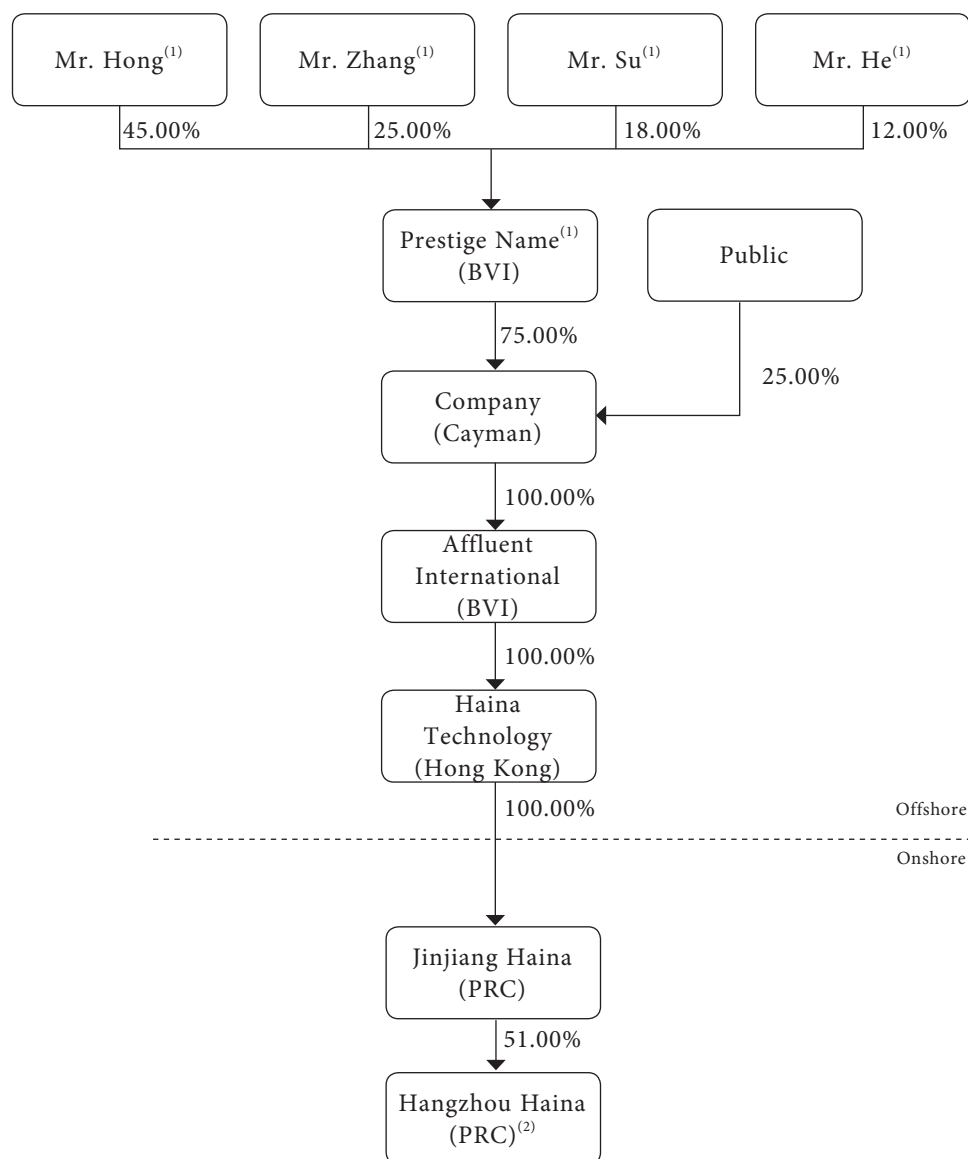
The Capitalisation Issue

Conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, a sum of HK\$3,479,999.90 (or any such amount any one Director may determine) standing to the credit of the share premium account of our Company will be capitalised by applying such sum in paying up in full at par a total of 347,999,990 Shares (or any such number of Shares any one Director may determine) for the allotment and issue to the then existing shareholders in proportion to their respective shareholding in our Company.

HISTORY, DEVELOPMENT AND REORGANISATION

Our shareholding and corporate structure immediately after completion of the Reorganisation, the Capitalisation Issue, and the Share Offer

The following chart illustrates the shareholding and corporate structure of our Group immediately after the completion of the Reorganisation, the Capitalisation Issue, and the Share Offer (but without taking into account of the Shares that may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):



Notes:

- (1) Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Prestige Name are parties acting in concert.
- (2) The remaining 49.00% is held as to 29.40% by Mr. Xu Yuanquan and 19.60% by Mr. Xu Shuwei, who are independent third parties (other than as equity holders of Hangzhou Haina).

HISTORY, DEVELOPMENT AND REORGANISATION

PRC REGULATORY REQUIREMENTS

SAFE Registration in the PRC

The Circular of the SAFE on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“Circular 37”) was promulgated by SAFE on 4 July 2014 and took effect on the same day. According to Circular 37, a domestic resident (including PRC individuals and institutions) shall, before contributing lawful domestic and overseas assets or interests to a special purpose vehicle, register with the SAFE or its local branch to effect foreign exchange registration.

Pursuant to the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (“Circular 13”), which was promulgated by SAFE and became effective on 1 June 2015, SAFE cancelled the requirement for foreign exchange registration approval for overseas direct investment. The banks would directly review and carry out foreign exchange registration, and SAFE and its branches shall, through the banks, supervise the foreign exchange registration of overseas direct investments.

As advised by our PRC Legal Advisers, Mr. Hong, Mr. Zhang, Mr. Su and Mr. He have completed the registration for Prestige Name under the foregoing circulars, which were duly completed on 24 May 2018.

The Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors in the PRC

According to the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“Circular 10”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the CSRC, the State Administration of Industry and Commerce and the SAFE on 8 August 2006 and effective as of 8 September 2006 and amended on 22 June 2009, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and where a domestic company or natural person holds an equity interests in a domestic company through an offshore special purpose company, any overseas listing of that special purpose company shall be subject to approval by the CSRC.

As advised by our PRC Legal Advisers, since Jinjiang Haina was already a foreign-invested enterprise when Haina Technology first acquired its equity interest in June 2018, the Reorganisation did not involve merger and acquisition of equity interest as mentioned in Circular 10, and hence the rules under Circular 10 do not apply to the Reorganisation. However, uncertainties still exist as to how the Circular 10 will be interpreted and implemented. Our PRC Legal Advisers’ opinion stated above is subject to any new laws, rules and regulations or detailed implementations and interpretations in relation to the Circular 10.

Our PRC Legal Advisers confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation as set forth in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

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OVERVIEW

Established in 2011, we are a manufacturer engaging in the design and production of automated machines for manufacturing disposable hygiene products, including baby diapers, adult diapers and lady sanitary napkins in the PRC. During the Track Record Period, we designed, developed and produced automated machines for manufacturing disposable hygiene products under our proprietary brand “Haina Machinery”. We provide comprehensive services to our customers, from collaborating with our customers on product designs, to customising our products based on specifications provided by our customers, conducting quality control, delivering products to customers, installing products for customers and providing after-sales services. According to the Industry Report, we were the third largest disposable hygiene product machinery manufacturer in the PRC in terms of revenue with a market share of approximately 4.0% in 2019.

We have two production bases in the PRC, namely Jinjiang Production Base and Hangzhou Production Base, with a total gross floor area of approximately 35,400 sq.m. As at the Latest Practicable Date, we operated 16 and six production lines in our Jinjiang Production Base and Hangzhou Production Base, respectively. During the Track Record Period, our production process mainly involved in the assembly of components and parts that are used for the production of our products. We mainly procured the components and parts for our disposable hygiene product machines from third party sources. For details of our production process, please refer to the paragraph headed “Our Business Process” in this section.

We believe that strong research and development capabilities are key to maintaining our position in the disposable hygiene product machinery industry. Our research and development team continuously monitors technological advancement in the disposable hygiene product machinery industry to keep abreast of our industry knowledge. As at the Latest Practicable Date, we owned 127 patents in the PRC. We dedicate significant resources to our research and development capabilities in order to develop new products and/or to enhance the quality of our products. For further details of our research and development capabilities, please refer to the paragraph headed “Research and Development” in this section.

Our products were sold in the PRC, Hong Kong and to 16 overseas countries. For the four years ended 31 December 2019, we recorded a total revenue of approximately RMB113.0 million, RMB261.0 million, RMB337.2 million and RMB378.0 million, respectively. Our net profits after tax for the four years ended 31 December 2019 were approximately RMB8.6 million, RMB30.0 million, RMB39.2 million and RMB31.1 million, respectively.

COMPETITIVE STRENGTHS

We believe our success and future growth are attributable to the following competitive strengths:

We are one of the market leaders in the disposable hygiene product machinery industry in the PRC with high brand recognition

We are one of the market leaders in the manufacture of disposable hygiene product machines in the PRC. According to the Industry Report, we ranked the third in the disposable hygiene product machinery industry in the PRC in terms of revenue with a market share of

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approximately 4.0% in 2019. During the Track Record Period, we designed, developed and sold our products under our proprietary brand “Haina Machinery”, which is considered to be a renowned brand of disposable hygiene product machinery in the PRC market according to the Industry Report.

According to the Industry Report, the sales value of disposable hygiene product machinery in the PRC increased from approximately RMB6.8 billion in 2015 to RMB9.1 billion in 2019, representing a CAGR of approximately 7.6%. In view of the temporarily decline of market demand for disposable hygiene product machinery due to the shift of capacity by downstream disposable hygiene product towards production of disposable medical face mask in the midst of outbreak of COVID-19, the growth of sales value of disposable hygiene product machinery is expected to slowdown in 2020. However, with the continuous expansion of downstream market, the demand for disposable hygiene product machinery in the PRC and the other countries are expected to increase, and the sales value of disposable hygiene product machinery in the PRC is estimated to increase at a rate of approximately 6.5% per year during 2020 to 2024, and to reach approximately RMB12.0 billion in 2024, according to the Industry Report.

Our Directors believe that our brand recognition coupled with our market position in the disposable hygiene product machinery industry in the PRC has enabled us to benefit from the growth of the disposable hygiene product machinery markets in the PRC and overseas.

We have strong research and development capabilities and offer customisation in collaboration with customers on product design and development

We believe that one of our competitive strengths is our research and development capabilities which allow us to meet the technological advancement of downstream disposable hygiene products and to satisfy our customers’ demand. Our track record in research and development can be proven by the patents obtained by us in the PRC. As at the Latest Practicable Date, we owned 113 utility patents, 12 invention patents and two design patents in the PRC. Our research and development efforts are mainly carried out by our technical engineering and technical design teams on a project basis. For further details, please refer to the paragraph headed “Research and Development” in this section.

In addition, our products are highly customised as we collaborate with our customers closely at the early stage of the production cycle to initiate and develop product designs. Through active communications with our customers, we develop understanding of the needs of our customers which allows us to offer bespoke product designs. We believe that collaboration during the design stage allows us to gain insight into our customers’ priorities and needs and enables us to be one of the preferred suppliers of some of our customers. We also believe that our close collaboration with our customers on product designs and manufacturing allows us to provide customised solutions and create brand value beyond design and manufacturing services.

We have strong manufacturing capabilities with in-depth industry knowledge and a high commitment to quality

As at the Latest Practicable Date, we operated 16 and six production lines in our Jinjiang Production Base and Hangzhou Production Base, respectively, for carrying out our production processes. In addition to being ISO-certified, we believe that our stringent quality assurance procedures will continue to contribute to our success. For details of our quality assurance procedures, please refer to the paragraph headed “Quality Assurances” in this section. As disposable hygiene product manufacturers demand a high degree of reliability, accuracy and performance from their equipment and are highly selective when choosing suppliers to meet their stringent technical specifications and quality standards, we believe that our commitment to quality, coupled with the customisation we offer to customers, will enable us to reinforce our current market position and create new business opportunities in the disposable hygiene product machinery industry in the PRC.

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Moreover, our products are customised and generally comprised over thousands of components and parts. To be able to source the most suitable components and parts to meet our customers' stringent requirements, we had a procurement team of 17 members, who are responsible for assessing the materials procured from our suppliers, a technical engineering team of 57 members and a technical design team of 36 members involved in the design and production planning of our products, as at the Latest Practicable Date. In addition, our manufacturing capabilities and expertise are reflected by our diversified customer base comprising customers located in the PRC and overseas.

We have strong and stable relationship with suppliers

We have established strong and stable relationship with our suppliers. As at the Latest Practicable Date, we had one to nine years of business relationships with our top five suppliers. During the Track Record Period, we procured raw materials from our top five suppliers in the PRC and the United States to produce our products. We believe that our strong and stable relationship with our key suppliers coupled with our manufacturing and design capabilities has allowed us to achieve efficient production for our products, which in turn, has enabled us to control our production costs and increase our gross profit margin so that we can offer competitive pricing among our competitors in the disposable hygiene product machinery industry in the PRC.

We have an experienced management team with high calibre and a proven track record

We have an experienced and dedicated management team led by Mr. Hong, Mr. Zhang, Mr. Su and Mr. He, who are our executive Directors and Controlling Shareholders. Moreover, our executive Directors have extensive experience in the disposable hygiene product machinery industry. Please refer to the section headed "Directors and Senior Management" in this prospectus for details of biographies of our executive Directors. We believe that our experienced management has provided us invaluable visions and knowledge to stay attuned to the competitive environment and effectively manage variability and challenges in the future.

BUSINESS STRATEGIES

We strive to maintain our Group's position as one of the top disposable hygiene product machinery providers in the PRC by strengthening our research and development capabilities, increasing the competitiveness of our products, increasing production capacity of our production bases and deepening our penetration in the PRC and overseas markets. We intend to implement the following strategies and expansion plans to capitalise on our strengths so as to enhance our business prospects and financial performance.

Continue to strengthen our research and development capabilities to keep abreast of the trend in the industry

We believe it is important to keep up with technology development in order to be competitive in the disposable hygiene product machinery market. As such, research and development will be integral for helping us to stay ahead of our competitors in the disposable hygiene product machinery industry. Through research and development, we are able to provide a higher level of customisation, such as product enhancement proposals for our customers and designs and ideas which address the needs of our customers. In addition, we strive to apply our knowledge derived from research and development efforts to optimise our production

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processes. With such knowledge and knowhow, we can enhance our production efficiency and increase our productivity. During the Track Record Period, we mainly carried out our research and development activities in our production bases. Our Directors believe that in order to stay competitive in the industry, it is crucial for us to develop market-competitive and versatile standard machine designs that have most of the specifications and requirements normally requested by our customers, which would allow us to customise standard machines quickly and in a cost-effective manner to suit individual customers' specifications and requirements.

During the Track Record Period, our research and development activities were performed in our production bases, which our Directors believe that the space of our production bases restrains our research and development capabilities. As at the Latest Practicable Date, two machines used for performing research and development purposes such as design, assembly, testing and adjustments and showcasing design and technologies to the Group's existing and potential customers (the "**Demo Machines**") were placed in the Jinjiang Production Base. Each of the Demo Machines took up an average area of approximately 600 sq.m. in the Jinjiang Production Base. We have experienced the postponement of our research and development activities to accommodate the increase in sales orders during the Track Record Period.

Hence, we intend to acquire a suitable site to set up a dedicated research and development centre (the "**R&D Centre**") in Jinjiang, Fujian Province, the PRC, and move all our current research and development activities to the R&D Centre, which would provide a dedicated area for us to develop new design of machines and also to support the development of products under our brand "Haina Machinery". Setting up the R&D Centre would allow us to have better control over our product development priorities and shorten the lead time needed for developing our customised products as we can conduct product production process and research and development activities concurrently. As our products are divided into various modules, with the dedicated R&D Centre, the technologies for various modules can be developed simultaneously, which will significantly shorten the time required for the research and development of new products and enhancement of the efficiency of our product development process.

Despite the historical space constraints which affected our research and development activities, we managed to cope by manoeuvring our production schedule and limited production spaces. The inefficiency and inconvenience could not be resolved in light of our lack of resources to expand our research and development facilities. Moreover, our production facilities are now being close to fully utilised, and it has become more difficult for us to delay production schedules to cater for our research and development activities. In addition, when we first commenced our research and development initiatives, our research and development activities were largely limited to versatile standard machine designs that are applicable to all of our current machine types. However, in order to (i) meet the market demand of customised machines; (ii) increase the research and development efficiency; and (iii) keep up with market competition, our Directors believe that a dedicated R&D Centre would allow us to produce more customised and sophisticated machines in a cost-effective manner, developing technologies dedicated to a specific standard machine type, to integrate the technologies that we plan to acquire (including high-end precision automation and automatic packaging function) in our production process, as well as to maintain a wide spectrum of machine type offerings for our current and potential new customers.

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As at the Latest Practicable Date, we had not definitively identified any land parcel for the purpose of building the new R&D Centre. However, it is anticipated that the target location of the new R&D Centre would be located within an industrial park near the Jinjiang Production Base so that it is easier for our staff to commute between the Jinjiang Production Base and the new R&D Centre. The parcel of land on which the new R&D Centre will be built is expected to have a site area up to 16,000 sq.m. with an estimated building area of approximately 11,200 sq.m. (being approximately 70% of the site area). The estimated building area of approximately 11,200 sq.m. is intended to house the following facilities:

- approximately 6,000 sq.m. will be used for placing our two existing Demo Machines and three new Demo Machines that are intended to be developed for improving the efficiency of our existing products (i.e. adult diaper machine and adult pull-up diaper machine) and a new product to be developed (i.e. underpad machine);
- approximately 3,500 sq.m. will be used as warehouse to store spare parts of our Demo Machines;
- approximately 1,000 sq.m. will be used for processing raw materials (such as cutting and welding) and assembling parts and components of our Demo Machines;
- approximately 500 sq.m. will be used for carrying out electrical engineering work for our Demo Machines; and
- approximately 200 sq.m. will be used as office for our research and development staff to handle administrative work.

Our Directors believe that it is necessary to set up the R&D Centre to accommodate the existing and new Demo Machines for the reasons below:

- (i) to provide a permanent home for the Demo Machines, which can reduce the need to disassemble and reassemble them from time to time to accommodate our production plans and needs, hence prolonging the useful life of the Demo Machines by two to four years by the estimate of our Directors; and
- (ii) to allow the Demo Machines sufficient space to expand in size so that we can develop new standard machine types by adding new technologies onto them in accordance with our expansion plan. In particular, new Demo Machines cannot be accommodated in the Jinjiang Production Base due to the lack of floor space. We may not be able to implement our plan to develop new standard machine types without occupying floor space for customer machines and in such case, the production capacity will also be negatively affected.

When we first commenced our research and development initiatives, our research and development activities were largely limited to technologies to develop market-competitive and versatile standard machine designs which were mostly focused on the development of certain key production components for the purpose of enhancing the production efficiency of our machines. Most of the specifications and requirements were normally requested by our customers and applicable to most or all of our current machine types, namely baby diapers, adult diapers and lady sanitary napkins machines. The availability of the two existing Demo Machines and also performing research and development activities on customer machines that were being built were able to marginally support this effort. However, due to the space and timing constraints, the research and development efficiency for such efforts were not high as they were not coordinated and the use of customer machines in research and development activities is constrained by our production schedules.

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In order to meet the market demand for customised machine and keep up with market competition, we will focus on our research and development activities and endeavour to developing more customised and sophisticated machines in a cost-effective and timely manner to suit customers' specifications and requirements. Specialised technologies dedicated to a specific standard machine type may also be developed in order to maintain a wide spectrum of the machine type offerings to the market under the "Haina Machinery" brand. Hence, going forward, we would require more space for research and development and specialised Demo Machines, which will be housed in the R&D Centre, for the development of different types of products with different functions in order to enhance production effectiveness and compete with our competitors.

In addition, as our Directors expect growing demand for high-end precision components for the production of our machines and automatic packaging function in our machines, we plan to acquire a company engaged in the development and manufacture of such equipment and high-end precision components. Please refer to the paragraph headed "Business Strategies – Increase the competitiveness of our products through acquisitions" in this section for details. The R&D Centre will benefit from the planned acquisitions as we will be able to integrate the acquired technologies into our products and enhance the quality as well as the competitiveness of our products. However, such integration will require dedicated floor space, which our current production bases would not be able to provide.

In addition, our Directors believe that having our own premises for our research and development activities (as compared to leasing) will be beneficial to us because: (i) it could minimise our exposure to fluctuations in rental expenses; (ii) if we lease premises instead of having our own premises, we may incur relocation costs when we are forced to vacate or fail to renew our leased premises; (iii) it could avoid increasing additional burden on us to pay rental expenses for research and development purposes in the long run; and (iv) our Directors believe that it can show that our Group is a reliable, stable and technical competent manufacturer in the industry and strengthen our asset base.

In conclusion, after setting up the R&D Centre, our Directors believe that we will be able to (i) conduct research and development in order to develop integrated technologies for the production of machines in accordance with our customers' requirements on a particular type of machines; (ii) focus on the research and development of the structured part of the machines in order to introduce machines with new functionalities and structures for the purpose of enhancing production effectiveness; and (iii) conduct research and development in a proactive manner rather than as per our customers' request, and thus enhance the competitiveness of our machines.

We intend to allocate approximately 23.2% of the net proceeds from the Share Offer (i.e. approximately HK\$26.2 million) for setting up the R&D Centre.

In addition to setting up the R&D Centre, we also plan to strengthen our research and development capabilities by conducting additional research and development activities through applying new technologies such as precision manufacturing and enhanced automation to improve the efficiency of our existing products. Moreover, according to the Industry Report, there is a substantial growth of disposable hygiene products for adults due to the increasing number of the elderly in the PRC and growing acceptance of disposable hygiene products. As such, we intend to design and develop new products that cater for the trend and demand of the market. We intend to allocate approximately 22.2% of the net proceeds from the Share Offer (i.e. approximately HK\$25.0 million) for carrying out such research and development activities.

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For further details of our use of proceeds from the Share Offer on our research and development capabilities, please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

Increase production capacity

Our production processes mainly involve the assembly of components and parts into our disposable hygiene product machines, and due to the size of our products, our production capacity is mainly constrained by the floor area of our production bases, namely Jinjiang Production Base and Hangzhou Production Base.

After the construction of the R&D Centre, the Demo Machines that currently took up an aggregate of approximately 1,200 sq.m. of space in the Jinjiang Production Base will be moved to the R&D Centre. This will provide enough space for one additional production line in the Jinjiang Production Base. Historically, production machines in Jinjiang Production Base occupied an average production area of approximately 650 sq.m. With the increase in the level of sophistication of our Group’s machines with additional functionalities and also the increasing adoption of high precision machinery and automatic packaging machines, the size of the production machineries and Demo Machines is expected to increase going forward. In view of our utilisation rate for production at our Jinjiang Production Base reached approximately 107.9% for the year ended 31 December 2019, our Directors believe that the additional space gained by the removal of the Demo Machines to the R&D Centre would not be sufficient to support our expansion and future production needs. For details, please refer to “Production Bases” in this section. Hence, we plan to expand the production capacity of our Jinjiang Production Base by leasing additional production premises with a floor area of approximately 10,000 sq.m. in Jinjiang, which is intended to house the following facilities:

- approximately 8,000 sq.m. will be used for production and ancillary production purposes, including but not limited to the five new production lines and space for equipment access; and
- approximately 2,000 sq.m. will be used for production support purposes, including but not limited to offices for our staff to handle administrative works and warehouses for storage.

In this regard, we intend to allocate approximately 16.2% of the net proceeds from the Share Offer (i.e. approximately HK\$18.3 million) to increase our production capacity. For further details of our expansion plans, please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

Increase the competitiveness of our products through acquisitions

During the Track Record Period, we mainly procured components and parts from our suppliers for our production process. The high-end precision components, which are intended to be embedded into our machines that we sell to our customers, play an important role in the operation of the machines. These high-end precision components allow the machines to operate precisely and to produce disposable hygiene products in accordance with our customers' specifications. During the Track Record Period, we mainly purchased these high-end precision components from third party suppliers who are engaged in the development of high-end precision automation equipment that have the ability to produce these high-end precision components. As our products are customised and comprised up to hundreds of components, we usually procure these high-end precision components from multiple suppliers to safeguard the production know-how of our products. As a result, the production time of our products could not be minimised because we have to obtain fee quotations and procure these high-end precision components from different suppliers. Moreover, if these high-end precision components are required to be modified, we will need to send them back to our suppliers for processing and the production time will be further increased. As such, we plan to develop in-house processing capability for complex components and parts that are used in our production. We believe that by developing such in-house processing capability, we will have better control of materials used in our production, so as to ensure a stable and reliable supply of these materials. Further, by placing the production of these components in-house, we will be able to better manage our production schedule as we would no longer be required to obtain fee quotations and procure each of them separately from different third party suppliers.

In addition, we plan to include automatic packaging function in our products. Automatic packaging equipment is a module embedded to disposable hygiene product machines to produce packaged disposable hygiene products that are ready for sale. While it is possible for our customers (which are disposable hygiene product manufacturers) to manually pack disposable hygiene products produced by our machines, manual labour is not an efficient use of automated manufacturing lines and may potentially impact the customers' overall production speed of disposable hygiene products. Currently, we source automatic packaging equipment from third party suppliers on behalf of the customers.

Our Directors believe that there will be an increasing demand for automatic packaging equipment in disposable hygiene product machines due to increasing labour cost in the manufacturing sector. According to the Industry Report, the average monthly salary of employed people in manufacturing industry experienced a steady growth from RMB3,437.1 in 2014 to RMB4,493.9 in 2018, representing a CAGR of approximately 6.9%. The average monthly salary of employed persons in manufacturing industry is expected to maintain the growing trend at a CAGR of approximately 6.7% from 2019 to 2023. Therefore, in view of the growing labour cost, more disposable hygiene product manufacturers tend to replace manual work in the production with automatic machines, especially for the low-skilled packaging process in order to achieve cost saving and enhance production efficiency.

Moreover, according to a customer survey we conducted, the majority of the customers surveyed would like us to integrate our own automatic packaging equipment into our products, which shows that there is an increasing demand for automatic packaging equipment to be integrated into our products in the market.

As such, we plan to provide a comprehensive solution to our customers through acquisition of a company engaging in the development, design and manufacture of automatic packaging equipment. We consider that such integration will provide us with more competitive advantages and more flexibility in production.

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Therefore, we intend to acquire (i) a company engaging in the high-end precision automation equipment development with related experience, skills and technology (such as rotating cross-cutting technology) in the production of disposable hygiene product machines; and (ii) a company engaging in the development, design and manufacture of automatic packaging equipment with related experience, skills and technology in the production of disposable hygiene product machines. Our Directors consider that making acquisitions of private companies is more suitable to our needs compared to developing precision automation and automatic packaging equipment internally for the following reasons:

(i) *It may take a very long time to develop precision automation and automatic packaging equipment*

According to the Industry Report, automatic packaging equipment is different from traditional disposable hygiene product machinery in respect of its functions, technologies used and operational design. Further, the development of precision automation machinery involves more advanced technologies in respect of intelligent and automated production as compared to traditional disposable hygiene product machinery. Therefore, for a manufacturer primarily engaging in the development of traditional disposable hygiene product machinery such as us, it may take a very long time to develop the aforesaid precision automation and automatic packaging equipment.

For instance, according to the Industry Report, the other leading disposable hygiene machinery manufacturers in the PRC took years to build up their in-house capability for the development of precision automation and automatic packaging equipment. The aforesaid companies have established presence in the industry for more than 30 years and extensive experience in research and development and the development of precision automation and automatic packaging equipment. The lead time for development is even longer for machinery with more advanced features, performance and functions.

In addition, given (a) the lack of experienced and professional talents with specific knowledge in research and development of precision automation and automatic packaging equipment, (b) the market trend for application of automated production and packaging equipment, and (c) the growing demand for disposable hygiene product machinery, it is difficult to externally hire staff with experience in developing precision automation and automatic packaging equipment for disposable hygiene product machinery.

(ii) *We are uncertain if the development of precision automation and automatic packaging equipment would be successful*

The application of precision automation and automatic packaging equipment requires a lower skill level than designing and developing precision automation or automatic packaging equipment. Although we used precision automation and automatic packaging equipment during the production of our products, our staff has very limited knowledge and experience in their design, production, mechanics or underlying technologies and possesses mainly the skill to integrate the equipment into our products. Furthermore, should our customers report glitches in the precision automation or automatic packaging equipment in our product during the quality warranty period, our suppliers of such precision automation or automatic packaging equipment will be responsible for the repairs.

Furthermore, none of our research and development activities conducted during the Track Record Period was in relation to the development of precision automation and automatic packaging equipment.

BUSINESS

Also, it is difficult for us to externally hire staff with experience in aid of our bid to develop precision automation and automatic packaging equipment. Without any existing staff that possess specialised expertise to undertake the development of precision automation and automatic packaging equipment, our Directors believe that we may not have the ability to develop such equipment successfully.

(iii) We are of the view that the benefit of making such acquisitions would outweigh any premium that may arise from such acquisitions

Even if we manage to overcome the lack of internal expertise and experience on developing precision automation and automatic packaging equipment, there is a difficulty in hiring staff externally with experience in developing precision automation and automatic packaging equipment, and it could take several years or more for us to then internally develop precision automation and automatic packaging equipment. Hence, it is difficult to have a realistic estimate on the monetary cost for us to develop precision automation and automatic packaging equipment.

In light of the above and the reasons set forth below, our Directors are of the view that it would be in the best interest for us to acquire companies engaging in precision automation and automatic packaging equipment development:

- a) the uncertainties in time and cost of development could unduly prolong our reliance on third party suppliers for high-end precision components, and any shortage or delay in the development of such equipment in-house, of which success cannot be ascertained, could cause detrimental effect on our production schedule and our relationship with customers;
- b) acquiring private companies with established experience, skills and technologies in the production of such equipment could ensure success for us in developing such capabilities in-house;
- c) acquiring the capabilities to produce precision automation and automatic packaging equipment as early as possible allows us to enhance its competitiveness and satisfy its customers' demand in a timely manner, as a survey conducted by us revealed that the majority of our customers prefer us to integrate its precision automation and automatic packaging equipment in its production process; and
- d) our product development process would achieve synergy from the integration of the high-end precision automation component manufacturer and automated packaging machine manufacturer as we will be able to accommodate the research and development efforts of the acquired manufacturers of high-end precision automation component and automated packaging machine, which will in turn improve the compatibility and quality of our products as a whole for meeting our customers' expectation.

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When evaluating potential acquisition and investment opportunities, we will strategically select appropriate acquisition target(s) by the selection criteria as set out in the section headed “Future Plans and Use of Proceeds — Use of Proceeds”. We intend to allocate approximately 35.1% of the net proceeds from the Share Offer (i.e. approximately HK\$39.6 million) for such acquisitions. As the net proceeds from the Share Offer might not be sufficient pay for such acquisitions in full, we also intend to apply our internal resources to finance any shortfall. For details of our use of the proceeds from the Share Offer on increasing the competitiveness of our products through acquisitions, please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

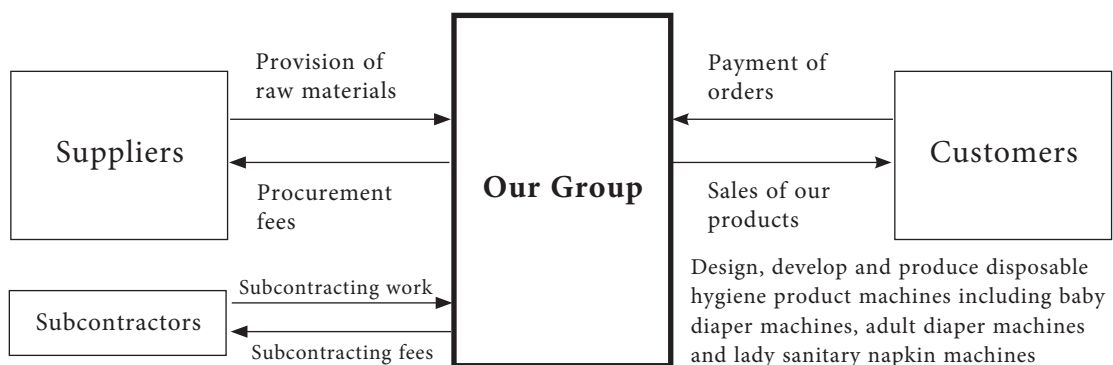
Deepen our penetration in the disposable hygiene product machinery industry in the PRC and overseas markets

The PRC is our home market and forms the foundation for further growing our business and the springboard from which we expand our operations internationally. According to the Industry Report, in view of the temporarily decline of market demand for disposable hygiene product machinery due to the shift of capacity by downstream disposable hygiene product towards production of disposable medical face mask in the midst of outbreak of COVID-19, the growth of sales value of disposable hygiene product machinery is expected to slowdown in 2020. However, with the continuous expansion of downstream market and regular upgrade and replacement of machinery, the demand for disposable hygiene product machinery in the PRC and overseas markets, including Southeast Asia, India, Pakistan and South Africa, are set to recover from 2021 onward and the sales value of disposable hygiene product machinery in the PRC is estimated to increase at a rate of approximately 6.5% per year during 2020 to 2024, and to reach approximately RMB12.0 billion in 2024. We will continue to focus on solidifying our leading market position by deepening our penetration in the PRC’s growing disposable hygiene product machinery industry.

In addition, we intend to leverage on our established corporate brand name and our research and development capabilities to increase resources to attract disposable hygiene product manufacturers in the overseas market, such as Southeast Asia and India where the economy, population and living standard have been growing continuously. For the year ended 31 December 2019, we sold our products to customers located in the PRC, Hong Kong and 16 overseas countries. In this regard, we intend to increase our sales and marketing resources to promote our products by visiting offices and factories of potential customers we meet in trade exhibitions, to participate in more trade exhibitions and to devote additional product development and design resources through our research and development efforts to offer a wider range of designs tailored for preferences of different overseas markets.

OUR BUSINESS MODEL

The diagram below illustrates our existing business model:



BUSINESS

OUR PRODUCTS

During the Track Record Period, our products mainly consisted of machines used for the production of baby diapers, adult diapers and lady sanitary napkins. We also designed and supplied components and parts that are used in our products, which mainly included customised U-type baby diaper system unit, circular base and flat belt.

The following table sets out our revenue by product category during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Baby diaper machines	104,866	92.8	246,426	94.4	270,641	80.3	226,320	59.8
Adult diaper machines	5,453	4.8	11,242	4.3	31,072	9.2	112,207	29.7
Lady sanitary napkin machines	1,966	1.8	701	0.3	24,729	7.3	22,541	6.0
Components and parts (Note)	695	0.6	2,616	1.0	10,798	3.2	16,921	4.5
Total	112,980	100.0	260,985	100.0	337,240	100.0	377,989	100.0

Note: Components and parts mainly included customised U-type baby diaper system unit, circular base and transposition unit, etc.

The following table sets out the sales volume, average selling price and price range of our major products by product category during the Track Record Period:

	For the year ended 31 December											
	2016			2017			2018			2019		
	Sales volume	Average price/unit	Price range	Sales volume	Average price/unit	Price range	Sales volume	Average price/unit	Price range	Sales volume	Average price/unit	Price range
	(Note (i))	(Note (ii))		(Note (i))	(Note (ii))		(Note (i))	(Note (ii))		(Note (i))	(Note (ii))	
	(units)	(RMB'000)	(RMB'000)	(units)	(RMB'000)	(RMB'000)	(units)	(RMB'000)	(RMB'000)	(units)	(RMB'000)	(RMB'000)
Baby diaper machines	24	4,369	769-7,521	39	6,319	2,521-16,623	49	5,523	1,017-13,460	37	6,117	1,643-16,907
Adult diaper machines	1	5,453	5,453	2	5,621	3,077-8,165	4	7,768	6,422-10,256	14	8,015	4,224-11,418
Lady sanitary napkin machines	1	1,966	1,966	1	701	701	8	3,091	1,121-5,491	6	3,757	2,372-4,874
Total/Average:	26	N/A	N/A	42	N/A	N/A	61	N/A	N/A	57	N/A	N/A

Notes:

- (i) As the volume of our major products sold excluded the volume of components and parts, and some customers purchased more than one unit of machine, the sales volumes for a particular year may not be equal to the number of our customers for that year. For example, our Group had a total of 70 customers for the year ended 31 December 2018, 25 of which purchased one unit of machine, 16 of which purchased more than one unit of machines and 29 of which only purchased components and parts.
- (ii) The average selling price set out in the above table have been calculated on the following basis: the revenue generated by each type of machines in the relevant year during the Track Record Period divided by the sales volume of the relevant type of machines for the respective corresponding year. Each product category as set out in the table above includes a variety of products with different specifications within the product range which were sold at different prices and therefore the average selling prices for each year may vary. As our pricing policy is based on a cost-plus pricing model, the selling price of each machine highly depends on the specification and requirements of the customers. For example, if a customer wants to integrate a specific melting machine into our machine, we will source such melting machine on its behalf, and the amount under such sales contract would be increased by the cost of such melting machine.

BUSINESS

Baby diaper machines

We offer baby diaper machines in various models, such as U-shape baby diaper machine and U-shape baby pull-ups machine. Each model features different specifications, including design maximum speed, stable work speed, machine size and machine weight. For example, our U-shape diaper machine typically has a length of approximately 22m, width of approximately 2m and height of approximately 3m. During the Track Record Period, our baby diaper machines were capable of producing up to 550 pieces per minute.

Set forth below are sample pictures of baby diaper machines we produced:



baby diaper machine



baby pull-ups machine

Adult diaper machines

We offer adult diaper machines mainly in two models, namely adult diaper machine and adult and menstrual pant machine. Each model features different specifications, including design maximum speed, stable work speed, machine size and machine weight. For example, our adult diaper machine typically has a length of approximately 30.0m, width of approximately 10.0m and height of approximately 3.5m. During the Track Record Period, our adult diaper machines were capable of producing up to 300 pieces per minute.

Set forth below are sample pictures of adult diaper machines we produced:



Adult diaper machine



Adult and menstrual pant machine

BUSINESS

Lady sanitary napkin machines

We offer lady sanitary napkin machines mainly in two models, namely feminine napkin machine and panty shield machine. Each model features different specifications, including design maximum speed, stable work speed, machine size and machine weight. For example, our feminine napkin machines typically has a length of approximately 22.0m, width of approximately 2.0m and height of approximately 2.5m. During the Track Record Period, our lady sanitary napkin machines were capable of producing up to 850 pieces per minute.

Set forth below is a sample picture of a feminine napkin machine we produced:

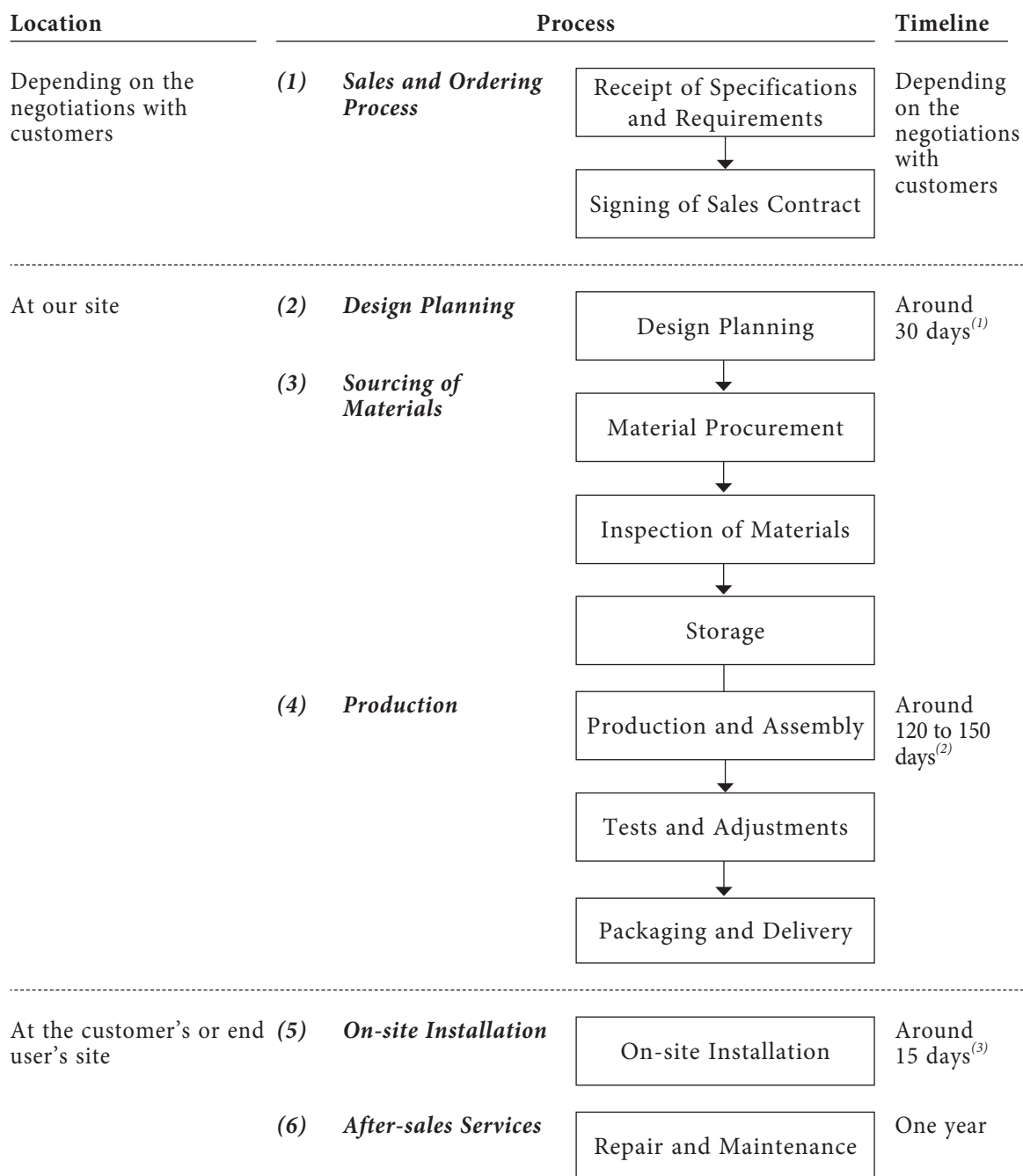


Feminine napkin machine

BUSINESS

OUR BUSINESS PROCESS

The key stages in our business process are set out in the diagram as follows:



Notes:

- (1) The actual time for design of products may vary depending on the design time of products.
- (2) The actual production time may vary depending on several factors such as product specifications, complexity of the products and types, quality and availability of raw materials. The average production time for the year ended 31 December 2019 was around 150 days, which was longer mainly due to (i) the increase in the level of sophistication of our Group's machines with additional functionalities and also the increasing adoption of high precision machinery and automatic packaging machines; and (ii) the increase in the request of change in specifications of the machines during the production process by the customers, which lengthens the production process as changes needed time to plan, implement and test.
- (3) The actual time for installation may vary depending on the installation support available at the customer's or end user's site.

(1) Sales and Ordering Process

If a potential customer is interested in our products, we will review the specifications, payment terms and delivery requirements to ensure that the specifications and delivery requirements set by the potential customer can be satisfied. Upon satisfaction of such specifications and delivery requirements, we will enter into a sales contract with the customer. The sales contract typically sets out details of machine, equipment and/or types of materials ordered by the customer, delivery requirement, settlement method, deposit payment and other standard terms.

(2) Design Planning

A project team, comprising a project manager, sales representatives, engineers and members from the quality assurance, production and materials procurement teams, will be formed to be responsible for the sales contract. Meetings will be held to review the general progress of production and schedules of critical materials.

In particular, orders under the sales contract will be planned and scheduled in our enterprise resources planning system (the “**ERP System**”). Based on the sales contract, our engineers will prepare technical and assembly drawings and create a bill of materials, which is a schedule of components and parts required, and our staff will input the information in the ERP System. The ERP System monitors and reports on the progress of our production orders in accordance with our schedules, which allows us to ensure the allocation of resources for the purchase orders.

(3) Sourcing of Materials

Our material procurement team manages and undertakes material procurement for the entire project of the sales contract. If our warehouses do not have the required materials for production, our material procurement team will order from our suppliers to ensure that there are sufficient materials to meet the production needs.

After the materials are delivered to us, our quality assurance team, which is responsible for product quality check and statistical analysis, will inspect the materials to ensure that they are up to standard.

After our quality assurance team inspects the materials procured by our material procurement team, the materials will be stored at our warehouse for production use.

(4) Production

We divide our production process into a few sub-processing stages, and each stage is provided with comprehensive work instructions for implementation by our production staff, who are specifically trained to undertake the work required for the relevant sub-processing stages.

After completing our production and assembly process, we will connect the machine or equipment to electricity supply. The completed equipment will undergo a series of tests and adjustments, such as functional tests and mechanical inspections conducted by our quality assurance team to ensure that the final products will be able to meet the agreed specifications as set out in the sales contracts. We typically invite the customer to participate in the test and adjustment process at our production bases to ensure that the agreed specifications as set out in the sales contracts are met.

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After completing the test and adjustments, we will issue a delivery notice to the customer for confirmation. Upon obtaining consent from the customer, our products will be disassembled into components for shipment and will usually be packaged by us and delivered to the customer or end user by a third party logistics company. For details, please refer to the paragraph headed “Inventory, Warehousing and Logistics — Logistics” in this section.

(5) On-site Installation

After delivery of our products to the customer’s or end user’s factory, we will attend the factory to assemble and install the disassembled products. After installation of our products, we will undertake the test and adjustment process again to ensure that the products are in order.

(6) After-sales Services

The sales contract of our products normally stipulates a quality warranty period of one year after our products are accepted by our customers or end users. During the warranty period, our sales team is responsible for liaising with our customers and handling complaints, and we provide repair and maintenance services free-of-charge but we will charge the customer the costs incurred for the replacement of worn-out components or parts. Products sold to customers cannot be returned.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any product recalls or return nor any major customer’s or end user’s complaints which may have a material adverse impact on our business.

PRODUCTION BASES

The core of our production is mainly the assembly of components and parts into our disposable hygiene product machines based on specifications set by our customers. We have two production bases in the PRC, namely, Jinjiang Production Base and Hangzhou Production Base. Due to the size of our products, our production capacity is mainly constrained by the floor area of our production bases that we have available for the assembly of components and parts for our products. As at the Latest Practicable Date, we operated 16 and six production lines in our Jinjiang Production Base and Hangzhou Production Base, respectively, to support our production. Details of our production bases are set out as follows:

Jinjiang Production Base

Our Jinjiang Production Base had an aggregate floor area of approximately 26,000 sq.m. with 106 production staff as at the Latest Practicable Date.

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The following table sets out the total number of production lines, annual production capacity, actual annual production volume and estimated average capacity utilisation rate of our disposable hygiene product machines in our Jinjiang Production Base during the Track Record Period:

	<i>Notes</i>	For the year ended 31 December			
		2016	2017	2018	2019
Number of production lines	<i>(1)</i>	13	16	17	16
Production capacity	<i>(2)</i>	39	48	51	38
Actual production volume	<i>(3)</i>	26	42	55	41
Estimated average capacity utilisation rate	<i>(4)</i>	66.7%	87.5%	107.8% ⁽⁵⁾	107.9%

Notes:

1. The number of production lines is estimated on a pro-rata basis based on the floor plan in our Jinjiang Production Base and the production area required for each of our production lines during the Track Record Period, as our production lines increased because we entered into new leases which increased our production areas in 2016 and 2018.
2. The production capacity during the years ended 31 December 2016, 2017, 2018 and 2019 are calculated by the number of production lines multiplying the number of machines in a year that each production line is expected to produce, which is in turn based on the actual average production time of a machine during the corresponding year (approximately 120 days in average for the three years ended 31 December 2018 and approximately 150 days in average for the year ended 31 December 2019). The average production time was longer during the year ended 31 December 2019 mainly due to (i) the increase in the level of sophistication of our Group's machines with additional functionalities and also the increasing adoption of high precision machinery and automatic packaging machines; and (ii) the increase in the request of change in specifications of the machines during the production process by the customers, which lengthens the production process as changes needed time to plan, implement and test.
3. The actual production volume is calculated based on the actual number of machines accepted by our customers during the relevant year/period.
4. The estimated average capacity utilisation rate is calculated by dividing the actual annual production volume by the annual production capacity for the relevant year/period.
5. The estimated average capacity utilisation rate was over 100% because several of our products being produced in 2017 were accepted by our customers in the beginning of 2018, resulting in the increase of actual production volume for the year ended 31 December 2018.

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Hangzhou Production Base

Our Hangzhou Production Base is operated by Hangzhou Haina, which was acquired by us in July 2018. Our Hangzhou Production Base had an aggregate floor area of approximately 9,400 sq.m. with 48 production staff as at the Latest Practicable Date.

The following table sets out the total number of production lines, production capacity, actual production volume and estimated average capacity utilisation rate of our disposable hygiene product machines in our Hangzhou Production Base from the date of our acquisition of Hangzhou Haina (i.e. 12 July 2018) and up to 31 December 2019:

	<i>Notes</i>	For the period from 12 July 2018 to 31 December 2018	For the year ended 31 December 2019
Number of production lines	(1)	6	6
Production capacity	(2)	9	14
Actual production volume	(3)	6	15
Estimated average capacity utilisation rate	(4)	66.7%	107.1%

Notes:

1. The number of production lines is estimated on a pro-rata basis based on the floor plan in our Hangzhou Production Base and the production area required for each of our production lines.
2. The production capacity for the period from 12 July 2018 to 31 December 2018 and the year ended 31 December 2019 is calculated by the number of production lines multiplying the number of machines in a year that each production line is expected to produce, which is in turn based on the actual average production time of a machine during the corresponding period/year (approximately 173 days in average for the period from 12 July 2018 to 31 December 2018 since our acquisition of Hangzhou Haina and approximately 150 days in average for the year ended 31 December 2019). The average production time was longer during the year ended 31 December 2019 mainly due to (i) the increase in the level of sophistication of our Group's machines with additional functionalities and also the increasing adoption of high precision machinery and automatic packaging machines; and (ii) the increase in the request of change in specifications of the machines during the production process by the customers, which lengthens the production process as changes needed time to plan, implement and test.
3. The actual production volume for the period is calculated based on the actual number of machines accepted by our customers during the period.
4. The estimated average capacity utilisation rate is calculated by dividing the actual production volume for the period by the annual production capacity for the period.

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Revenue contribution of Jinjiang Production Base and Hangzhou Production Base

The following table sets out the revenue contribution of our Jinjiang Production Base and Hangzhou Production Base by product types during the Track Record Period.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Jinjiang Production Base								
Baby diaper machines	104,866	92.8%	246,426	94.4%	265,124	78.7%	145,070	38.3%
Adult diaper machines	5,453	4.8%	11,242	4.3%	31,072	9.2%	88,977	23.6%
Lady sanitary napkin machines	1,966	1.8%	701	0.3%	6,957	2.0%	9,581	2.6%
Components and parts (Note)	695	0.6%	2,616	1.0%	10,414	3.1%	8,579	2.3%
Sub-total	<u>112,980</u>	<u>100.0%</u>	<u>260,985</u>	<u>100.0%</u>	<u>313,567</u>	<u>93.0%</u>	<u>252,207</u>	<u>66.8%</u>
Hangzhou Production Base								
Baby diaper machines	—	—	—	—	5,517	1.6%	81,250	21.5%
Adult diaper machines	—	—	—	—	—	—	23,230	6.1%
Lady sanitary napkin machines	—	—	—	—	17,772	5.3%	12,960	3.4%
Components and parts (Note)	—	—	—	—	384	0.1%	8,342	2.2%
Sub-total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,673</u>	<u>7.0%</u>	<u>125,782</u>	<u>33.2%</u>
Total	<u><u>112,980</u></u>	<u><u>100.0%</u></u>	<u><u>260,985</u></u>	<u><u>100.0%</u></u>	<u><u>337,240</u></u>	<u><u>100.0%</u></u>	<u><u>377,989</u></u>	<u><u>100.0%</u></u>

Note: Components and parts mainly included customised U-type baby diaper system unit, circular base and transposition unit, etc.

Production Allocations between Jinjiang Production Base and Hangzhou Production Base

During the Track Record Period, we produced our disposable hygiene product machines at the Jinjiang Production Base, which is operated by Jinjiang Haina, and the Hangzhou Production Base, which is operated by Hangzhou Haina. Jinjiang Haina is a wholly-owned subsidiary of our Group. We acquired 51% equity interests of Hangzhou Haina in July 2018 with an intention to expand the our market in Eastern China, Northern China and Northeastern China, and the remaining 49% equity interests of Hangzhou Haina were held by Mr. Xu Yuanquan and Mr. Xu Shuwei (the “**Hangzhou Minority Shareholders**”). Please refer to the section headed “History, Development and Reorganisation — Hangzhou Haina” in the prospectus. From the acquisition date of Hangzhou Haina, (i) revenue generated from Hangzhou Haina accounted for approximately

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7.0% and 33.2% of our total revenue for the years ended 31 December 2018 and 2019, respectively; and (ii) the profit attributable to the Hangzhou Minority Shareholders was approximately RMB0.59 million and RMB4.7 million, representing approximately 1.5% and 15.0% of our total profit, for the years ended 31 December 2018 and 2019, respectively. Both Jinjiang Haina and Hangzhou Haina manufacture disposable hygiene product machines, including baby diapers, adult diapers and lady sanitary napkins. In light of the potential conflict and competition between Jinjiang Haina and Hangzhou Haina, and in order to protect the interests of our Shareholders as a whole after Listing, we will implement the following measures:

1. Existing customers

Any orders placed by an existing customer of Hangzhou Haina will be taken up by Hangzhou Haina unless Hangzhou Haina has no available capacity, and in that case, such order must be first offered to Jinjiang Haina. Any orders placed by an existing customer of Jinjiang Haina will be taken up by Jinjiang Haina unless Jinjiang Haina has no available capacity.

2. New customers

- (a) For new domestic customers, the sales and marketing coverage of Jinjiang Haina and Hangzhou Haina are delineated by geographical coverage where (i) Hangzhou Haina will sell and market disposable hygiene product machines in Eastern China, Northern China and Northeastern China and any order placed by a new customer located in these areas will be taken up by Hangzhou Haina; and (ii) the remaining areas in the PRC will be covered by Jinjiang Haina and any order placed by the new customer located in these areas will be taken up by Jinjiang Haina. If a new customer who is located outside the geographical coverage of Hangzhou Haina places an order with Hangzhou Haina, it must first offer such opportunity to Jinjiang Haina. Hangzhou Haina can only take up such order if Jinjiang Production Base has no available capacity or such customer designates Hangzhou Haina to take up the order; and
- (b) For new international customers, any orders placed by a new international customer need to be first offered to Jinjiang Haina unless Jinjiang Haina has no available capacity or such customer designates Hangzhou Haina to take up the order.

3. Review of the Measures

Our independent non-executive Directors will, based on the information available to them, review on annual basis (i) the compliance of the above measures; and (ii) all the decisions taken in relation to the above measures and to disclose the annual review in our annual report.

Although we have majority ownership over both Jinjiang Haina and Hangzhou Haina, and by extension the Jinjiang Production Base and the Hangzhou Production Base, respectively, each of the production bases is managed separately by their respective management teams. The geographical delineation stated above is the result of negotiation and agreement between Jinjiang Haina and Hangzhou Haina (in consideration of the equity interests held by the Hangzhou Minority Shareholders) in order to minimise potential conflict and competition between them. Therefore, the geographical delineation cannot be changed flexibly in light of our changing business needs.

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The Hangzhou Minority Shareholders will enter into a deed of non-competition in favour of the Company upon Listing in which, among others, any opportunities in relation to disposable hygiene product machines will be first offered to Jinjiang Haina.

Our Directors are of the view that the above measures will be adequate and effective to manage the potential conflict and competition between Jinjiang Haina and Hangzhou Haina.

Major machineries for production

We utilise a number of machineries for our production process. The table below sets out the details of our major machineries used in our production bases as at the Latest Practicable Date:

Type	Number of machineries	Year of introduction	Approximately average remaining operational useful life (years) (Note)	Usage
CNC machines	23	2013 – 2017	6.6	primarily used for assisting in our production process, such as cutting pattern and shaping of steel
Overhead crane machines	27	2011 – 2018	2.3	used for lifting heavy materials

Note: The remaining operational useful life of our major machineries is calculated with reference to the life expectancy of the respective machineries. For the depreciation method of these machineries, please refer to Note 3 of the Accountants' Report set out in Appendix I to this prospectus.

Our machineries used in our production process are owned by our Group. We do not have a pre-determined or regular replacement policy for our machineries, and we only replace our aged machineries when necessary. Our Directors considered that our existing machineries were in good working condition as at the Latest Practicable Date.

During the Track Record Period, we performed checks on our machineries annually because we believe that their conditions are important to ensure that our production process can be carried out smoothly and efficiently and for the safety of our production employees when using the machineries. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant interruption to our business operations nor any prolonged suspension of our production process arising from any failure or breakdown of machineries which significantly affected our Group's operations and financial position.

CUSTOMERS

Our customers primarily include disposable hygiene product manufacturers. For each of the four years ended 31 December 2019, our Group had a total of 23, 40, 70 and 92 customers which contributed to our revenue, respectively.

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Sales and marketing

Our sales and marketing team, comprising 17 members with 10 members in Jinjiang Haina and seven members in Hangzhou Haina as at the Latest Practicable Date, is primarily responsible for conducting marketing activities. Most of our sales and marketing team members are mainly responsible for communicating and dealing with our customers. During the year ended 31 December 2019, each member of our sales and marketing team was responsible for handling around three to four machine orders that have been placed by our customers on average.

Our sales contracts are sourced primarily through advertisements, participating in trade exhibitions and trade fairs, referrals and business network established by our executive Directors and sales and marketing team members. In 2016, we changed our strategy by attending more trade exhibitions and trade fairs with a view to gaining exposure for our brand and product offerings and attract new customers. During the Track Record Period, we attended more than 10 trade exhibitions and trade fairs, including the China International Disposable Paper Expo, the Asia Nonwovens Exhibition and Conference and the International Technical Textiles & Nonwovens Trade Fair. In addition, our sales and marketing team also visited potential customers we met in trade exhibitions or through referrals from our existing customers and suppliers and introduced our products to these potential customers to solicit new sales contracts.

The following table sets forth the details of new customers (meaning those customers which did not have any sales with the Group prior to the Track Record Period) that entered into sales contracts with our Group to purchase our machines during the Track Record Period:

PRC customers

Year of sales contract	Number of new customers	Sourcing method(s)
2016	17	Participation in trade fair, referral by existing customers, business contacts in the same industry and business network of Mr. He and Mr. Hong
2017	15	Participation in trade fairs, referral by existing customers and business network of Mr. He, and Mr. Xu Shuwei and Mr. Xu Yuanquan (minority shareholders of Hangzhou Haina)
2018	17	Participation in trade fairs, referral by existing customers and business network of Mr. He and Mr. Xu Yuanquan (a minority shareholder of Hangzhou Haina)
2019	30	Participation in trade fairs, referral by existing suppliers, business network of our sales and marketing team member (excluding our executive Directors), and business network of Mr. He and Mr. Xu Shuwei
Total number of new customers	79	

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Overseas customers

Date of sales contract	Location of the new customers	Background of the new customers	Sourcing method(s)
7 June 2016	Bangladesh	a private company incorporated in Bangladesh principally engaged in the manufacturing of diaper and sanitary products	Referral by an agent
15 August 2016	Russia	Customer A – a private company incorporated in Russia, the holding company of which is engaged in the trading of personal hygiene product and listed on the Stock Exchange with revenue of RMB20,514 million for the year ended 31 December 2018	Referral by a business contact in the same industry
11 January 2017	Nigeria	a private company incorporated in Nigeria principally engaged in the manufacturing of baby diapers	Participation in a trade fair
12 January 2017	Cambodia and Vietnam	Customer B – two private companies belonging to the same group principally engaged in the manufacturing of baby diapers with subsidiaries located in Cambodia and Vietnam, the holding company of which is engaged in the manufacturing of baby diapers in Vietnam and listed on the Taiwan Stock Exchange Corporation with revenue of USD30.7 million for the year ended 31 December 2016	Business network of Mr. He
8 February 2017	Indonesia	a private company incorporated in Indonesia principally engaged in the manufacturing of baby diapers	Participation in a trade fair
11 February 2017	Bangladesh	a private company incorporated in Bangladesh principally engaged in the manufacturing of diaper products	Referral by an existing customer
4 April 2017	Yemen	a private company incorporated in Yemen principally engaged in the manufacturing of baby hygiene products	Business network of our sales and marketing team member (excluding our executive Directors)
17 April 2017	Uzbekistan	SOF Gigienik LLC/Dielux Business LLC – two private companies established in Uzbekistan and held by the same shareholder and principally engaged in the manufacturing of baby diapers	Referral by a business contact in the same industry

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Date of sales contract	Location of the new customers	Background of the new customers	Sourcing method(s)
20 April 2017	Indonesia	a private company incorporated in Indonesia principally engaged in the manufacturing of baby diapers	Business network of our sales and marketing team member (excluding our executive Directors)
1 September 2017	Pakistan	a private company incorporated in Pakistan principally engaged in the manufacturing, trading, import and export of hygiene products and its allied products	Referral by an existing customer
22 September 2017	Angola	a private company incorporated in Angola principally engaged in the manufacturing of baby diapers and sanitary napkins	Referral by a business contact in the same industry
2 February 2018	Hong Kong	a private company incorporated in Hong Kong principally engaged in the trading and export of products which include disposable hygiene product machines	Business network of our sales and marketing team member (excluding our executive Directors)
28 March 2018	Vietnam	Customer C – a private company incorporated in Vietnam principally engaged in the manufacturing of disposable hygiene products	Business network of our sales and marketing team member (excluding our executive Directors)
2 April 2018	Indonesia	PT Sinergi Adimitra Jaya – a private company incorporated in Indonesia principally engaged in the manufacturing of baby and adult diapers	Participation in a trade fair
1 May 2018	Pakistan	a private company incorporated in Pakistan principally engaged in the manufacturing of baby diapers	Participation in a trade fair
18 May 2018	United Arab Emirates	a private company incorporated in the United Arab Emirates engaged in the import, export and wholesale of sanitary equipment	Referred by a business contact in the same industry
8 September 2018	India	a limited liability partnership established in India principally engaged in the manufacture, trade, deal, export and import in pharmaceutical products, instruments and appliances	Participation in a trade fair
22 October 2018	Indonesia	Customer D – a private company incorporated in Indonesia principally engaged in the manufacturing of disposable hygiene products	Business network of our sales and marketing team member (excluding our executive Directors)

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Date of sales contract	Location of the new customers	Background of the new customers	Sourcing method(s)
10 January 2019	Nigeria	a private company incorporated in Nigeria principally engaged in the manufacturing of sanitary napkins	Business network of our sales and marketing team member (excluding our executive Directors)
22 February 2019	Pakistan	a private company incorporated in Pakistan principally engaged in the manufacturing of household baby products	Referred by an existing customer
23 February 2019	Pakistan	a proprietorship firm incorporated in Pakistan principally engaged in the manufacturing of other textiles	Participation in a trade fair
28 February 2019	South Korea	a private company incorporated in South Korea, the business of which includes but not limited to wholesale and retail of daily supplies and the manufacturing of daily supplies	Existing customer of Hangzhou Haina
6 May 2019	Pakistan	a proprietorship firm incorporated in Pakistan principally engaged in the manufacturing of other textiles	Participation in a trade fair
30 May 2019	Pakistan	a private company incorporated in Pakistan principally engaged in the manufacturing of other textiles	Through our website
26 June 2019	Indonesia	a private company incorporated in Indonesia principally engaged in the manufacturing of paper, paper products, paper boards and tissue paper	Business network of our sales and marketing team member (excluding our executive Directors)
12 July 2019	Uzbekistan	a joint venture, limited liability company incorporated in Uzbekistan principally engaged in shoes manufacturing	Through our website
18 December 2019	South Korea	a private company incorporated in South Korea principally engaged in import, export, manufacture and sale of sanitary items for females, infants and adults	Participation in a trade fair
Total number of new customers	27		

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During the Track Record Period, we had business relationship with an agent, which is a company established in the PRC engaged in business activities including but not limited to (i) supply chain management; (ii) the import and export of goods and technologies; and (iii) the trading of disposable hygiene products, machines and raw materials. The agent, which is an independent third party, learnt that we would sell disposable hygiene products to overseas countries and approached us for cooperation. As we agreed to pay the agent a commission fee for referring customers, the agent introduced a customer from Bangladesh to us, whom subsequently purchased from us, and we paid the agent a commission fee of approximately RMB2.3 million for such referral. For details of the commission fee, please refer to the section headed “Financial Information — Comparison of our results for 2016 and 2017 — selling and distribution costs”.

The Sole Sponsor performed the following independent due diligence on the trade receivables due from our customers that were settled by the customers as well as the agent, certain affiliated entities of the relevant customers and end customers:

- 1) conducted site visits of the customers which settled the trade receivables through their affiliated entities to ensure that these customers were manufacturing disposable hygiene products with the machines sold by the Group;
- 2) obtained and reviewed the terms of the contracts between the Group and the import and export agents to ensure that the import and export agents have legal obligation to settle the trade receivables;
- 3) obtained and reviewed supporting documents to understand the reasons behind the settlement of the trade receivables by affiliated entities of the relevant customers; and
- 4) conducted desktop searches and anti-money laundering searches on all of the parties who made payment on behalf of the customers during the Track Record Period.

Base on the due diligence work performed above, the Sole Sponsor was satisfied with the genuineness of the transactions involved.

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Geographical Coverage

The table below sets out our revenue based on location of customers during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
The PRC	106,943	94.7	201,367	77.2	240,320	71.3	217,599	57.5
Indonesia	—	—	9,054	3.5	24,350	7.2	44,370	11.7
The Philippines	6,017	5.2	8,866	3.4	7,219	2.1	28,803	7.6
Vietnam	—	—	—	—	16,235	4.8	27,340	7.1
Pakistan	—	—	—	—	4,137	1.1	14,520	3.8
India	—	—	—	—	—	—	9,761	2.5
Hong Kong	—	—	—	—	—	—	8,407	2.2
Thailand	—	—	—	—	—	—	8,144	2.2
Nigeria	—	—	—	—	7,624	2.3	7,901	2.1
Cambodia	—	—	—	—	9,307	2.8	5,025	1.4
Uzbekistan	—	—	21,896	8.4	—	—	4,708	1.2
Angola	—	—	—	—	9,623	2.9	1,367	0.4
South Korea	—	—	—	—	—	—	20	0.1
Malaysia	20	0.1	—	—	—	—	18	0.1
Bulgaria	—	—	—	—	—	—	6	0.1
Yemen	—	—	—	—	11,528	3.4	—	—
Russia	—	—	—	—	6,807	2.0	—	—
Bangladesh	—	—	19,802	7.5	90	0.1	—	—
Total	112,980	100.0	260,985	100.0	337,240	100.0	377,989	100.0

Note: Our Group's revenue for the three years ended 31 December 2018 mainly derived from customers located in the PRC, which contributed approximately 94.7%, 77.2% and 71.3% of our revenue, respectively. With our Group's continuous proactive efforts in expanding our customer base by visiting our potential customers for our overseas markets, our PRC customer's revenue was 57.5% for the year ended 31 December 2019, and revenue derived from our overseas customers increased throughout the Track Record Period, representing 5.3%, 22.8%, 28.7% and 42.5% of our total revenue, respectively.

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Gross profit and gross profit margin

The table below sets out our gross profit and gross profit margin by product category during the Track Record Period:

	For the year ended 31 December											
	2016			2017			2018			2019		
	Gross profit	% to total gross profit	Gross profit	% to total gross profit	Gross profit	% to total gross profit	Gross profit	% to total gross profit	Gross profit	% to total gross profit	Gross profit	% to total gross profit
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Baby diaper machines	23,016	21.9	94.5	52,922	21.5	93.5	61,213	22.6	79.9	54,416	24.0	60.0
Adult diaper machines	863	15.8	3.5	2,700	24.0	4.8	6,658	21.4	8.7	26,610	23.7	29.4
Lady sanitary napkin machines	295	15.0	1.2	49	7.0	0.1	5,457	22.1	7.1	4,284	19.0	4.7
Components and parts	202	29.1	0.8	916	35.0	1.6	3,259	30.2	4.3	5,309	31.4	5.9
Total	24,376	21.6	100.0	56,587	21.7	100.0	76,587	22.7	100.0	90,619	24.0	100.0

Top customers

For each of the four years ended 31 December 2019, revenue from our largest customer accounted for approximately 10.4%, 9.1%, 7.6% and 8.7% of our total revenue, respectively, while our five largest customers in aggregate accounted for approximately 44.8%, 37.8%, 26.5% and 30.2% of our total revenue, respectively.

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The table below sets forth the details of our five largest customers during the Track Record Period:

For the year ended 31 December 2016

Rank	Customer ^{Note}	Background and principal business	Approximate years of business relationship with our Group	Major Products supplied by our Group to the customer	Typical payment method	Revenue derived from the customer	
						RMB'000	%
1	Fujian Meike Paper Co. Ltd (福建美可紙業有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	6	baby diaper machine, adult diaper machine	bank transfer or bank acceptance bill	11,795	10.4
2	Quanzhou Tianjiao Lady & Baby's Hygiene Supply Co. Ltd (泉州天嬌婦幼衛生用品有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	5	baby diaper machine	bank transfer or bank acceptance bill	11,350	10.0
3	Quanzhou Jiahua Sanitary Articles Co. Ltd (泉州市嘉華衛生用品有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	3	baby diaper machine	bank transfer	9,915	8.8
4	Xiamen Din-Stone Import & Export Trade Co. Ltd. (廈門鼎石通進出口有限公司)	a private company established in the PRC principally engaged in the trading and export of products which includes disposable hygiene product machines	4	baby diaper machine, adult diaper machine	bank transfer	9,034	8.0
5	INSOFTB (China) Co Ltd (嬰舒寶(中國)有限公司)	a private company established in the PRC principally engaged in the trading and export of products which include, disposable hygiene product machines	8	baby diaper machine, adult diaper machine	bank transfer	8,547	7.6
Sub-total						50,641	44.8
All other customers						62,339	55.2
Total						112,980	100.0

Note: In respect of customers which are within the same group or held by the same shareholder(s), they are considered as one customer and our revenue from different members of the same group or under the same shareholder(s) are aggregated.

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For the year ended 31 December 2017

Rank	Customer ^{Note}	Background and principal business	Approximate years of business relationship with our Group	Major Products supplied by our Group to the customer	Typical payment method	Revenue derived from the customer	
						RMB'000	%
1	Customer A	a company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products, the holding company of which is engaged in the trading of personal hygiene products in the PRC and listed on the Stock Exchange with revenue of RMB20,514 million for the year ended 31 December 2018	3	baby diaper machines	bank transfer	23,761	9.1
2	Fujian Meike Paper Co. Ltd (福建美可紙業有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	6	baby diaper machines, adult diaper machine	bank transfer or bank acceptance bill	23,590	9.0
3	SOF GIGIENIK LLC/Dielux Business LLC	two private companies established in Uzbekistan held by the same shareholder and principally engaged in the manufacturing of baby diapers	2	baby diaper machines	letter of credit	21,896	8.4
4	Hubei Baochan Hygiene Products Co. Ltd (湖北寶燦衛生用品有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers	3	baby diaper machines, components	bank transfer	14,975	5.7
5	Xiamen Din-Stone Import & Export Trade Co. Ltd. (廈門鼎石通進出口有限公司)	a private company established in the PRC principally engaged in the trading and export of products which includes disposable hygiene product machines	4	baby diaper machines, adult diaper machine	bank transfer	14,670	5.6
Sub-total						98,892	37.8
All other customers						162,093	62.2
Total						<u>260,985</u>	<u>100.0</u>

Note: In respect of customers which are within the same group or held by the same shareholder(s), they are considered as one customer and our revenue from different members of the same group or under the same shareholder(s) are aggregated.

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For the year ended 31 December 2018

Rank	Customer ^{Note}	Background and principal business	Approximate years of business relationship with our Group	Major Products supplied by our Group to the customer	Typical payment method	Revenue derived from the customer	
						RMB'000	%
1	Customer B	two private companies belonging to the same group principally engaged in the manufacturing of baby diapers with subsidiaries located in Cambodia and Vietnam, the holding company of which is engaged in the manufacturing of baby diapers in Vietnam and listed on the Taiwan Stock Exchange Corporation with revenue of USD30.7 million for the year ended 31 December 2016	3	baby diaper machine	bank transfer	25,542	7.6
2	Fujian Lionmay Care Products Co. Ltd (福建省諾美護理用品有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers	2	baby diaper machine	bank transfer	18,821	5.6
3	Xiamen Din-Stone Import & Export Trade Co. Ltd. (廈門鼎石通進出口有限公司)	a private company established in the PRC principally engaged in the trading and export of products which includes disposable hygiene product machines	4	baby diaper machine, adult diaper machine	bank transfer	17,393	5.2
4	Fujian Time and Tianhe Industrial Co. Ltd (福建省時代天和實業有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	5	baby diaper machine	bank transfer	13,734	4.1
5	Customer A	two private companies belonging to the same group principally engaged in the manufacture, import and export of baby diapers with subsidiaries located in both Russia and the PRC, the holding company of which is engaged in the trading of personal hygiene products and listed on the Stock Exchange with revenue of RMB20,514 million for the year ended 31 December 2018	3	baby diaper machine	bank transfer	13,545	4.0
Sub-total						89,035	26.5
All other customers						248,205	73.5
Total						337,240	100.0

Note: In respect of customers which are within the same group or held by the same shareholder(s), they are considered as one customer and our revenue from different members of the same group or under the same shareholder(s) are aggregated.

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For the year ended 31 December 2019

Rank	Customer ^{Note}	Background and principal business	Approximate years of business relationship with our Group	Major Products supplied by our Group to the customer	Typical payment method	Revenue derived from the customer	
						RMB'000	%
1	Customer D	a private company incorporated in Indonesia principally engaged in the manufacturing of disposable hygiene products	1	baby diaper machine	letter of credit	32,895	8.7
2	Fiberline Industries Inc	a private company incorporated in the Philippines principally engaged in the manufacturing, wholesaling and exporting of absorbent cotton, sanitary napkins and baby and adult diapers	4	baby diaper machine	letter of credit or bank transfer	28,152	7.4
3	Hunan Jieyun Daily Necessities Co Ltd (湖南潔韻生活用品有限公司)	a private company established in the PRC principally engaged in the manufacturing of hygiene products and paper products; and the sales of hygiene products, baby care products, and paper products	4	Baby diaper machine	bank transfer	18,381	4.9
4	Customer E	a private company established in the PRC principally engaged in production, processing and manufacturing of class I medical devices and hygiene products; and its subsidiary established in Thailand principally engaged in manufacturing, import and export of baby diaper and adult diaper	5	baby diaper machine, adult diaper machine	bank transfer	18,056	4.8
5	Fujian Meike Paper Co. Ltd (福建美可紙業有限公司)	a private company established in the PRC principally engaged in the manufacturing of baby diapers and other hygiene products	6	baby diaper machine, adult diaper machine	bank transfer or bank acceptance bill	16,708	4.4
Sub-total						114,192	30.2
All other customers						263,797	69.8
Total						377,989	100.0

Note: In respect of customers which are within the same group or held by the same shareholder(s), they are considered as one customer and our revenue from different members of the same group or under the same shareholder(s) are aggregated.

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Our Directors confirm that all of our five largest customers during the Track Record Period are independent third parties and, to the best knowledge of our Directors, none of our Directors or their respective associates or any Shareholder (whom to the best knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest customers during the Track Record Period.

Pricing policy

Our pricing policy is based on a cost-plus pricing model. In determining the selling prices of our products, we take into consideration of the specifications provided by our customers and an array of factors, including our costs of procurement and production. We also review and adjust our selling prices based on the prevailing market prices.

During the Track Record Period, we maintained our gross profit margin ranging from approximately 21.6% to 24.0%. According to the Industry Report, the gross profit margin for the disposable hygiene product machinery industry in the PRC generally ranges from approximately 15% to 30%.

Credit policy

Apart from a portion of the contract sum retained by customers to cover our Group's product quality warranty, our Group does not grant credit terms to customers in the sales contract. However, our Group would normally grant credit terms up to 30 days from the date of issuance of invoices, to our customers for their processing of billing settlement as approved by the management on a case by case basis.

During the Track Record Period, part of our Group's trade receivables were past due but there was no write-off of irrecoverable trade receivables due from our customers. For a discussion on our trade receivables, please refer to the section headed "Financial Information — Net Current Assets — Trade and other receivables" in this prospectus.

Key contract terms with customers

Our Group is generally engaged by our customers on a case-by-case basis with the execution of sales contracts. Our Directors consider that such arrangement is in line with the common industry practice. The contract terms of each sales contract may be different and are based on negotiations with the respective customers. The principal contract terms of the sales contracts are summarised as below:

Principal terms	Summary
Specifications	: The sales contracts typically set out the specifications, quantities, pricing and expected date of delivery
Shipment	: We deliver the products to the factories of our customers or end users via logistics service providers.
Payment methods	: Our customers usually make payments by way of bank transfer, bank acceptance bill or letter of credit

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- Payment terms : We require our customers to make payments by instalment based on certain manufacturing or delivery milestones. We generally request our customers to pay the first instalment upon signing of the sales contracts, the second instalment before shipment/upon delivery and the third instalment after acceptance of the products. The number of instalments varies on a case-by-case basis depending on: (i) the customer's reputation and credibility; (ii) the customer's business relationship with our Group; and (iii) the customer's payment history. A portion of the contract sum is usually retained by our customers to cover our Group's product quality warranty.
- Warranty : One year. For further details, please refer to the paragraph headed "Our Business Process — After-sales Services" in this section.

RAW MATERIALS AND SUPPLIERS

Raw materials

We mainly source the components or parts that we use for the manufacture of disposable hygiene product machines from third-party suppliers. During the Track Record Period, we mainly purchased raw materials from the PRC and the United States. During the Track Record Period, the raw materials we procured from our supplier in the United States amounted to 3.8%, 8.4%, 9.9% and 7.2% of our total procurement. Considering that (i) relatively small amount of raw materials was procured from the supplier in the United States; and (ii) alternate suppliers located in other countries are available for the supply of such raw materials to us, our Directors consider that Sino-US Trade War would not have a material adverse effect on its business, financial condition or results of operations.

Upon confirmation of order from customers, we seek quotations from our suppliers. For each type of raw materials, we generally have more than one supplier. We believe that this practice minimises the risk of default and over-reliance on any particular supplier. Our material requirements planning team will then issue purchase requisitions and purchase orders to our suppliers after seeking internal approval from our head of procurement team and approval from customers. We generally make our purchase on a back-to-back basis based on the sales contract.

The purchase price of our raw materials are generally determined with reference to the prevailing market conditions. We do not undertake hedging activities against the price of raw materials. During the Track Record Period, we had not experienced any material adverse effect on our business or financial performance as a result of price fluctuations of raw materials.

The principal raw materials we procure from our suppliers are electrical appliances, processed parts, steel, components and parts and excipients.

BUSINESS

The following table sets out the consumption of raw materials in our cost of sales during the Track Record Period:

	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Electrical appliances ⁽¹⁾	41,556	56.2	98,320	53.1	109,184	47.5	111,442	45.5
Processed parts ⁽²⁾	17,846	24.1	61,126	33.0	92,122	40.1	109,253	44.6
Steel	8,686	11.7	15,928	8.6	13,650	5.9	12,315	5.0
Components and parts ⁽³⁾	4,230	5.7	5,723	3.1	7,388	3.2	5,470	2.2
Excipients ⁽⁴⁾	1,609	2.3	4,112	2.2	7,384	3.3	6,733	2.7
Total	73,927	100.0	185,209	100.0	229,728	100.0	245,213	100.0

Notes:

- (1) Electrical appliances include melting machines, servo actuators and servo motors. Melting machines heat up and liquefy glue to suitable temperatures for application onto the products. Servo actuators and servo motors drive the rotational movement mechanisms in the production line.
- (2) Processed parts include blades that cut transversely, curved blades and gearboxes that modify the speed and orientation of semi-finished products from the previous stage of the production line.
- (3) Components and parts include bearings and synchronous pulleys. Bearings are mainly used to support the drive axles, and synchronous pulleys serve as the conduit for motion energy to be distributed throughout the production line.
- (4) Excipients mainly include non-woven fabrics, which are mainly used for channelling urine away and also to prevent side leakage due to overflow. Our Group consumed excipients during the course of test production of the machines.

BUSINESS

Management of our Suppliers

We purchase our raw materials only from approved suppliers which meet our evaluation criteria and are listed on our approved supplier list. We select our suppliers based on quality, pricing, payment method and contractual terms. Our suppliers are surveyed and selected through a process of formal audits and qualification by our procurement team. During the Track Record Period, we had 170, 318, 404 and 419 suppliers. Some of our suppliers are nominated by our customers. We closely monitor the quality of all materials provided by them to ensure that the stringent requirements of our customers are met. For further details, please refer to the paragraph headed “Quality Assurances” in this section. Generally, where the raw materials fail to meet the standards stipulated in our supply agreements, we are entitled to replacement at our suppliers’ own costs. In the event that our suppliers notify us of delay or shortage of supplies, we will inform our customers immediately and discuss with customers for a solution, usually either by adjusting the delivery schedule or sourcing from alternative suppliers.

Our Directors confirm that during the Track Record Period, we did not experience any material delay or shortage in the supply of raw materials which may have a material adverse impact on our business, and we do not anticipate significant difficulties in obtaining alternative sources of supply in the future.

Top suppliers

For the four years ended 31 December 2019, purchases from our five largest suppliers accounted for approximately 37.9%, 35.9%, 33.8% and 38.3% of our Group’s total purchases, respectively. Our Directors do not consider our business to be dependent on any particular supplier. As at the Latest Practicable Date, our top five suppliers had between one to nine years of relationship with our Group. We believe that we have maintained stable business relationships with our top suppliers.

BUSINESS

The table below sets forth the details of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2016

Rank	Supplier <i>(Note)</i>	Background and principal business	Approximate years of business relationship with our Group	Typical credit terms	Payment method	Transaction amount and approximate percentage of our Group's total Purchase	
						RMB'000	%
1	Hangzhou Hehua Electrical Engineering Co. Ltd (杭州和華電氣工程有限公司)	a company established in the PRC principally engaged in the wholesale and retail of electronic products, machinery and accessories	8	10 days	bank transfer or bank acceptance letter	10,627	11.0
2	Supplier A	a company listed on the NASDAQ in the US and its wholly-owned subsidiary established in the PRC, both of which are principally engaged in the production of spray adhesive, surface coating equipment and accessories	6	N/A	bank transfer or bank acceptance letter	7,945	8.2
3	Guangzhou BST Co. Ltd (廣州貝曉德傳動配套有限公司)	a company established in the PRC principally engaged in the manufacturing of machinery accessories	8	30 days	bank transfer or bank acceptance letter	6,504	6.8
4	Fujian Yongqing Steel Co. Ltd (福建永慶鋼鐵有限公司)	a company established in the PRC principally engaged in the sales of steel and machinery equipment accessories	8	10 days	bank transfer or bank acceptance letter	5,810	6.0
5	Jinjiang Terui Mould Co Ltd (晉江特銳模具有限公司)	a company established in the PRC principally engaged in the manufacturing of moulds and machinery accessories	5	180 days	bank transfer or bank acceptance letter	5,726	5.9
					Sub-total	36,612	37.9
					All other suppliers	59,740	62.1
					Total	<u>96,352</u>	<u>100.0</u>

Note: In respect of suppliers which are within the same group, they are considered as one supplier and our purchases from different members of the same group are aggregated.

BUSINESS

For the year ended 31 December 2017

Rank	Supplier (Note)	Background and principal business	Approximate years of business relationship with our Group	Typical credit terms	Payment method	Transaction amount and approximate percentage of our Group's total Purchase	
						RMB'000	%
1	Hangzhou Hehua Electrical Engineering Co. Ltd (杭州和華電氣工程有限公司)	a company established in the PRC principally engaged in the wholesale and retail of electronic products, machinery and accessories	8	10 days	bank transfer or bank acceptance letter	35,057	13.3
2	Supplier A	a company listed on the NASDAQ in the US and its wholly-owned subsidiary established in the PRC, both of which are principally engaged in the production of spray adhesive, surface coating equipment and accessories	6	N/A	bank transfer or bank acceptance letter	27,627	10.5
3	Jinjiang Zhaoyi Machinery Co. Ltd (晉江兆億機械有限公司)	a company established in the PRC principally engaged in manufacturing of metal-cutting machine and industrial automatic control system	2	180 days	bank transfer or bank acceptance letter	11,647	4.4
4	Fujian Yongqing Steel Co. Ltd (福建永慶鋼鐵有限公司)	a company established in the PRC principally engaged in the sales of steel and machinery equipment accessories	8	10 days	bank transfer	11,276	4.3
5	Jinjiang Terui Mould Co Ltd (晉江特銳模具有限公司)	a company established in the PRC principally engaged in the manufacturing of moulds and machinery accessories	5	180 days	bank transfer or bank acceptance letter	8,909	3.4
Sub-total						94,516	35.9
All other suppliers						169,314	64.1
Total						<u>263,830</u>	<u>100.0</u>

Note: In respect of suppliers which are within the same group, they are considered as one supplier and our purchases from different members of the same group are aggregated.

BUSINESS

For the year ended 31 December 2018

Rank	Supplier ¹	Background and principal business	Approximate years of business relationship with our Group	Typical credit terms	Payment method	Transaction amount and approximate percentage of our Group's total purchase	
						RMB'000	%
1	Hangzhou Hehua Electrical Engineering Co. Ltd (杭州和華電氣工程有限公司)	a company established in the PRC principally engaged in the wholesale and retail of electronic products, machinery and accessories	8	10 days	bank transfer or bank acceptance letter	23,625	13.2
2	Supplier A	a company listed on the NASDAQ in the US and its wholly-owned subsidiary established in the PRC, both of which are principally engaged in the production of spray adhesive, surface coating equipment and accessories	6	N/A	bank transfer	17,790 ²	9.9
3	Jinjiang Terui Mould Co Ltd (晉江特銳模具有限公司)	a company established in the PRC principally engaged in the manufacturing of moulds and machinery accessories	5	180 days	bank transfer or bank acceptance letter	7,681	4.3
4	Guangzhou BST Co. Ltd (廣州貝曉德傳動配套有限公司)	a company established in the PRC principally engaged in the manufacturing of machinery accessories	9	30 days	bank transfer or bank acceptance letter	6,206	3.5
5	Hengqin Machinery	a company established in the PRC principally engaged in the manufacturing of machinery accessories	5	180 days	bank transfer or bank acceptance letter	5,069	2.8
Sub-total						60,371	33.7
All other suppliers						119,065	66.3
Total						179,436	100.0

Notes:

- In respect of suppliers which are within the same group, they are considered as one supplier and our purchases from different members of the same group are aggregated.
- For the year ended 31 December 2018, we received a rebate of approximately RMB0.9 million for procuring a specific amount of melting machines from Supplier A.

BUSINESS

For the year ended 31 December 2019

Rank	Supplier (Note)	Background and principal business	Approximate years of business relationship with our Group	Typical credit terms	Payment method	Transaction amount and approximate percentage of our Group's total Purchase	
						RMB'000	%
1	Hangzhou Hehua Electrical Engineering Co. Ltd (杭州和華電氣工程有限公司)	a company established in the PRC principally engaged in the wholesale and retail of electronic products, machinery and accessories	8	10 days	bank transfer or bank acceptance letter	51,809	18.3
2	Supplier A	a company listed on the NASDAQ in the US and its wholly-owned subsidiary established in the PRC, both of which are principally engaged in the production of spray adhesive, surface coating equipment and accessories	6	N/A	bank transfer	24,246	8.6
3	Supplier B	a private company established in the PRC principally engaged in the manufacture of packaging equipment and accessories	1	30 days	bank transfer	7,488	2.6
4	Herrmann Ultrasonic (Taicang) Co. Ltd. (海爾曼超聲波技術(太倉)有限公司)	a private company established in the PRC principally engaged in the manufacture of ultrasonic welding machine	3	N/A	bank transfer	9,792	3.5
5	Guangzhou BST Co. Ltd (廣州貝曉德傳動配套有限公司)	a company established in the PRC principally engaged in the manufacturing of machinery accessories	9	30 days	bank transfer	8,789	3.1
Sub-total						108,306	38.3
All other suppliers						174,366	61.7
Total						<u>282,672</u>	<u>100.0</u>

Note: In respect of suppliers which are within the same group, they are considered as one supplier and our purchases from different members of the same group are aggregated.

BUSINESS

Key contract terms with suppliers

We generally do not enter into any long-term supply agreement with any supplier but procure raw materials on an order-by-order basis. We set forth below a summary of the key terms of our purchase orders to our suppliers during the Track Record Period:

Principal terms	Summary
Specifications	: The purchase orders generally set out the specifications, quantities and pricing
Delivery and inspection	: Our suppliers are typically responsible for the delivery of the raw materials to our production bases. We are entitled to inspect the raw materials upon delivery
Payment terms	: We generally settle our purchases with our suppliers in RMB or USD. We usually make payment to our suppliers by way of bank transfer, bank acceptance bills and letter of credit
Credit terms	: Our suppliers generally provide us with credit terms of not more than 180 days from the date of invoice
Warranty	: For some of our major raw materials, our suppliers provide us with a specific period of warranty

Save as disclosed in the section headed “Connected Transactions” in this prospectus, none of our Directors or their respective associates or any Shareholder (whom to the best knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our Group’s five largest suppliers during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material price fluctuations or quality issues of materials that materially affected our production.

Subcontracting

During the Track Record Period, we subcontracted production process for certain components of our products, such as surface treatment and processing of components used for our products. Our subcontractors, which are mainly located in the vicinity of our production bases, carried out the subcontracting arrangements in accordance with our design and specifications and subject to our quality assurance and control. Our Directors confirm that our subcontractors are independent third parties. At the Latest Practicable Date, we had business relationships with 25 subcontractors for not more than five years. For the four years ended 31 December 2019, our subcontracting fees under cost of sales amounted to approximately RMB0.5 million, RMB1.8 million, RMB3.1 million and RMB3.2 million, respectively, representing approximately 0.5%, 0.9%, 1.2% and 1.1% of our cost of sales for the respective years.

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We carefully select our subcontractors based on assessment criteria such as overall track record, product quality and quality control effectiveness, reliability, price, delivery punctuality, historical relationship with us and reputation. We provide our subcontractors with product specifications and conduct quality checks upon delivery of semi-finished products to us to ensure that they meet our and our customers' quality control standards. For further details, please refer to the paragraph headed "Quality Assurances" in this section.

We enter into contracts with most of our subcontractors when we need processing services. Each subcontracting agreement will typically specify the service scope, raw material procurement policy, specifications and quality requirements, delivery timeline and other detailed items. We typically have a credit period of not more than 90 days from the date of invoice. Payments to our subcontractors are mainly made through bank transfer. We may return defective products to our subcontractors when we discover any defect during our quality assurance procedure.

During the Track Record Period, we did not experience any material disputes with our subcontractors nor did we encounter any material difficulties in obtaining the required outsourced services and/or products.

COMPANIES WHICH ARE BOTH OUR CUSTOMERS AND SUPPLIERS

During the Track Record Period, we sold our products to, and purchased raw materials from, the following two of our top customers:

Name	Major goods purchased by us	Amount of purchases by us during the Track Record Period (Approximately)	Major goods sold by us	Amount of sales by us during the Track Record Period (Approximately)	Gross profit margin
廈門鼎石通進出口有限公司(Xiamen Din-Stone Import & Export Trade Co. Ltd.)	melting machines	2016: —	diaper machines	2016: RMB9.0 million	2016: 22.7%
		2017: RMB2.0 million		2017: RMB14.7 million	2017: 22.6%
		2018: RMB0.9 million		2018: RMB17.4 million	2018: 28.6%
		2019: RMB0.3 million		2019: RMB8.3 million	2019: 23.1%
Customer A	melting machines and materials for test and adjustments	2016: —	diaper machines	2016: —	2016: —
		2017: RMB0.1 million		2017: RMB23.8 million	2017: 17.6%
		2018: RMB1.0 million		2018: RMB13.5 million	2018: 20.0%
		2019: —		2019: RMB0.3 million	2019: 26.1%

The above customers were also our suppliers because they requested us to purchase from their specific types of melting machines to be installed in our products and/or materials for test and adjustments. As confirmed by our Directors, (i) negotiations of the terms of our sales to and purchases from these customers were conducted on individual basis and in the ordinary course of business under normal commercial terms; (ii) the terms of transactions with these customers entities are similar to those transactions with our other customers and suppliers; and (iii) the gross profit margin earned from these customers entities were in line with the normal range of the Group.

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In addition, the following top suppliers were also our customers during the Track Record Period:

Name	Major raw materials purchased by us	Amount of purchases by us during the Track Record Period (Approximately)	Major goods sold by us	Amount of sales by us during the Track Record Period (Approximately)	Gross profit margin
A member of Supplier A	melting machines	2016: RMB4.3 million	installation accessories	2016: RMB0.1 million	2016: 25.1%
		2017: RMB5.4 million		2017: —	2017: —
		2018: RMB0.1 million		2018: RMB0.8 million	2018: 29.4%
		2019: RMB3.8 million		2019: RMB0.4 million	2019: 34.0%
晉江兆德機械有限公司 (Jinjang Zhaoyi Machinery Co. Ltd)	blade carriers	2016: —	bearings	2016: —	2016: —
		2017: RMB11.6 million		2017: RMB0.1 million	2017: 28.2%
		2018: RMB3.5 million		2018: RMB0.1 million	2018: 25.0%
		2019: RMB6.6 million		2019: —	2019: —

The above suppliers were also our customers because we purchased the raw materials from the relevant suppliers in the course of our production while we sold the goods at the request of the relevant suppliers if we had raw materials in stock in order to fulfil their need. As confirmed by our Directors, (i) negotiations of the terms of our sales to and purchases from these suppliers were conducted on individual basis and in the ordinary course of business under normal commercial terms; (ii) the terms of transactions with these suppliers entities are similar to those transactions with our other customers and suppliers; and (iii) the gross profit margin earned from these suppliers entities were in line with the normal range of the Group.

SENSITIVITY ANALYSIS OF PROFIT BEFORE TAX

For details of the sensitivity analysis of our profit before tax in relation to changes to cost of raw materials, please refer to the section headed “Financial Information — Description and Analysis of Principal Items in the Combined Statements of Profit or Loss and other Comprehensive Income — Cost of Sales” in this prospectus.

QUALITY ASSURANCES

We are committed to meet our customers’ satisfaction and continuously seek to provide excellent quality and value to our customers. As such, we have developed and implemented stringent quality assurance procedures to ensure that every stage of production adheres to our prescribed quality standards that is set out in our quality manual. All our products are required to pass our internal quality tests before reaching our customers. Our commitment to quality was recognised by the GB/T24001-2016/ISO14001:2015 — Environmental Management System Certification and GB/T19001-2016/ISO9001:2015 — Quality Management System Certificate issued to us in 2018. We have implemented a quality management system which is designed with an overall objective of defect prevention and continuous improvements.

To carry out consistently stringent quality assurance procedures, we had a quality assurance team comprising 22 members as at the Latest Practicable Date. As part of our ongoing compliance with the ISO 9001:2015 and ISO14001:2015 certification requirements, we conduct internal quality inspection and management reviews of our quality system periodically.

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TRANSFER PRICING ARRANGEMENT

During the Track Record Period, our Group conducted our operations through Jinjiang Haina, which is our Group's principal operating entity which engages in the manufacturing of disposable hygiene product machines. After our acquisition of Hangzhou Haina in 2018, we also engaged in the manufacturing of disposable hygiene product machines through Hangzhou Haina. Since Jinjiang Haina is more experienced in design, procurement, processing and assembling of the components and parts of our products, Hangzhou Haina procured certain components and parts directly from Jinjiang Haina when receiving sales orders from customers.

These intra group transactions are treated as sales and purchases between our group entities. The selling prices are determined with reference to our costs as well as prevailing market price. Our Directors confirmed that our transfer pricing arrangement during the Track Record Period and up to the Latest Practicable Date was on normal commercial terms and in compliance with the relevant tax laws and regulations in the PRC in all material respects.

We may generate income from our Hong Kong subsidiary, namely Haina Technology, when our customers purchase our products through Haina Technology. In such event, we will implement transfer pricing arrangements among Jiajiang Haina, Hangzhou Haina and Haina Technology, to regulate such intra-group transactions and to ensure that they are compliant with the relevant transfer pricing laws and regulations and will regularly engage external tax advisers to advise on our Group's tax position, as well as the level of pricing of such intra group transaction and any potential risks.

For the risk factors of our transfer pricing arrangements, please refer to the section headed "Risk factors — Risks Relating to our Business — Our Operations may be subject to Transfer Pricing Adjustment" in this prospectus.

INVENTORY, WAREHOUSING AND LOGISTICS

Inventory and Warehousing

Our inventory mainly comprises raw materials for production and consumables. In general, we do not keep inventory of finished products. Our procurement decisions are based on (i) orders provided to us by our customers; (ii) our inventory levels; (iii) the availability of stock from our suppliers; and (iv) procurement lead time. Upon receipt of forecast or confirmed order from a customer, we procure supplies in accordance with such customer's individual and unique specifications and requirements. We use the ERP System to track inventory levels which enables us to control the movement and storage of products and inventory level in our warehouse so that we can make procurement plans based on our business needs to achieve optimal warehouse capacity utilisation.

We continuously monitor raw material inventory levels based on our production needs. We store our inventory in our production bases and/or warehouses in the PRC. We apply anti-rust treatment to some of our inventories before storage to preserve their sustainability.

BUSINESS

Logistics

Delivery of our products is outsourced to logistics service providers. Our logistics service providers will deliver our products from our production bases to factories of our customers or end users. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material adverse impact on our operations as a result of failure to meet delivery schedules of our customers or end users.

During the Track Record Period, we engaged import and export agents to handle customs clearance procedures for delivery of our products to certain customers in the overseas. Our Directors confirm that these agents are independent third parties.

RESEARCH AND DEVELOPMENT

We consider our research and development capability to be one of our key competitive advantages, and we strive to augment this competitive advantage continuously. During the Track Record Period, we conducted research and development activities for improving the efficiency of and introducing new functionalities to the Group's existing machines. From time to time, our research and development team would propose new research and development projects based on prevailing market demands and our technological needs. Prior to taking on a research and development project, our research and development team would analyse the feasibility and estimate the costs and staff input required for the project. Such costs include but are not limited to procuring equipment and raw materials, conducting tests and providing training to our staff. In deciding whether to approve the initiation of a research and development project, our Directors would take into account the business development goals of the Group, feasibility of the project, expected market demands and our Group's production capacity and resources.

Our research and development activities are mainly carried out by certain members of our technical engineering team (comprised 57 staff as at the Latest Practicable Date) and technical design team (comprised 36 staff as at the Latest Practicable Date) on a project basis. During the Track Record Period, there were more than 10 core members involved in our research and development projects, comprising members with university graduates and experience in mechanical engineering or design, and certain members of our technical engineering and technical design teams also participated in our research and development activities in addition to their production projects.

During the Track Record Period, approximately 46.2%, 50.0%, 72.1% and 67.7% of our machineries sold and approximately 59.5%, 48.6%, 76.5% and 68.0% of our revenue from sales of machineries involved the application of technologies developed from our research and development projects during the Track Record Period, respectively.

BUSINESS

The following table sets forth a breakdown of our research and development activities during the Track Record Period:

Item	Subject of the research and development activity	Patent(s) obtained or under application/ Function	Type of patent	Costs incurred during the Track Record Period (RMB in million)	Revenue generated during the Track Record Period (RMB in million)	Units of machines sold
1.	Full servo adult diaper machine (全伺服成人紙尿褲設備)	A cutting device for diaper production line (一種紙尿褲生產線上的切割裝置)	Invention	1.9	29.9	5
		A system and method to cut and align the diaper tape (紙尿褲耳貼裁切對位系統及其方法)	Invention			
		A variable-speed transposition device and variable-speed conveyor (一種變速轉位輸送機構及變速輸送裝置)	Utility			
2.	Full servo and automated baby pull-up diaper machine (全伺服驅動嬰幼兒拉拉褲自動化生產線)	A pull-up diaper waistline limb device (一種拉拉褲腰圍插角裝置)	Invention	4.7	447.2	76
		An anti-adhesion conveying roller (一種防黏結輸送輥)	Utility			
		A knurling device and knurling concave roller (一種壓花裝置及壓花凹輥)	Utility			

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Item	Subject of the research and development activity	Patent(s) obtained or under application/ Function	Type of patent	Costs incurred during the Track Record Period (RMB in million)	Revenue generated during the Track Record Period (RMB in million)	Units of machines sold
3.	Full servo and automated adult diaper machine (全伺服成人紙尿褲全自動生產線)	An elastic waistline transfer device, diaper production system (一種彈性腰圍轉移裝置、尿褲生產系統)	Utility	6.3	24.7	4
		A control waist paster and divide disconnected set composite (一種左右腰貼分斷複合裝置)	Utility			
4.	Full servo U-type baby pull-up diaper machine (全伺服嬰兒U型拉拉褲生產線)	A kind of transfer wheel (一種轉移輪)	Utility	6.8	29.0	5
5.	Full servo U-type baby diaper machine (全伺服立體U型沙漏褲生產線)	A universal inflatable winding-shaft rack for loading (一種通用式氣脹軸卷裝料架)	Utility	6.6	6.2	1
		A continuous ultrasonic welding machine (一種連續式超聲波焊接機)	Utility			
6.	Full servo baby diaper machine (全伺服沙漏型嬰兒環腰褲生產線)	A kind of indexable cutting apparatus and method of the variable-speed conveyor (一種分切轉位變速輸送裝置及方法)	Invention	2.1	17.3	4
7.	Water absorption material uniformity distribution detection system (高分子吸水材料均勻性分布檢測系統)	To test the water absorption level of disposable hygiene products	N/A	0.6	—	—

BUSINESS

Item	Subject of the research and development activity	Patent(s) obtained or under application/ Function	Type of patent	Costs incurred during the Track Record Period (RMB in million)	Revenue generated during the Track Record Period (RMB in million)	Units of machines sold
8.	Full servo lady sanitary machine (全伺服婦女月經褲生產線)	An adjustable cutting transfer device (一種可調式切斷轉移裝置)	Utility	3.7	59.9	9
9.	Ultrasonic composite production line (超聲波複合生產線)	To improve the cohesiveness of materials used in disposable hygiene products	N/A	1.0	—	—
10.	Full servo baby diaper production line (全伺服嬰兒紙尿褲生產線)	A cutting device for the production line of diaper machine (一種紙尿褲生產線上的切割裝置)	Invention	4.8	24.5	5
11.	Wood pulp crushing equipment and solutions (木漿粉碎設備及其粉碎方法)	a kind of wood pulp crushing equipment and solutions ^(Note) (一種木漿粉碎設備及其粉碎方法)	Invention	1.6	—	—
12.	Equipment and solutions for high absorbent polymer of hygienic products (衛生用品吸收芯體的高分子給料設備及其給料方法)	a kind of equipment and solutions for high absorbent polymer of hygienic products ^(Note) (一種衛生用品吸收芯體的高分子給料設備及其給料方法)	Invention	1.5	13.0	5
13.	Front and rear lamination equipment and solutions (正反疊片設備及其方法)	a kind of front and rear lamination equipment and lamination solutions ^(Note) (一種正反疊片設備及其疊片方法)	Invention	1.6	—	—

BUSINESS

Item	Subject of the research and development activity	Patent(s) obtained or under application/ Function	Type of patent	Costs incurred during the Track Record Period (RMB in million)	Revenue generated during the Track Record Period (RMB in million)	Units of machines sold
14.	Research and application of baby pull-up diaper (嬰兒拉拉褲的研發與應用)	<p>a kind of automatic material changing device (一種自動換接料裝置)</p> <p>a kind of welding equipment for baby pull-up diaper (一種嬰兒拉拉褲焊接設備)</p> <p>a kind of production line for pull-up diaper with counting function (一種具有計數功能的拉拉褲打包生產線)</p> <p>a kind of production line for pull-up diaper with heat dissipation (一種可散熱的拉拉褲打包生產線)</p> <p>a kind of all-round non-woven fabric welding equipment (一種無紡布全能焊接設備)</p>	<p>Utility</p> <p>Utility</p> <p>Utility</p> <p>Utility</p>	1.5	76.8	8
15.	Research of full servo baby high speed pull-up diaper production line (全伺服嬰兒高速拉拉褲生產線的研發)	N/A	N/A	4.9	—	—

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Item	Subject of the research and development activity	Patent(s) obtained or under application/ Function	Type of patent	Costs incurred during the Track Record Period (RMB in million)	Revenue generated during the Track Record Period (RMB in million)	Units of machines sold
16.	Full servo tunnel baby diaper production line (全伺服隧道嬰兒紙尿褲生產線)	A kind of elastic equipment for diaper (一種尿布腰部鬆緊裝置)	Utility	2.4	5.3	1
17.	Research and application of water absorption material uniformity distribution detection system (高分子吸水材料均勻性分佈檢測系統研發與應用)	N/A	N/A	0.7	—	—
18.	Research and application of adult diaper machine (成人尿褲的研發與應用)	N/A	N/A	1.4	5.3	1
19.	Research and application of mattress (床墊的研發與應用)	N/A	N/A	0.3	—	—
20.	Research and application of universal parts for baby diaper and baby pull-up diaper (嬰兒尿褲及拉拉褲通用件的研發與應用)	N/A	N/A	0.7	—	—
21.	Research and application of underpad (乳墊的研發與應用)	N/A	N/A	0.4	—	—
				<u>55.5</u>	<u>739.1</u>	<u>124</u>

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Our competitiveness in research and development ability can be proven by our dedication on developing new products and technologies that can be used in our machines. As at the Latest Practicable Date, we owned 113 utility patents, 12 invention patents and two design patents in the PRC. In 2015, we were named as Quanzhou Industrial Technology Development Center (泉州市行業技術開發中心) for disposable diaper machines by Quanzhou Science and Technology Bureau (泉州市科學技術局). Our research and development team also continuously monitors technological advancement in the industry to keep abreast of our knowledge in the disposable hygiene product machinery industry.

In addition, we gather market intelligence from our customers and participating trade exhibitions to identify desired machine performance parameters and market needs. We also carry out projects which aim to research and develop machines with new functions and higher efficiency. As we need additional space for conducting our research and development activities, we intend to set up a research and development centre. For details of our future plans to further expand our research and development efforts, please refer to the paragraph headed “Business Strategies — Continue to strengthen our research and development capabilities to keep abreast of the trend in the industry” in this section.

For the four years ended 31 December 2019, we incurred research and development costs (including capitalised research and development costs) of approximately RMB7.0 million, RMB14.0 million, RMB11.4 million and RMB23.2 million, respectively. Research costs are expensed as incurred. Development costs, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and we have sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. During the Track Record Period, approximately RMB0.9 million, RMB3.7 million, RMB2.7 million and RMB1.0 million research and development costs were capitalised, respectively. Other development expenditure is recognised in profit or loss as an expense as incurred. During the Track Record Period, approximately RMB6.1 million, RMB10.3 million, RMB8.7 million and RMB19.5 million research and development costs were expensed, respectively. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period of three to five years.

HEALTH AND SAFETY

We are required to comply with various occupational health and safety laws and regulations in the PRC.

We value our employees as important assets of our Group and we strive to create and maintain a safe work environment for our employees. Our Group has implemented a safety management policy that covers production safety, safety trainings and general safety policies. We have been accredited GB/T24001-2016/ISO14001:2015 Environmental Management System Certification. In addition, our Group provides our employees with occupational safety education and training to enhance their awareness of safety issues. There are banners and posters around our production bases to remind and promote safety awareness. Additionally, we provide health and safety training to every new hire. Protective personal equipment such as mask and clean room attire are provided to operators if necessary.

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During the Track Record Period, we had no material work-related injury claims and the total compensation we paid for these work-related injury claims was less than RMB0.1 million in aggregate.

Since the first report from Wuhan, the PRC, on 31 December 2019, cases of the coronavirus disease (“COVID-19”) have been reported from every province of the PRC and overseas countries we have customers such as Vietnam, the Philippines, Cambodia and Russia. For the risk factors relating to the outbreak of COVID-19, please refer to the section headed “Risk Factors — Our prospects could be adversely affected by the outbreak of novel coronavirus” in this prospectus.

To avoid the disruptions to our production process caused by COVID-19, we have followed and adopted the infection control measures against COVID-19 issued by Jinjiang Municipal People’s Government to reduce the risk of transmitting COVID-19 between our employees, including but not limited to (i) the control of the mobility of our employees; (ii) 14 days of quarantine for any employee who has been in Hubei province; (iii) the duty to report to authority if we suspect any employee has possibly been infected; (iv) the health check of our employees such as measuring temperature of our employees twice a day; and (v) increasing health awareness such as promoting our employees to wear masks properly.

The table below sets out the sensitivity analysis of the estimated decrease of our profit before tax assuming different durations of production suspension having taken into account of possible impacts on the schedule of production as well as research and development:

	Impact on decrease in profit before tax			
	For the year ended 31 December			
	2016	2017	2018	2019
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Duration of production suspended for:				
— 0.5 month	(1,474)	(2,804)	(3,728)	(4,841)
— 1 month	(2,947)	(5,608)	(7,456)	(9,681)
— 2 months	(5,894)	(11,217)	(14,912)	(19,363)







After due and careful enquiries and taking into account the above sensitivity analysis, the financial resources presently available to our Group, including the balance of our cash and bank balances, cash flows generated from our operating activities and the estimated net proceeds from the Share Offer, our Directors are of the opinion that our Group has sufficient working capital for its present requirements for at least the 12 months from the date of this prospectus should there be a complete or partial suspension of our production facilities.

ENVIRONMENTAL MATTERS

We consider the protection of environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements. As our production process mainly involves the assembly of components and parts, we do not believe we are subject to material environmental liability risk or compliance costs. During the Track Record Period and up to the Latest Practicable Date, no fines or penalties for non-compliance of PRC environmental laws had been imposed on us. Our PRC Legal Advisers are of the view that we are not subject to any material administrative penalties due to violation of environmental laws in the PRC.

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INTELLECTUAL PROPERTY

We use “Haina Machinery” as our brand name. As at the Latest Practicable Date, we were the registered owner of the trademark, , , , , ,  in the PRC. We have been accredited GB/T29490-2013 Intellectual Property Management System Certificate issued by Zhonggui (Beijing) Certification Co., Ltd. As at the Latest Practicable Date, we owned 114 utility patents, 12 invention patents and two design patents. We have also registered our domain name, <http://www.fjhaina.com>. Detailed information of our intellectual property rights are set out in the section headed “Statutory and General Information — F. Further Information about our Business — 2. Our Intellectual Property Rights” in Appendix IV to this prospectus.

Our Directors confirm that we did not experience any infringement of our intellectual property during the Track Record Period which has had a material adverse effect on our business, results of operations, financial condition and prospects. During the Track Record Period, our Directors confirmed that we did not receive any infringement claims nor had we filed any infringement claims against any third parties.

EMPLOYEES

As at 31 December 2016, 2017, 2018 and 2019, we had a total of 344, 262, 364 and 250 full-time employees, respectively, all of whom were located in the PRC. The following table sets forth a breakdown of the number of our employees by function as at the Latest Practicable Date:

Function	Number of employees	%
Production	154	40.3
Technical engineering	57	14.9
Technical design	36	9.4
Administration	27	7.1
Finance	22	5.8
Quality assurance	22	5.8
Warehousing	21	5.5
Procurement	17	4.5
Sales	17	4.5
General managers	5	1.3
Directors	4	1.1
Total	382	100.0

On-the-job training is provided to our new employees. New employees are not permitted to work independently unless and until they have completed the training and passed the requisite assessments. All departments are required to submit annual training plans to the human resources department.

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INSURANCE

Our Directors consider our insurance coverage to be adequate and customary for businesses of our size and type and in line with the standard commercial practice in the jurisdictions where we have operations. We primarily maintain certain insurance for our assets and operation, such as insurance relating to personal injuries and asset losses.

During the Track Record Period, the total insurance costs incurred by our Group amounted to approximately RMB17,000, RMB3,000, RMB47,000 and RMB281,000, respectively. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we did not make any material claim in respect of the insurance taken out by us.

For the risk factor relating to our insurance coverage, please refer to the section headed “Risk Factors” in this prospectus.

MARKET AND COMPETITION

According to the Industry Report, the disposable hygiene product machinery market in the PRC is relatively fragmented with around 70 machinery manufacturers in 2019. In terms of revenue generated from sales of disposable hygiene product machinery, the top five disposable hygiene product machinery manufacturers, comprising both foreign-invested and local companies, had an aggregate market share of approximately 19.4% in 2019. Our Group was the third largest disposable hygiene product machinery manufacturer in the PRC with an approximate market share of approximately 4.0% in terms of revenue in 2019.

We face competition mainly on product quality, service level, product pricing and performance. Our Directors believe that we will maintain our competitiveness over other competitors and our market position in the PRC by strengthening and developing our competitive strengths. Our competitive strengths include the following:

- We have strong research and development capabilities and offer customisation in collaboration with customers on product design and development
- We have strong manufacturing capabilities with in-depth industry knowledge and a high commitment to quality
- We have strong and stable relationships with suppliers
- We have an experienced management team with high caliber and a proven track record

Further analysis of our industry and details of our competitive strengths are set out in the sections headed “Industry Overview” and “Business – Competitive Strengths” in this prospectus, respectively.

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SEASONALITY

Our business operation is generally not subject to seasonality changes.

AWARDS AND CERTIFICATIONS

The following table sets out our Group's major awards and certifications obtained:

Year(s) of certification/award	Certification/award	Award organisation or authority
2019 - 2022	GB/T19001-2016/ISO9001:2015 — Quality Management Systems Certificate (GB/T19001-2016/ISO9001:2015 質量管理體系認證)	China Quality Mark Certification Group (方圓標誌認證集團)
2018 - 2021	GB/T24001-2016/ISO14001:2015 — Environmental Management System Certification (GB/T24001-2016/ISO14001:2015 環境管理體系認證)	Shanghai Yinggeer Certification Co., Ltd. (上海英格爾認證有限公司)
2018 - 2021	GB/T19001-2016/ISO9001:2015 — Quality Management System Certificate (GB/T19001-2016/ISO9001:2015 質量管理體系認證)	Shanghai Yinggeer Certification Co., Ltd. (上海英格爾認證有限公司)
2018 - 2021	GB/T28001-2011/OHSAS18001:2007 — Occupational Health and Safety Management System Certification (GB/T28001-2011/OHSAS18001:2007 職業健康與安全管理體系認證)	Shanghai Yinggeer Certification Co., Ltd. (上海英格爾認證有限公司)
2016 - 2020	Fujian Science and Technology Little Giant Leading Enterprise Certificate (福建省科技小巨人領軍企業證書)	Fujian Provincial Science and Technology Department (福建省科學技術廳) Fujian Provincial Development and Reform Commission (福建省發展和改革委員會) Fujian Provincial Commission of Economy and Informatisation (福建省經濟和信息化委員會) Fujian Provincial Department Finance of Finance (福建省財政廳)

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Year(s) of certification/award	Certification/award	Award organisation or authority
2017 - 2021	Certificate of Fujian Science and Technology Enterprise (福建省科技型企業證書)	Fujian Science and Technology Department (福建省科學技術廳)
2017 - 2020	Integration of Informationization and Industrialization Management System Certificate (兩化融合管理體系評定證書)	Shanghai Institute of Quality Management (上海質量管理科學研究院)
2017 - 2020	GB/T29490-2013 Intellectual Property Management System Certificate (GB/T29490-2013 知識產權管理體系認證證書)	Zhonggui (Beijing) Certification Co., Ltd. (中規(北京)認證有限公司)
2014 - 2017	Certificate of Fujian Science and Technology Enterprise (福建省科技型企業證書)	Fujian Science and Technology Department (福建省科學技術廳)
2014 - 2017	Certificate of well-known trademark for "Haina Machinery" 2014 in Quanzhou (2014年泉州市知名商標證書 — 「海納機械」)	Quanzhou Administration for Industry and Commerce (泉州市工商行政管理局)
2017	Jinjiang Science and Technology Award 2016 (2016年度晉江市科學技術獎)	Jinjiang Municipal People's Government (晉江市人民政府)
2017	Certificate of Fujian Province "Specialised Special New" Small and Medium Enterprise (福建省「專精特新」中小企業證書)	Fujian Provincial Department of Finance (福建省財政廳)
2016	Quanzhou Patent Award 2016 (2016年度泉州市專利獎)	Quanzhou Municipal People's Government (泉州市人民政府)
2016	Technology Innovation Award 2015 (2015年度科技創新獎)	Party Working Committee for the Jinjiang Economic Development Zone, Fujian (福建晉江經濟開發區黨工委)
		Management Committee for the Jinjiang Economic Development Zone, Fujian (福建晉江經濟開發區管委會)
2016	Certificate of Vice Chairman Unit (副理事長單位證書)	Quanzhou City Numerical Control Generation Industry Technology Innovation Strategic Alliance (泉州市數控一代產業技術創新戰略聯盟)

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Year(s) of certification/award	Certification/award	Award organisation or authority
2016	Certificate of contract honoring and creditworthy enterprise 2014/15 (2014-2015 年度守合同重信用企業)	Quanzhou Municipal People's Government (泉州市人民政府)
2016	Certificate of contract honoring and creditworthy enterprise 2014/15 (2014-2015 年度守合同重信用企業)	Jinjiang City Market Supervision Administration (晉江市市場監督管理局)
2016-2022	High and New Technology Enterprise Certificate (高新技術企業證書)	Fujian Provincial Department of Science & Technology (福建省科學技術廳)
		Fujian Provincial Department of Finance (福建省財政廳)
		Fujian Provincial Office, SAT (福建省國家稅務局)
		Fujian Local Taxation Bureau (福建省地方稅務局)
2015	Jinjiang Science and Technology Award 2015 (2015 年度晉江市科學技術獎)	Jinjiang Municipal People's Government (晉江市人民政府)
2015	Jinjiang Science and Technology Award 2014 (2014 年度晉江市科學技術獎)	Jinjiang Municipal People's Government (晉江市人民政府)
2015	Certificate of Quanzhou Industrial Technology Development Center (泉州市行業技術開發中心證書)	Quanzhou Science and Technology Bureau (泉州市科學技術局)
2014	Certificate of Member in China Paper Association Tissue Committee (中國造紙協會生活用紙專業委員會委員證書)	China Paper Association Tissue Committee (中國造紙協會生活用紙專業委員會)

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LEASED PROPERTIES

As at the Latest Practicable Date, we leased several properties in the PRC from independent third parties. Details of properties leased by our Group in the PRC are set out below:

No.	Location	Use	Approximate area (sq.m.)	Tenancy period	Rental (RMB)
1.	Jinjiang, the PRC	Factory (machine manufacturing category)	1,440	1 October 2018 to 30 September 2021	610,157 (for the entire term)
2.	Jinjiang, the PRC	Factory (machine manufacturing category)	8,335	1 August 2018 to 31 July 2021	4,230,846 (for the entire term)
3.	Jinjiang, the PRC	Staff quarter, canteen, factory and office	16,386.60	1 January 2018 to 1 January 2024	2,522,824 (per year)
4.	Hangzhou, the PRC	Factory, office and staff quarter	9,433.30	19 July 2019 to 31 August 2024	3,392,964 ^(Note) (per year)

Note: Rent increases by 5% every two years.

During the Track Record Period, our Group had not experienced any difficulty in renewing our leases.

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01B of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

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LICENCES, PERMITS AND APPROVALS

As advised by our PRC Legal Advisers, it is confirmed that, as at the Latest Practicable Date, we had obtained all requisite licences, permits and approvals from the relevant government authorities that are material for our business operation in the PRC. The following table sets forth details of the material licences and permits held by our Group:

Entity	Licences	Certifying authority	Validity period
Jinjiang Haina	Business licence (營業執照)	Market Supervision Administration of Jinjiang City (晉江市市場監督管理局)	50 years (24 January 2011 to 23 January 2061)
Jinjiang Haina	Registration certificate of the PRC Customs for Customs Declaration Entities (海關報關單位註冊登記 證書)	Quanzhou Customs (泉州海關)	Long-term
Jinjiang Haina	Business registration certificate (業務登記憑證)	State Administration of Foreign Exchange of Jinjiang City Branch (國家外匯管理局晉江市支局)	N/A
Hangzhou Haina	Business licence (營業執照)	Market Supervision Administration of Hangzhou City (杭州市市場監督管理局)	Long-term
Hangzhou Haina	Registration of Foreign Trading Operators (對外貿易經營者備案登 記表)	Foreign Trade Operator Registration and Filing authority (對外貿易經營者備案登記 機關)	N/A
Hangzhou Haina	Registration certificate of the PRC Customs for Customs Declaration Entities (海關報關單位註冊登記 證書)	Hangzhou Customs (杭州海關)	Long-term

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LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

As at the Latest Practicable Date, no member of our Group or our Directors was involved in any litigation, claim or administrative proceedings of material importance, and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of our Group or our Directors.

Non-compliance incidents

We had been involved in certain non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, a summary of which is set out in the table below. Save as disclosed below, we have been in compliance in all material respects with the applicable PRC laws and regulations relating to our business operations during the Track Record Period and up to the Latest Practicable Date.

Failure to make social insurance and housing provident fund contributions in full in the PRC

(i) Details of non-compliance incident

During the Track Record Period, we did not make full contribution to the social insurance fund and the housing provident fund.

We estimate that the outstanding social insurance fund and housing provident contributions inclusive of amounts for employees of Hangzhou Haina after it was acquired by us amounted to approximately RMB4.3 million, RMB3.2 million, RMB4.7 million and RMB3.0 million for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

(ii) Reasons for the non-compliance

This non-compliance was due to the insufficient understanding of the applicable PRC laws and regulations and the contributions to the social insurance fund and the housing provident fund by two staff in the administration and human resources department. Some of the affected employees were unwilling to make the social insurance and housing provident fund contributions because they had already made contributions either at different locations or they had already registered for the New Rural Medical Insurance Scheme (新型農村醫療保險), and the other employees have confirmed in writing of their decision not to make social insurance and housing provident fund contributions.

(iii) Possible legal consequences and impact

According to 中華人民共和國社會保險法 (Social Insurance Law of the PRC) and 住房公積金管理條例 (Regulations on the Administration of Housing Provident Funds), we are required to make contributions to social insurance funds for our employees, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance and housing provident funds, respectively. As advised by our PRC Legal Advisers, if the Company's operating subsidiaries in the PRC fail to make social insurance and housing provident fund contributions for our employees in full amount in a timely manner, the Company's operating subsidiaries in the PRC may be ordered to make the contributions and pay the shortfalls within a specified period. A late charge equivalent to 0.05% of the outstanding social

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insurance contributions per day will be levied on the Company's operating subsidiaries in the PRC for the outstanding social insurance contributions and if the Company's operating subsidiaries in the PRC fail to pay the outstanding social insurance contributions and/or the late charge within the specified period, the Company's operating subsidiaries in the PRC may be subject to a fine that equals up to three times of the outstanding social insurance contributions. Also, the relevant government authority may apply to the relevant PRC court for the enforcement of the payments of the outstanding housing provident fund contributions.

(iv) Remedial actions and internal control measures adopted

Since February 2019, we have made social insurance and housing provident fund contributions in full for all other employees other than those employees who have already registered for the New Rural Medical Insurance Scheme (新型農村醫療保險) or those who have confirmed in writing that they will not make social insurance and housing provident fund contributions. With respect to Jinjiang Haina, we have obtained written confirmations from the local authorities with responsibility for social insurance contributions for Jinjiang Haina, confirming that Jinjiang Haina had not been subject to any administrative penalties or administrative enforcement in respect of making social insurance contributions. We have also obtained written confirmations from the local authority with responsibility for housing provident fund contributions for Jinjiang Haina, confirming that Jinjiang Haina has complied with the applicable laws and regulations in respect of housing provident funds contributions, and Jinjiang Haina had not been required to pay unpaid contributions or been penalised for violating applicable laws and regulations over housing provident fund contributions. With respect to Hangzhou Haina, we have obtained written confirmations from the local authority with responsibility for social insurance contributions for Hangzhou Haina, confirming that since Hangzhou Haina's establishment, there has been no material violation of labour protection laws and regulations. We have also obtained written confirmations from the local authority with responsibility for housing provident contributions for Hangzhou Haina, confirming that Hangzhou Haina had not been required to pay unpaid contributions or been penalised for violating applicable laws and regulations over housing provident fund contributions. Our PRC Legal Advisers have informed us that the above-mentioned social insurance authorities and housing provident fund authorities are the competent authorities for issuing the above written confirmations. Our Directors believe that the historical non-compliance incidents did not cause and will not cause, whether individually or in aggregate, any material adverse financial or operational impact on us for the following reasons:

- (a) internal training had been delivered to the staff responsible for calculating and computing social insurance and housing provident fund contributions to raise the awareness of responsible staff;
- (b) our internal policy and guidelines had been revised to include (1) the human resources department shall prepare the social insurance and housing provident fund contribution records for approval by the management in advance, (2) the Group shall, within the period prescribed by the relevant laws and regulations, submit the relevant calculations and records to the handling agency for payment, and (3) the human resources department shall be responsible for auditing the payment requisitions and the finance department shall have the primary responsibility to pay the social insurance and housing provident fund contributions;

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- (c) our Controlling Shareholders have irrevocably undertaken to us that, in the case of the relevant authorities requiring us to pay for such non-compliance, they will indemnify us against all losses, claims, penalties, fines and expenses as a result of this historical non-compliance; and
- (d) our Group had made provisions of approximately RMB7.0 million, RMB7.5 million, RMB7.9 million and RMB7.3 million for the outstanding social insurance and housing provident fund contributions as at 31 December 2016, 2017, 2018 and 2019, respectively. Our Directors are of the view that the provisions are sufficient to cover any shortfall in contributions in relation to this non-compliance. In view of the foregoing, our PRC Legal Advisers are of the view that the risks of the Group being penalised or being requested to pay-up any unpaid social insurance and housing provident fund is relatively low, and our Directors and our PRC Legal Advisers are of the view that this non-compliance will not have any material adverse effect on our Group's business or financial condition.

Enhanced internal control measures to prevent reoccurrence of non-compliance incident

In preparation for the Listing, we had engaged an independent internal control consultant to review our internal control system. In view of the above non-compliance, the internal control consultant has reviewed the Group's enhanced internal control systems and the rectification actions taken by the Group and is of the view that the weaknesses have been rectified. Please refer to the paragraph headed "Internal Control and Risk Management" in this section.

Views of our Directors and the Sole Sponsor

Our Directors are of the view that the enhanced internal control measures in place are adequate and effective to prevent future occurrence of the above non-compliance incident.

After considering (i) our rectifications; (ii) internal control measures taken to prevent any future non-compliance incident mentioned above; (iii) the facts and circumstances leading to the non-compliance incident disclosed herein; (iv) the advice provided by our PRC Legal Advisers; and (v) as confirmed by our Directors, the incident was not conducted intentionally, or involved any issue in the integrity, character or competence of our Directors, the Sole Sponsor are of the view that the non-compliance incident of our Group does not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group, under which they have agreed to indemnify the Group, subject to the terms and conditions therein, in respect of any liability that may be borne by the Group in respect of the above non-compliance. Please refer to the section headed "Statutory and General Information — I. Other Information — 4. Tax and other indemnities — (e) Deed of Indemnity" in Appendix IV to this prospectus for further details of the indemnity that was given by our Controlling Shareholders.

INTERNAL CONTROL AND RISK MANAGEMENT

The organisational structure of our internal control system includes the Board of Directors, the Audit Committee, the senior management, and our various departments and branches. The Board of Directors assumes the ultimate responsibility for our internal control, risk management and compliance. The Board of Directors is responsible for establishing comprehensive internal control policies and ensuring their effective implementation. The Audit Committee is responsible for reviewing and supervising the financial reporting process, internal control and risk management system of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. Our various departments are responsible for strictly following our internal control policies and procedures during their daily operations.

Our internal control framework covers the key procedures during our operations, which include entity level controls and business level controls for the processes of sales management, procurement and payables, cash of treasury management, human resources, financial reporting, capital expenditure and information technology general control. We impose strict controls on appointment, authorisation, approval, accounting system, property protection, budget and operational analysis.

Internal Control

In preparation for the Listing, the Company has engaged an independent consultant (the “**Internal Control Consultant**”) to conduct a review of our internal control system. The scope of work of the review was discussed with and agreed by the Company and the Sole Sponsor. The internal controls review described above was conducted based on information provided by the Company and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. During the course of the review, the internal control consultant identified a number of areas for improvement in relation to our internal control policies and procedures, pursuant to which we have taken the internal control enhancement measures recommended by the Internal Control Consultant.

The Internal Control Consultant also performed a follow-up review (the “**Follow-up Review**”) since February 2019 to review the status of the enhanced internal control measures by our Group to address the findings identified during the internal control review. The Internal Control Consultant was not aware of any material internal control deficiency that affects the adequacy and effectiveness of such measures and our Directors confirmed that the corresponding remedial actions had been implemented according to suggestions of our Internal Control Consultant.

Our Group has adopted and implemented a series of internal control policies and procedures to meet our specific business needs and to minimise our risk exposure. The written policies and procedures are designed to reasonably assure effective and efficient operations, reliable financial reporting and compliance with related laws and regulations.

Our management will continuously monitor and improve the procedures to ensure that effective operation of those internal controls are in line with the growth of our business and good corporate governance practice.

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Corporate governance

In terms of corporate governance, our Group has, inter alia, (i) appointed three independent non-executive Directors to ensure the effective exercise of independent judgment on its decision-making process and provide independent advice to our Board; (ii) established the Audit Committee to review our financial reporting system, risk management and internal control system; (iii) appointed VBG Capital Limited as our compliance adviser in compliance with the applicable Listing Rules; and (iv) provided (and will continue to provide) our Directors and senior management with training, development programs on applicable legal and regulatory requirements from time to time.

Risk management

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision-making process and are committed to managing and minimising risks by identifying, analysing, evaluating and mitigating risk exposures that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objective. The risk management process of our Group is coordinated and facilitated by our senior management. The objectives of risk management are to, inter alia, enhance our Group's governance and corporate management processes as well as to safeguard our Group against unacceptable levels of risks and losses.

The following sets out the key risks of our business and the internal control procedures to mitigate and minimise the corresponding risks:

Regulatory risk management

Our Group will be exposed to the risk of non-compliance with regard to the applicable laws and regulations, and also the Listing Rules, upon the Listing. Our Group has appointed VBG Capital Limited as our compliance adviser to advise us on compliance with the Listing Rules upon the Listing, and regarding the compliance on applicable Hong Kong laws and regulations, our Group will also appoint a legal adviser to advise us in that regard. For further information, please refer to the paragraph headed "Internal Control and Risk Management — Corporate governance" of this section.

In addition, to ensure that our internal compliance with international laws and regulations relating to economic sanctions and trade restrictions, we have adopted procedures, whereby before any sales contract is entered into with any overseas customer, the details of such customer will be recorded internally in a form, and the customer's details will then be checked by a designated person in the Group's finance department against an internal list of countries that may be subject to international sanctions which will be updated regularly. In addition, all such sales contracts will be approved by an executive Director before they can be signed.

Credit risk management

Our Group is exposed to the risk of whether we are able to collect the receivables from our counterparties which will result in a financial loss if we fail to do so. The finance department would prepare a monthly report on outstanding overdue payments for our executive Directors and alert our executive Directors on new overdue payments for them to closely monitor, evaluate the risk level and decide on actions to follow-up depending on, among others, the relationship with the customer, payment history of the customer, the general economic environment and our Group's financial position. In general, deposits are normally required for new customers. In addition, before entering

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contracts with any new customer, we would perform searches and assess whether the new customer has acceptable financial background, track record and reputation. Furthermore, projects of value exceeding a certain amount and contracts with new customers would be subject to approval from our executive Directors.

Operational risk management

Our executive Directors and senior management staff are responsible for monitoring our daily operation and assessing the relevant operational risks. We have control measures on inventory, product and service quality and pricing. The measures will be reviewed by our executive Directors on a regular basis.

Our Group also emphasises on ethical value and prevention of fraud and bribery. To achieve so, our staff including all employees and Directors of our Group, are required to read internal control manual. Such procedure allows us to minimise the risk associated with potential unethical behaviours, wrongdoings, frauds or unauthorised access to confidential information.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

THE CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Prestige Name, which is owned as to 45.0% by Mr. Hong, 25.0% by Mr. Zhang, 18.0% by Mr. Su and 12.0% by Mr. He, will hold 75.0% of the issued share capital of the Company. Please refer to “Directors and Senior Management” and “History, Development and Reorganisation” in this prospectus for details of our Controlling Shareholders.

By virtue of the shareholding of Prestige Name in the Company and the Acting in Concert Confirmation (as defined below) entered into among Prestige Name, Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He will together form a group of Controlling Shareholders within the meaning of the Listing Rules.

Acting in Concert Confirmation

Since March 2011, Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He have been, in exercising the shareholders’ rights of each of our subsidiaries, acting in concert with each other. Since the incorporation of Prestige Name, Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He have been exercising their shareholders’ rights of each of our subsidiaries through Prestige Name. As Mr. Hong, Mr. Zhang, Mr. Su and Mr. He are a group of individuals and Prestige Name is a special purpose vehicle that was set up and controlled by them, the acting in concert arrangement was not formalised in writing and Mr. Hong, Mr. Zhang, Mr. Su and Mr. He had no disagreement with these arrangements based on their personal relationship and the trust and confidence they have in each other.

On 21 March 2019, in preparation for the Listing, our Controlling Shareholders executed the acting in concert confirmation (the “**Acting in Concert Confirmation**”), in which they confirmed the existence of their acting in concert arrangements in respect of our Company and our subsidiaries from time to time.

Our Controlling Shareholders further confirm to each other that, for the entire duration when they were/are contemporaneously either the legal owners of shares in each of the subsidiaries, and/or being beneficiaries of the businesses of our Company and any of the subsidiaries:

- (a) each of our Controlling Shareholders has agreed to, and shall continue to, consult each other and reach a consensus among themselves on matters which are the subject of any shareholders’ resolution prior to putting forward any such resolution to be passed at any shareholders’ meeting of our Company and the subsidiaries (as the case may be);
- (b) each of our Controlling Shareholders confirms that he/it did not and will not do any act or exercise any of his/its voting power which may be available to him/it from time to time over any of the shares in our Company and its subsidiaries (as the case may be) in contravention of his/its respective obligations;
- (c) each of our Controlling Shareholders confirms to each other that, he/it will strictly comply with the lock-up undertaking that may be given by each of our Controlling Shareholders in connection with the Listing;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) each of our Controlling Shareholders has agreed with each other that he/it did use and will continue to use his/its best endeavours to ensure that all major matters concerning our Company and the subsidiaries (as the case may be) shall be communicated to each other so as to ensure that a consensus may be reached in a timely manner;
- (e) our Controlling Shareholders have enjoyed, and shall continue to enjoy, the economic benefits generated from the Company and all subsidiaries from the businesses of our Group, which include but shall not be limited to, dividends declared or to be declared (if any) and other distributions from the businesses of our Group;
- (f) where there was or is any suitable business opportunity or project for our Group, our Controlling Shareholders have engaged in, and shall continue to engage in, discussions as to whether they should participate and, if so, in whose name they should participate and the extent of participation in terms of investment and management; and
- (g) our Controlling Shareholders have centralised, and shall continue to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses of our Group.

The Controlling Shareholders have agreed that the Acting in Concert Confirmation shall not be amended or terminated unless agreed in writing by all Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Taking into consideration of the following factors, our Board is satisfied that our Group is capable of carrying out our business independently from our Controlling Shareholders upon the Listing. Our Directors are of the view that there will be no significant transactions between our Group and our Controlling Shareholders or their associates following the Listing.

Operational Independence

Our Company is capable of making independent decisions on business operations. Although our Controlling Shareholders retain a controlling interest in our Company after the Listing and Mr. Hong, Mr. Zhang, Mr. Su and Mr. He are our executive Directors, it does not prevent us from exercising full rights to make our own decisions on business operations.

In addition, our organisational structure is well defined to align the day-to-day operation of the business with the organisational aims. Each department in our organisational structure is empowered to determine the modes in which it operates and performs independently, subject to the final confirmation and approval by our senior management team and the Board. We believe that we have in place an efficient and transparent internal control system to facilitate the effective operation of our business.

Saved as disclosed in “Connected Transactions” section in the prospectus and the related party transactions as set out in note 33 to the Accountants’ Report in Appendix I to this prospectus, there will be no continuing connected transaction and related party transaction between the Group and the Controlling Shareholders or their respective close associates. In light of the above, our Directors are of the view that the Group is capable of operating independently from the Controlling Shareholders and their respective close associates after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Management Independence

Our management and operational decision are made by our Board and senior management. Our Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors.

Our managerial decision makers are empowered to provide input into and have final approval of development of corporate strategy and performance objectives. Their managerial roles include, among others, independently reviewing, ratifying and monitoring systems of risk management, internal control and legal compliance. Our Directors and senior management are familiar with the fundamentals of our Company's business, its operations and are informed about our Company's activities.

Our Group has established (i) the audit committee, (ii) the remuneration committee, and (iii) the nomination committee. Each committee comprises a majority of independent non-executive Directors so as to monitor the operations of our Group.

Each Director understands that, he/she owes primary duties to our Company and is aware of his/her fiduciary duties as a Director which requires, among others, that he/she must act for the benefit of and in the best interests of our Company and shall avoid any conflict between his/her personal interests and those of our Company. 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 associates, the interested Director(s) and their respective associate(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Our Company has also established internal control mechanisms to identify connected transactions to ensure that interested Shareholders or Directors with conflicting interests in a proposed transaction will comply with the requirements under the Memorandum and Articles of Association and the Listing Rules (including abstaining from voting on the relevant resolutions). Save as disclosed in the section headed "Connected Transactions" in this prospectus, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after the Listing.

Since all of our executive Directors have substantial experience in their respective expertise areas and/or in the industry in which our Group is engaged, we believe that they will be able to make business decisions that are in the best interest of the our Group. In addition, the business of our Group has been operated under substantially the same management throughout the Track Record Period and up to the Latest Practicable Date.

We believe 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 judgment and oversight. Our non-executive and independent non-executive Directors, details of whom are set out in the section headed "Directors and Senior Management" in this prospectus, individually and together possess the requisite knowledge and experience to be members of our Board. All of our non-executive Directors (including independent non-executive Directors) are sufficiently experienced and we believe that they will provide impartial and professional advice on our operations to protect the interests of our minority Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Further, our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board. Having considered the above factors, our Directors are satisfied that our Board as a whole together with our senior management team are able to make independent managerial decisions having regard to their own knowledge of the corporation and their experience and skills.

Financial Independence

Our Company is empowered to make independent decision in respect of business financial matters. Our Group has our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and the ability to operate independently of our Controlling Shareholders from a financial perspective. During the Track Record Period, Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He had provided personal guarantees for the banking facilities used by our Group. Our Directors confirm that all such guarantees had been released by the full repayment of banking facilities as at the Latest Practicable Date. There are also certain balances due to our Controlling Shareholders, which will be settled on or before the Listing. Please refer to note 25 to the Accountants' Report in Appendix I to the prospectus.

Saved as disclosed above, as at the Latest Practicable Date, (i) we did not have any other outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective associates; and (ii) there were no bank borrowings for which any of our Controlling Shareholders has provided personal guarantee. As such, our Company is satisfied with our capability to carry on our business financially independently of our Controlling Shareholders. Our Directors further confirm that we will not rely on our Controlling Shareholders for financing after the Listing as we expect that our working capital will be funded by the proceeds from the Share Offer, our operating income and bank borrowings.

LOCK-UP UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to our Company and the Stock Exchange that, it or he shall not, at any time during (i) the first six-month period commencing on the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which it or he is shown in this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and (ii) the six-month period commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or 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, our Controlling Shareholders would cease to be a controlling shareholder or a group of controlling shareholders (as defined in the Listing Rules) of our Company.

COMPETITION

None of our Directors, Controlling Shareholders or any of their respective close associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our board of Directors consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors.

The following table sets out certain information of our Directors:

Name	Age	Position	Date of Appointment	Date of Joining our Group	Responsibilities	Relationships with other Directors
<i>Executive Directors</i>						
Mr. Hong Yiyuan (洪奕元)	41	Executive Director, chairman and chief executive officer	20 December 2017	14 March 2011	Formulating corporate strategy, planning, business development and supervising the overall operations of our Group. He is the chairman of the Nomination Committee and a member of the Remuneration Committee	N/A
Mr. Zhang Zhixiong (張志雄)	41	Executive Director	21 March 2019	24 January 2011	Responsible for the corporate and finance management of the Group. He is a member of the Remuneration Committee	N/A
Mr. Su Chengya (蘇承涯)	46	Executive Director	21 March 2019	24 January 2011	Responsible for the general administration management of the Group	N/A
Mr. He Ziping (何子平)	42	Executive Director	21 March 2019	24 January 2011	Responsible for the sales and marketing of the Group	N/A
<i>Non-executive Director</i>						
Mr. Chang Chi Hsung (鄭志雄)	41	Non-executive Director	21 March 2019	12 April 2018	Providing advice to our Board and a member of the Audit Committee	N/A
<i>Independent non-executive Directors</i>						
Mr. Chan Ming Kit (陳銘傑)	40	Independent non-executive Director	4 May 2020	4 May 2020	Providing independent advice to our Board, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee	N/A
Dr. Wang Fengxiang (汪鳳翔)	37	Independent non-executive Director	4 May 2020	4 May 2020	Providing independent advice to our Board, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee	N/A
Mr. Ng Tat Fung (吳達峰)	37	Independent non-executive Director	4 May 2020	4 May 2020	Providing independent advice to our Board, the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee	N/A

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Hong Yiyuan (洪奕元)

Mr. Hong Yiyuan (洪奕元), aged 41, is one of our Founders, our executive Director, the chairman of the Board and our chief executive officer. He was appointed as our Director on 20 December 2017 and re-designated as an executive Director on 21 March 2019. Mr. Hong joined our Group on 14 March 2011. Mr. Hong is responsible for formulating corporate planning, business development and supervising the overall operations of our Group. He is the chairman of the Nomination Committee and a member of the Remuneration Committee. He is a director of Affluent International, Haina Technology, Jinjiang Haina and Hangzhou Haina.

Mr. Hong has over 18 years of experience in the disposable hygiene product machinery industry. From May 1998 to June 2002, Mr. Hong worked as a technician at Fujian Hengan Holding Co., Ltd. (福建恒安集團有限公司), a subsidiary of Hengan International Group Company Limited, a company listed on the Stock Exchange (stock code: 01044). From 2003 to 2006, he served as a manager at Guiyang Nanming Hemei Paper Fitting Factory (貴陽南明合美紙業加工廠), which was engaged in the sales and production of the disposable sanitary products including napkins, sanitary napkins, and diapers. From August 2006 to July 2010, Mr. Hong was the legal representative of Guiyang Nanming Tiantian Hygiene Products Company Limited (貴陽南明天天衛生用品有限公司), which was engaged in the sales and production of the disposable hygiene products.

Mr. Hong was appointed as the vice president of The Second Standing Committee of the Chamber of Commerce in Jinjiang Economic Development Zone (晉江經濟開發區商會第二屆理事會) in March 2018.

Mr. Hong completed a specialist program in mechanical manufacturing and automation through distance-learning (part-time) from Tianjin University (天津大學) in the PRC in January 2017.

Mr. Zhang Zhixiong (張志雄)

Mr. Zhang Zhixiong (張志雄), aged 41, is one of our Founders and our executive Director. He was appointed as an executive Director on 21 March 2019. Mr. Zhang joined our Group on 24 January 2011. Mr. Zhang is responsible for the corporate and finance management of the Group. He is a member of the Remuneration Committee. He is a director of Jinjiang Haina.

Mr. Zhang has over 18 years of experience in corporate management. From September 2000 to May 2003, Mr. Zhang served as a manager at Minnan Trade Customs of Xiamen City Shishi Branch (廈門市閩南經貿報關行石獅分行). From June 2003 to May 2005, he served as the deputy general manager at Quanzhou Enterprises with Foreign Investment Anhai Company Limited (泉州市外商投資企業安海有限公司). From June 2005 to July 2010, Mr. Zhang was the deputy general manager of Jinjiang Kaide Economic Investment Consultancy Company Limited (晉江凱德經濟投資諮詢有限公司). From August 2010 to December 2010, Mr. Zhang was the general manager of Jinjiang City Chuanghui Cultural Equipment Company Limited (晉江市創慧文化用品有限公司).

DIRECTORS AND SENIOR MANAGEMENT

Since December 2016, Mr. Zhang has been a committee member of the Thirteenth Session of the People's Political Consultative Conference in Jinjiang City (中國人民政治協商會議第十三屆晉江市委員會委員). He was named in the selected list of leading talents in technological entrepreneurship of Quanzhou City (泉州市科技創業領軍人才入選名單) in 2016.

Mr. Zhang completed a specialist program in mechanical manufacturing and automation through distance-learning (part-time) from the Tianjin University (天津大學) in the PRC in January 2017.

Mr. Su Chengya (蘇承涯)

Mr. Su Chengya (蘇承涯), aged 46, is one of our Founders and our executive Director. He was appointed as our executive Director on 21 March 2019. Mr. Su joined our Group on 24 January 2011. Mr. Su is responsible for the general administration management of the Group. He is the supervisor of Jinjiang Haina.

Mr. Su has over 18 years of experience in management of machineries-related enterprises. From August 1989 to October 1999, he served as a worker at Wushan Village Machinery Fitting Factory (安海鎮梧山機械廠). From November 1999 to February 2008, Mr. Su served as the general manager of Yafeng Machinery Manufacturing Company Limited (涯峰機械製造有限公司). From March 2008 to May 2010, Mr. Su served as a manager of Jinjiang City Shunchang Machinery Manufacturing Company Limited (晉江市順昌機械製造有限公司).

Mr. Su completed his elementary education at Wushan Primary School of Anhai Town Jinjiang City (晉江市安海鎮梧山小學) in the PRC in June 1986.

Mr. He Ziping (何子平)

Mr. He Ziping (何子平), aged 42, is one of our Founders and our executive Director. He was appointed as our executive Director on 21 March 2019. Mr. He joined our Group on 24 January 2011. Mr. He is responsible for the sales and marketing of the Group. He is a director of Jinjiang Haina.

Mr. He has over 20 years of experience in the disposable hygiene product machinery industry. From September 1995 to August 1997, Mr. He served as a technician at Fujian Hengan Holding Co., Ltd. (福建恒安集團有限公司), a subsidiary of HengAn International Group Company Limited, a company listed on the Stock Exchange (stock code: 01044). From September 1997 to February 2001, he worked as a production management officer at Hengan (Sichuan) Hygiene Products Co. Ltd. (恒安(四川)衛生用品有限公司), which is a subsidiary of HengAn International Group Company Limited. From March 2001 to August 2005, he worked as business operation officer at Jinjiang City Dongnan Machinery manufacturing Company Limited (晉江市東南機械製造有限公司). From April 2006 to August 2010, he served as the deputy general manager of Jinjiang City Shunchang Machinery manufacturing Company Limited (晉江市順昌機械製造有限公司).

In December 2014, Mr. He was appointed as a deputy supervisor of The First Standing Committee of the Chamber of Commerce of Sanitary Products in Fujian Province (福建省衛生用品商會第一屆理事會). Since January 2019, Mr. He has been the vice president of The Second Standing Committee of the Chamber of Commerce of Sanitary Products in Fujian Province (福建省衛生用品商會第二屆理事會).

DIRECTORS AND SENIOR MANAGEMENT

Mr. He completed a specialist program in mechanical manufacturing and automation through distance-learning (part-time) from Tianjin University (天津大學) in the PRC in January 2017.

Non-executive Director

Mr. Chang Chi Hsung (鄭志雄), aged 41, was appointed as our non-executive Director on 21 March 2019. Mr. Chang joined our Group on 12 April 2018. He is responsible for providing advice to our Board. He is a member of the Audit Committee.

Mr. Chang has over 18 years of experience in the accounting industry. From February 2001 to October 2004, he worked at KPMG Malaysia and left as an audit senior. From November 2004 to August 2008, he worked at KPMG Singapore and left as an audit assistant manager. From September 2008 to November 2015, he worked at Mazars Singapore and left as an associate director. In December 2016, Mr. Chang co-founded OA group, served as the managing director of OA International Holdings Pte. Ltd and the managing director of OA Assurance PAC. OA group is a professional service firm, providing corporate secretarial, valuation, audit, tax and advisory services.

Mr. Chang obtained a bachelor's degree of commerce in accounting and finance from the University of New South Wales in Australia in April 2001. He is a chartered accountant of Singapore and a member of the Malaysian Institute of Accountants. He is a fellow of CPA Australia and is also qualified as an ASEAN Chartered Professional Accountant. In January 2019, Mr. Chang was appointed as an independent director of Reclaims Global Limited (SGX stock code: NEX), a company listed on the Singapore Exchange Limited.

Independent non-executive Directors

Mr. Chan Ming Kit (陳銘傑)

Mr. Chan Ming Kit (陳銘傑), aged 40, was appointed as an independent non-executive Director on 4 May 2020. He is responsible for providing independent advice to our Board. He is the chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee.

Mr. Chan has more than eight years of experience in the compliance and legal industry. From April 2007 to August 2011, he worked at G2000 (Apparel) Limited and left as a compliance officer. From April 2015 to June 2017, he worked as an assistant solicitor at M.C.A. Lai Solicitors LLP, a law firm. From June 2017 to February 2018, he worked as a consultant solicitor at C.K. Charles Ho & Co. (currently known as Chan & Ho Solicitors), a law firm, and became a partner in March 2018. Since May 2017, Mr. Chan has been an independent non-executive director of Nexion Technologies Limited (stock code: 08420), a company listed on GEM of the Stock Exchange.

Mr. Chan obtained a bachelor's degree in laws from University of Sheffield in the United Kingdom in June 2005. He obtained a postgraduate certificate in laws from City University of Hong Kong in July 2011. He was called to the bar in Hong Kong in April 2012 and he was admitted as a solicitor of the High Court of Hong Kong in March 2015.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Wang Fengxiang (汪鳳翔)

Dr. Wang Fengxiang (汪鳳翔), aged 37, was appointed as an independent non-executive Director on 4 May 2020. He is responsible for providing independent advice to our Board. He is a member of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee.

Dr. Wang joined Chinese Academy of Sciences of Quanzhou Institute of Equipment Manufacturing Haixi Institutes (中國科學院海西研究院泉州裝備製造研究所) in April 2015 as a research fellow, he was promoted as a senior research fellow and deputy director in April 2016 and September 2016, respectively, and he obtained the qualification of a doctoral adviser.

Dr. Wang became a senior member of Institute of Electrical and Electronics Engineers (IEEE) in November 2018. He was appointed as the vice chairman of Fujian Association of Automation (福建省自動化學會) in December 2017. He was appointed as the vice president and secretary-general of the Second Standing Committee of Quanzhou Talent Development Promotion Association (泉州市人才發展促進會) in January 2019.

Dr. Wang obtained a bachelor's degree in electronic engineering from Nanchang Hangkong University (南昌航空大學) (formerly known as Institute of Nanchang Hangkong Industry (南昌航空工業學院)) in the PRC in July 2005 and obtained a master's degree in detection technology and automation from the same university in July 2008. Dr. Wang obtained a doctoral degree in philosophy from Technische Universität München in Germany in July 2014.

Mr. Ng Tat Fung (吳達峰)

Mr. Ng Tat Fung (吳達峰), aged 37, was appointed as an independent non-executive Director on 4 May 2020. He is responsible for providing independent advice to our Board. He is the chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee.

Mr. Ng has over 10 years of experience in the accounting and finance industry. From September 2007 to September 2008, he worked as an auditor at W.H. Tse & Company, an accounting firm. From September 2008 to April 2010, he worked as an auditor at K.P. Cheng & Co., an accounting firm. From April 2010 to July 2010, he served as an accountant at RSM Nelson Wheeler. From July 2010 to December 2011, he served as an audit senior at K.P. Cheng & Co.. From January 2012 to November 2013, he worked as an audit senior at Mazars CPA Limited. Since October 2013, he has been a director of NGP Business Advisory Limited (formerly known as Lloyds Chartered Company Limited). He founded Ng & Partners, an accounting firm, in March 2017 and has been its director since then.

Mr. Ng obtained a bachelor's degree in finance, accounting and management from the University of Nottingham in the United Kingdom in July 2007. Mr. Ng has been a member of the Hong Kong Institute of Certified Public Accountants since March 2016.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above and in the section headed “Statutory and General Information — G. Further Information about Directors and Substantial Shareholders — 8. Miscellaneous” in Appendix IV to this prospectus, each of our Directors confirms with respect to him that: (i) he has not held any directorship in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas, (ii) he does not hold any other positions in our Company or other members of our Group as at the Latest Practicable Date, (iii) he does not have any interests in the Shares within the meaning of Part XV of the SFO, (iv) there is no other information that should be disclosed for him pursuant to Rule 13.51(2) of the Listing Rules, and (v) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Mr. Hong, Mr. Zhang, Mr. Su and Mr. He are also the senior management of our Group. For details of their biographies, see “Executive Directors” above.

COMPANY SECRETARY

Mr. Lau Wai Piu Patrick (劉偉彪), aged 46, our company secretary, was appointed on 21 March 2019.

Mr. Lau has over 20 years of experience in auditing and accounting. From June 1997 to August 2000, he was an audit senior at C.B. Wong & Co.. He served as an audit supervisor at Yau & Leung CPA Limited from October 2000 to May 2004. From May 2004 to May 2006, he acted as a senior accounting supervisor at Eyston Company Limited and he was primarily responsible for heading the accounting department and handling the company secretarial matters. From May 2006 to December 2006 he was an accounting manager at Takson Garment Manufacturing Company Limited in which he was responsible for preparing the group consolidated financial statements and budgets. He served at Hembly International Holdings Limited from December 2006 to April 2012 and his last position was financial controller. He joined Shinhint Acoustic Link Holdings Limited (currently known as Jintai Energy Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 02728) (“**Shinhint**”) as an accounting manager and company secretary and he was the assistant financial controller and company secretary during the period from June 2012 to March 2013. He then rejoined Shinhint, and from May 2013 to September 2017, he served as its financial controller and company secretary and he was mainly responsible for monitoring the finance department in Hong Kong and handling the company secretarial and listed company related matters. Since 29 May 2019 and 2 July 2019, he has been the company secretary of Infinity Logistics and Transport Ventures Limited, a company listed on the Main Board of the Stock Exchange (stock code: 01442), and MOG Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 01942), respectively.

Mr. Lau obtained a higher diploma in accountancy with distinction and a master of arts degree in international accounting from City University of Hong Kong in November 1997 and October 2002, respectively. He has been a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants since July 2005 and September 2007 respectively.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES AND CORPORATE GOVERNANCE

Audit Committee

We established an Audit Committee pursuant to a Board resolution passed on 8 May 2020 in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The duties of the Audit Committee include reviewing, in draft form, our annual report and accounts, half-year report and providing advice and comments to our Board. In this regard, members of the Audit Committee will liaise with our Board, our senior management, our reporting accountants and auditors. The Audit Committee will also consider any significant or usual items that are, or may need to be reflected in such reports and accounts and give consideration to any matters that have been raised by our accounting staff, compliance officers or auditors. Members of the Audit Committee are also responsible for reviewing our Company's financial reporting process and internal control system.

The Audit Committee comprises three independent non-executive Directors, being Mr. Chan Ming Kit, Dr. Wang Fengxiang and Mr. Ng Tat Fung, and our non-executive Director, being Mr. Chang Chi Hsung. The chairman of the Audit Committee is Mr. Ng Tat Fung.

Remuneration Committee

We established a Remuneration Committee pursuant to a Board resolution passed on 8 May 2020 in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to our Board of the remuneration of independent non-executive Directors.

The Remuneration Committee comprises two executive Directors, being Mr. Hong and Mr. Zhang, three independent non-executive Directors, being Mr. Chan Ming Kit, Dr. Wang Fengxiang and Mr. Ng Tat Fung. The chairman of the Remuneration Committee is Mr. Chan Ming Kit.

Nomination Committee

We established a Nomination Committee pursuant to a Board resolution passed on 8 May 2020 in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for our Directors in accordance with the Company's nomination policy.

The Nomination Committee comprises one executive Director, being Mr. Hong, and three independent non-executive Directors, being Mr. Chan Ming Kit, Dr. Wang Fengxiang and Mr. Ng Tat Fung. The chairman of the Nomination Committee is Mr. Hong.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Hong currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, our Company expects to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports after the Listing.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed VBG Capital Limited as our compliance adviser. Pursuant to Rule 3A.23 of the Listing Rules, our Company will consult with and seek advice from the compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under Chapter 14 or 14A of the Listing Rules, is contemplated, including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in the listing document; and
- (d) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, benefits in kind, contributions to defined contribution retirement scheme and share-based compensation expense (if applicable) with reference to those paid by comparable companies, time commitment and the performance of our Company. Our Company also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Company or executing their functions in relation to the operations of our Company. We regularly review and determine the remuneration and compensation packages (including incentive plans) of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and senior management and the performance of our Company.

REMUNERATION AND COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate remuneration (including salaries, allowances, discretionary bonus and other benefits in kind, and pension scheme contributions) paid to our Directors (who are also our senior management) for each of the four years ended 31 December 2019 were approximately RMB0.5 million, RMB0.6 million, RMB0.8 million and RMB0.8 million, respectively.

The aggregate remuneration (including salaries, allowances, discretionary bonus and benefits in kind, and pension scheme contributions) paid to our Company's five highest paid individuals (excluding our Directors) for each of the four years ended 31 December 2019 were approximately RMB0.5 million, RMB0.5 million, RMB0.7 million and RMB1.1 million, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company. Save as disclosed above, no other payments have been made or are payable in respect of each of the four years ended 31 December 2019 by any member of our Group to any of our Directors. Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors for the year ending 31 December 2020 to be approximately RMB1.6 million.

For additional information on Directors' remunerations during the Track Record Period as well as information on the highest paid individuals, please refer to notes 8 and 9 to the Accountants' Report in Appendix I to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Salient terms of the Share Option Scheme are summarised under the section headed "Statutory and General Information — H. Share Option Scheme" in Appendix IV to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance, we have adopted the board diversity policy, which sets out the objectives and approaches to achieve and maintain Board diversity. Pursuant to the board diversity policy, we seek to achieve Board diversity through considering a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution that the selected candidates are expected to bring to our Board.

Further, our Directors have a mix of knowledge and skills, including industry-specific knowledge, technical expertise, corporate and finance management, business development, sales and marketing, accounting and finance, compliance and legal, and general administration management. We have three independent non-executive Directors with diverse industry backgrounds, representing over one-third of the members of our Board. Taking into account our existing business model and specific needs as well as the different background of our Directors, our Directors consider that the composition of our Board upon the Listing satisfies our board diversity policy while our Board recognises that the gender diversity at the board level can be further improved given its current composition of all-male directors.

Our Company will continue to take steps to promote gender diversity of our Board and senior managers. Under the Board diversity policy, our Board shall increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments, so as to generally achieve gender diversity with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing greater gender diversity to the Board. We are committed to suitable female candidate(s) for future appointments to the Board. We will continue to apply the principle of appointment based on merits with reference to our diversity policy as a whole. To achieve the aim of gender diversity of the Board, the Company will endeavor to recommend one or more female Director(s) for approval by the Shareholders within three years from the Listing Date. After the Listing and until at least one female Director has been recommended for approval, the Nomination Committee will be responsible for identifying suitable female candidates and providing their recommendations to the Board on at least an annual basis. Subject to (i) the Board being satisfied with the background, qualification and experience of the relevant candidate(s) and their potential contributions to the development of the Group, (ii) the Directors fulfilling their fiduciary duties to act in the best interest of our Company and the Shareholders as a whole when making the relevant recommendation(s), and (iii) the Company's prevailing nomination policy, the Board will recommend the female candidate to the Shareholders for appointment as a member of the Board.

Our nomination committee is responsible for ensuring the diversity of our Board members. After the Listing, our nomination committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report the implementation of the board diversity policy on an annual basis.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons 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 Over-allotment Option or any options which may be granted under the Share Option Scheme) have interests or short positions in the Shares or underlying Shares which fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

(i) Interests of Substantial Shareholders in Shares

	Nature of interest and capacity	Shares held as at date of this prospectus <i>(Note 1)</i>		Shares held immediately following the completion of the Capitalisation Issue and the Share Offer	
		Number of Shares held <i>(Note 2)</i>	Percentage of shareholding	Number of Shares held <i>(Note 2)</i>	Approximate percentage of shareholding
Prestige Name <i>(Note 3, 4)</i>	Beneficial owner	10(L)	100%	348,000,000(L)	75.0%
Mr. Hong <i>(Note 4)</i>	Interest in controlled corporation	4.5 (L)	45.0%	156,600,000 (L)	33.8%
	Parties acting in concert	5.5 (L)	55.0%	191,400,000 (L)	41.2%
Mr. Zhang <i>(Note 4)</i>	Interest in controlled corporation	2.5 (L)	25.0%	87,000,000 (L)	18.8%
	Parties acting in concert	7.5 (L)	75.0%	261,000,000 (L)	56.2%
Mr. Su <i>(Note 4)</i>	Interest in controlled corporation	1.8 (L)	18.0%	62,640,000 (L)	13.5%
	Parties acting in concert	8.2 (L)	82.0%	285,360,000 (L)	61.5%
Mr. He <i>(Note 4)</i>	Interest in controlled corporation	1.2 (L)	12.0%	41,760,000(L)	9.0%
	Parties acting in concert	8.8 (L)	88.0%	306,240,000(L)	66.0%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) Same as the number of Shares held as of the date of this prospectus.
- (2) The letter “L” denotes the person’s long position in our Shares.
- (3) Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the Over-allotment Option or any options which may be granted under the Share Option Scheme), the Company will be directly owned as to 75.0% by Prestige Name. Prestige Name is beneficially and legally owned as to 45.0%, 25.0%, 18.0%, and 12.0% by Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He, respectively.
- (4) Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Prestige Name are parties acting in concert pursuant to an Acting in Concert Confirmation. By virtue of the SFO, they are deemed to be interested in the respective numbers of shares held by other parties acting in concert. For further details, please refer to “Relationship with Controlling Shareholders — Controlling Shareholders – Acting in Concert Confirmation” in this prospectus.

(ii) Substantial Shareholders of other members of our Group

Name of subsidiary of the Company	Name of shareholder	Approximate percentage of interest in our subsidiary immediately following the completion of the Share Offer
Hangzhou Haina	Mr. Xu Yuanquan	29.40%
Hangzhou Haina	Mr. Xu Shuwei	19.60%

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 Over-allotment Option or any options which may be granted under the Share Option Scheme) have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, the Directors, substantial Shareholders and chief executive officer or those of our subsidiaries, any person who was a Director or a director of our subsidiaries within the last 12 months and their respective associates will become a connected person of the Company upon the Listing, and our transactions with them will constitute connected transactions under Chapter 14A of the Listing Rules.

The Directors confirm that after the Listing, the following transactions between the Group and the relevant connected persons will continue, which will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTION

Framework purchase agreement between the Group and Shengrong Machinery

On 9 May 2020, Jinjiang Haina and Shengrong Machinery entered into a framework purchase agreement (the “**Shengrong Purchase Agreement**”), pursuant to which Jinjiang Haina agreed to purchase machine parts including but not limited to boards, wheels, shafts, covers, connectors, supports, fixing and tools (together the “**Machine Parts**”) as and when ordered by Jinjiang Haina from time to time. The prices for the Machine Parts that are purchased by Jinjiang Haina should be separately negotiated for each purchase by the parties based on the principles that the purchase price payable shall be determined on normal commercial terms after arm’s length negotiation, and shall be no less favourable than the prevailing market price and the price offered by independent third parties. The parties will have separate purchase orders in respect of each purchase.

The Shengrong Purchase Agreement shall commence from the Listing Date until 31 December 2022, provided that either party may terminate the agreement by giving not less than one month’s prior written notice to the other party.

For each of the four years ended 31 December 2019, our Group’s total purchase from Shengrong Machinery (excluding VAT) amounted to approximately nil, RMB2.6 million, RMB1.9 million and RMB2.6 million, respectively. It is expected that our Group’s total purchase from Shengrong Machinery (excluding VAT) from the Listing Date for each of the three years ending 31 December 2022 will not exceed HK\$3.0 million. The proposed annual caps are determined by making reference to (i) the historical transaction amounts with Shengrong Machinery, (ii) the estimated growth of our Group’s demand for the Machine Parts by making reference to the historical growth rate of the Group’s sales, (iii) general market price of the Machine Parts and (iv) general inflationary pressures in the PRC.

To ensure the purchase orders made by the Group are fair and reasonable and comparable to those offered by independent third parties at the relevant time of making the purchase order, our Group will obtain quotation in relation to the same product type and volume from at least two other independent suppliers to ascertain the prevailing market price, and the Group will only place purchase orders with Shengrong Machinery if the terms offered by it are the same or more favourable than those offered by independent suppliers. Our Directors consider that the above procedures can ensure that the purchase orders made under the Shengrong Purchase Agreement will be conducted on normal commercial terms or better and not prejudicial to the interests of our Company and its Shareholders after Listing.

CONNECTED TRANSACTIONS

Shengrong Machinery is a limited liability company established in the PRC, and is wholly-owned by a relative of Mr. Su, one of our executive Directors. As such, Shengrong Machinery is a connected person of the Company and the transactions contemplated under the Shengrong Purchase Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios with respect to the annual caps for the transactions contemplated under the Shengrong Purchase Agreement are less than 5% and the Group's total purchase for each of the three years ending 31 December 2022 will not exceed HK\$3.0 million, the transactions contemplated under the Shengrong Purchase Agreement constitute exempt continuing connected transactions of our Company under Rule 14A.76(1) of the Listing Rules, and are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that it will be in the interests of the Company and the Shareholders as a whole, to continue with the above transactions. Should there be any change in the above transactions so as to make the transactions, when aggregated, not fully exempt under the Listing Rules, we will comply with the applicable requirements under the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Framework purchase agreement between the Group and Hengqin Machinery

On 9 May 2020, Jinjiang Haina and Hengqin Machinery entered into a framework purchase agreement (the "**Hengqin Purchase Agreement**"), pursuant to which Jinjiang Haina agreed to purchase Machine Parts from Hengqin Machinery as and when ordered by Jinjiang Haina from time to time. The prices for the Machine Parts that are purchased by Jinjiang Haina are to be separately negotiated for each purchase by the parties based on the principles that the purchase price payable shall be determined on normal commercial terms after arm's length negotiation, and shall be no less favourable than the prevailing market price and the price offered by Independent Third Parties. The parties will have separate purchase orders in respect of each purchase.

The Hengqin Purchase Agreement shall commence from the Listing Date until 31 December 2022, provided that either party may terminate the agreement by giving not less than one month's prior written notice to the other party.

For each of the four years ended 31 December 2019, our Group's total purchase from Hengqin Machinery (excluding VAT) amounted to approximately nil, RMB5.8 million, RMB5.1 million and RMB4.5 million, respectively. It is expected that our Group's total purchase from Hengqin Machinery (excluding VAT) from the Listing Date for each of the three years ending 31 December 2022 will not exceed RMB8.2 million, RMB8.7 million and RMB9.1 million, respectively. The proposed annual caps are determined by making reference to (i) the historical transaction amounts with Hengqin Machinery, (ii) the estimated growth of our Group's demand for the Machine Parts by making reference to the historical growth rate of the Group's sales, and (iii) general market price of the Machine Parts and (iv) general inflationary pressures in the PRC.

CONNECTED TRANSACTIONS

As one or more applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of the transactions contemplated under the Hengqin Purchase Agreement are over 0.1% but less than 5%, the transactions contemplated under the Hengqin Purchase Agreement are subject to the reporting, announcement and annual review requirements under Rule 14A.76(2) of the Listing Rules, but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To ensure the purchase orders made by the Group are fair and reasonable and comparable to those offered by independent third parties at the relevant time of making the purchase order, our Group will obtain quotation in relation to the same product type and volume from at least two other independent suppliers, as to ascertain the prevailing market price, and the Group will only place purchase orders with Hengqin Machinery if the terms offered by it are the same or more favourable than those offered by independent suppliers. Our Directors consider that the above procedures can ensure that the purchase orders made under the Hengqin Purchase Agreement will be conducted on normal commercial terms or better and not prejudicial to the interests of our Company and its Shareholders after Listing.

Hengqin Machinery is a limited liability company established in the PRC, and is wholly-owned by three relatives of Mr. Su, one of our executive Directors. As such, Hengqin Machinery is a connected person of the Company and the transactions contemplated under the Hengqin Purchase Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Confirmation from the Directors and the Sole Sponsor

The Directors (including the independent non-executive Directors) are of the view, and the Sole Sponsor concurs, that the transactions under the Hengqin Purchase Agreement have been and will be entered into in the ordinary and usual course of the Group, negotiated on an arm's length basis, and on normal commercial terms or better and are in the interests of the Company and the Shareholders as a whole, and the proposed annual caps for the transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

WAIVER APPLICATION

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps for the transactions contemplated under the Hengqin Purchase Agreement exceed 0.1%, but all of the applicable percentage ratios are less than 5%, the transactions under the Hengqin Purchase Agreement is subject to the reporting, announcement and annual review requirements but are exempt from circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

The transactions contemplated under the Hengqin Purchase Agreement will continue to be entered into in the ordinary and usual course of business of the Group on a recurring basis on normal commercial terms or better after the Listing. The Board considers that the strict compliance with the announcement requirement for the transactions contemplated under the Hengqin Purchase Agreement would be unduly burdensome and would add unnecessary administrative costs to our Company. Accordingly, the Company had applied to the Stock Exchange, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules to exempt the transactions contemplated under the Hengqin Purchase Agreement from strict compliance with the announcement requirements under Rule 14A.35 of the Listing Rules on the conditions set out below: (i) the annual cap amounts for the continuing connected transactions under the Hengqin Purchase Agreement for the three financial years ending 31 December 2022 as stated above will not be exceeded; (ii) our Company will comply with the other relevant requirements under Chapter 14A of the Listing Rules under the Hengqin Purchase Agreement; (iii) upon expiry of the waiver granted for the period ending 31 December 2022, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules; and (iv) in the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as at the date of this prospectus relating to the continuing connected transactions, our Company will take immediate steps to ensure compliance with such requirements within a reasonable period.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the Over-allotment Option or any options which may be granted under the Share Option Scheme):

<i>Authorised share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares of HK\$0.01 each	20,000,000.0
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
10 Shares in issue as at the date of this prospectus	0.1
347,999,990 Shares to be issued pursuant to the Capitalisation Issue	3,479,999.9
<u>116,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,160,000.0</u>
<u>464,000,000</u> Shares in total immediately after completion of the Share Offer	<u>4,640,000.0</u>

MINIMUM PUBLIC FLOAT

Pursuant to Rules 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued capital of our Company in the hands of the public (as defined in the Listing Rules).

RANKING

The Offer Shares will rank equally with all Shares now in issue or to be allotted and issued and will qualify for all dividend or other distributions declared, made or paid in respect of a record date which falls after the date of this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 8 May 2020 and the principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information — H. Share Option Scheme” in Appendix IV 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

GENERAL MANDATES GRANTED TO OUR DIRECTORS

Subject to the Share Offer becoming unconditional, general mandates have been granted to our Directors to allot and issue Shares and to repurchase Shares.

For details of such general mandates, please refer to the section headed “Statutory and General Information — A. Further Information about our Company — 3. Written Resolutions of our then sole Shareholder passed on 8 May 2020” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has one class of shares, namely ordinary shares, each of which shall carry the same rights as the other Shares.

As a matter of the Cayman Islands law, a Cayman Islands exempted company is not required by law to convene an annual general meeting unless the articles of association otherwise provide. The holding of general meeting or class meeting is prescribed for under the articles of association of a Cayman Islands company. Accordingly, our Company will hold general meetings as prescribed for under the Articles of Association. A summary of the circumstances under which general meeting and class meeting are required is set out in “Summary of the Constitution of our Company and the Cayman Islands Company Law” in Appendix III to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial information, including the notes thereto, as set out in the Accountants' Report in Appendix I to this document. Our combined financial information have been prepared in accordance with HKFRS. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumption and analyses made by us in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and development will meet our expectations and projections depend on a number of risks and uncertainties over which we do not have control. For further information, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

Established in 2011, we are a manufacturer engaging in the design and production of automated machines for manufacturing disposable hygiene products, including baby diapers, adult diapers, lady sanitary napkins in the PRC. During the Track Record Period, we designed, developed and produced automated machines for manufacturing disposable hygiene products under our proprietary brand "Haina Machinery". We provide comprehensive services to our customers, from collaborating with our customers on product designs, to customising our products based on specifications provided by our customers, conducting quality control, delivering products to customers, installing products for customers and providing after-sales services. According to the Industry Report, we were the third largest disposable hygiene product machinery manufacturer in the PRC in terms of revenue with market share of approximately 4.0% in 2019. As we continue to expand our global network, we expect overseas sales constitute an increasing portion of our total revenue. For further details on the business of our Group, please refer to section headed "Business — Overview" of this prospectus.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the reorganisation detailed in the section headed "History, Development and Reorganisation — The Reorganisation", our Company became the holding company of our Group in March 2019. The entities now comprising our Group were under the common control of the Controlling Shareholders prior to the Reorganisation and have continued to be under the common control since the Reorganisation. As the Reorganisation has not led to any changes in the business management and ultimate control of our Group, our Group is regarded as a continuing entity, and the Reorganisation is deemed as a business combination under common control. Our financial information for the Track Record Period was prepared using the principles of merger accounting under Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA. By reason of the above, for the purpose of this prospectus, our Group's combined financial information has been prepared by applying the principles of merger accounting as if the current group structure (except for the acquisition of Hangzhou Haina) had always been in existence throughout the Track Record Period, except that our Group adopted HKFRS 16 "Leases" since 1 January 2019 and HKAS 17 "Leases" prior to 1 January 2019. For further details, please refer to note 2 to the Accountants' Report set out in Appendix I in this prospectus.

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In particular, the Group adopted HKFRS 9 and HKFRS 15 consistently throughout the Track Record Period. The Directors consider that the adoption of HKFRS 9 and HKFRS 15 does not have significant impact on the Group's financial position and performance compared to that of HKAS 39 and HKAS 18.

Adoption of HKFRS 16

Our Group has adopted HKFRS 16, which replaced HKAS 17, and the related consequential amendments to other HKFRSs for the year ended 31 December 2019 which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 16, our Group has elected to apply the new standard retrospectively with the cumulative effect of initial application recognised at 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by our Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

Upon initial adoption of HKFRS 16, our Group recognised the lease liabilities in relation to leases which had previously been classified as operating leases except that those are otherwise exempted. Our Group did not reassess if a contract was or contained a lease at adoption. These liabilities were initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss to the period in which it is incurred on the basis that produces a constant periodic rate of interest on the remaining lease liability balance.

At the inception of a contract that contains a lease component, as a lessee, our Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone-price. Our Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the combined statements of financial position immediately before the date of initial application. The right-of-use assets were recognised in the combined statements of financial position.

Depreciation was charged to profit or loss on a straight-line basis over the shorter of the assets useful lives or over the unexpired term of lease.

Our Directors consider that the initial adoption of HKFRS 16 on 1 January 2019 does not have significant impact on our Group's financial position (i.e. net assets) as at 31 December 2019 and financial performance (i.e. net profit) for the year ended 31 December 2019 compared to that of HKAS 17.

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The following table reconciles the impact of adoption of HKFRS 16 on the carrying amounts of assets and liabilities of the Group on 31 December 2019:

	Carrying amounts on 31 December 2019 under HKAS 17 <i>RMB'000</i>	Effect on the adoption of HKFRS 16 <i>RMB'000</i>	Carrying amounts on 31 December 2019 under HKFRS 16 <i>RMB'000</i>
Non-current assets			
Right-of-use assets, presented in plant and equipment	—	26,230	26,230
Current assets			
Prepaid rental expenses, included in trade and other receivables	504	(504)	—
Current liabilities			
Lease liabilities	—	6,977	6,977
Non-current liabilities			
Lease liabilities	—	18,949	18,949

The impact of adoption of HKFRS 16 on key financial ratios was detailed in paragraph headed “Key financial ratios — Impact of adoption of HKFRS 16” in this section.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following are some factors which have, and will continue to have, a material impact on our results of operations and financial condition:

Conditions and regulations affecting the disposable hygiene product machinery manufacturing industry

Our business is affected by conditions in the disposable hygiene product machinery industry in the PRC. During the Track Record Period, over approximately 94.7%, 77.2%, 71.3% and 57.5% of our revenue was generated from the sales of machines and components and parts for disposable hygiene products to hygiene product manufacturers in the PRC. The demand for our products depends on a variety of factors, including the demand for machines for disposable hygiene products from hygiene product manufacturers, changes in general economic conditions, equipment procurement technological changes and product life cycles of machines for hygiene products.

Any changes in demand for hygiene products, and in turn the demand for machines for hygiene products in the PRC and in overseas markets, could materially affect our business, results of operations and financial condition.

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Purchase costs

Our raw materials accounted for a significant part of our productions. We purchased raw materials from different suppliers. Though the purchase costs are subjected to raw materials price fluctuation, we priced our products using cost-plus pricing strategies, thus we are able to hedge the risk of fluctuation of costs of raw materials effectively.

Research and development

We have developed several major products in the PRC, such as baby diaper machines, adult diaper machines and lady sanitary napkin machines. We believe our research and development capabilities have been and will continue to be critical to our business and competitiveness. Please refer to the section headed “Business — Research and Development” for further details.

To enhance our competitiveness, we have invested substantially in research and development. Our total costs and expenditures for research and development during the Track Record Period were approximately RMB7.0 million, RMB14.0 million, RMB11.4 million and RMB23.2 million, respectively, accounting for approximately 43.0%, 53.9%, 35.1% and 45.0% of our selling and distribution costs and administrative and other operating expenses, respectively, for the corresponding years. We intend to continuously enhance our research and development capabilities and maintain our leadership in the industry by fully utilising our research and development facilities and resources. Our ability to develop new products, improve existing products and enhance our manufacturing processes will have a material effect on our production and sales volumes and, consequently, our business, results of operations, financial condition and profitability.

Competition

We were the leading manufacturer of disposable hygiene products machines in the PRC in terms of revenue with market share of approximately 3.8% as at 2018. Any competition against us in terms of pricing would adversely affect our profitability. For details, please refer to the section headed “Business” and “Industry Overview” in this prospectus.

CRITICAL ACCOUNTING POLICIES

Our results of operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our Group’s combined financial information. Our financial information is prepared in accordance with HKFRS, which requires certain assumptions and estimates to which affect our financial information made. Significant accounting policies are those that require our management to exercise judgements and make estimates that could result in significantly different results should future events affecting such estimates differ from the management’s current judgments. These policies involve assumptions and estimates important to the portrayal and understanding of our results of operations and financial condition. These policies are fully set forth in note 3 to the Accountants’ Report in Appendix I in this prospectus. We have identified the following policies as critical for understanding our results of operations and financial condition:

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Revenue recognition

Revenue from contracts with customers

Our Group adopts a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) our Group satisfies a performance obligation

Nature of goods or services

The nature of the goods or services provided by our Group is the design and production of automated machines for disposable hygiene products.

Identification of performance obligations

At contract inception, our Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) our Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) our Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Our Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by our Group's performance as our Group performs;
- (b) our Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) our Group's performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

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If a performance obligation is not satisfied over time, our Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, our Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sales of automated machines for disposable hygiene products and related components and parts are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are transferred to customers and the title is passed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents 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 in which 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.

Impairment of receivables

Impairment of financial assets

The Group recognises loss allowances for expected credit losses (“ECL”) on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

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Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) nature of financial instruments;
- (ii) past-due status;
- (iii) nature, size and industry of debtors; and
- (iv) external credit risk ratings where available.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial asset that meets any of the following criteria.

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information to demonstrate otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

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Notwithstanding the foregoing, 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.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a 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.

Simplified approach of ECL

For trade receivables without a significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

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:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) 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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out the combined statements of profit or loss and other comprehensive income of our Group during the Track Record Period, which are derived from, and should be read in conjunction with, the combined financial information set out in the Accountants' Report in Appendix I of this prospectus.

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	112,980	260,985	337,240	377,989
Cost of sales	<u>(88,604)</u>	<u>(204,398)</u>	<u>(260,653)</u>	<u>(287,370)</u>
Gross profit	24,376	56,587	76,587	90,619
Other income	3,036	5,731	4,828	8,418
Selling and distribution costs	(3,649)	(8,604)	(9,560)	(14,641)
Administrative and other operating expenses	(12,656)	(17,402)	(22,857)	(36,935)
Impairment loss of trade receivables, net	(84)	(51)	(560)	(428)
Finance costs	(750)	(583)	(58)	(1,014)
Listing expenses	—	—	(3,248)	(9,846)
Profit before tax	10,273	35,678	45,132	36,173
Income tax expenses	<u>(1,646)</u>	<u>(5,647)</u>	<u>(5,905)</u>	<u>(5,085)</u>
Profit for the year	8,627	30,031	39,227	31,088
Other comprehensive income (loss):				
<i>Item that may be reclassified subsequently to profit or loss</i>				
Exchange difference on consolidation/combination	—	1	(1,405)	(1,119)
Total comprehensive income for the year	<u>8,627</u>	<u>30,032</u>	<u>37,822</u>	<u>29,969</u>
Profit for the year attributable to:				
Owners of our Company	8,627	30,031	38,636	26,423
Non-controlling interests	—	—	591	4,665
	<u>8,627</u>	<u>30,031</u>	<u>39,227</u>	<u>31,088</u>
Total comprehensive income for the year attributable to:				
Owners of our Company	8,627	30,032	37,231	25,304
Non-controlling interests	—	—	591	4,665
	<u>8,627</u>	<u>30,032</u>	<u>37,822</u>	<u>29,969</u>

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DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Our revenue is derived primarily from the sales of machines to the customers. Our major products are baby diaper machines, adult diaper machines and lady sanitary napkin machines. The table below sets out our sales volume (*Note(i)*), average price (*Note(ii)*) and revenue (*Note(ii)*) during the Track Record Period:

	For the year ended 31 December															
	2016				2017				2018				2019			
	Sales volume (Note (i)) (units)	Average price (Note (ii)) RMB'000	Revenue RMB'000	%	Sales volume (Note (i)) (units)	Average price (Note (ii)) RMB'000	Revenue RMB'000	%	Sales volume (Note (i)) (units)	Average price (Note (ii)) RMB'000	Revenue RMB'000	%	Sales volume (Note (i)) (units)	Average price (Note (ii)) RMB'000	Revenue RMB'000	%
Baby diaper machines	24	4,369	104,866	92.8	39	6,319	246,426	94.4	49	5,523	270,641	80.3	37	6,117	226,320	59.8
Adult diaper machines	1	5,453	5,453	4.8	2	5,621	11,242	4.3	4	7,768	31,072	9.2	14	8,015	112,207	29.7
Lady sanitary napkin machines	1	1,966	1,966	1.8	1	701	701	0.3	8	3,091	24,729	7.3	6	3,757	22,541	6.0
Components and parts (<i>Note (iii)</i>)	N/A	N/A	695	0.6	N/A	N/A	2,616	1.0	N/A	N/A	10,798	3.2	N/A	N/A	16,921	4.5
Total	26	N/A	112,980	100.0	42	N/A	260,985	100.0	61	N/A	337,240	100.0	57	N/A	377,989	100.0

Notes:

- (i) As the volume of our major products sold excluded the volume of components and parts and some customers purchased more than one unit of machine, the sales volumes for a particular year may not be equal to the number of our customers for that year. For example, our Group had a total of 70 customers for the year ended 31 December 2018, 25 of which purchased one unit of machine, 16 of which purchased more than one unit of machine and 29 of which only purchased components and parts.
- (ii) The average selling price set out in the above table have been calculated on the following basis: the revenue generated by each type of machines in the relevant year/period during the Track Record Period divided by the sales volume of the relevant type of machines for the respective corresponding year. Each product category as set out in the table above includes a variety of products with different specifications within the product range which sell at different prices and therefore the average selling prices for each year may be affected by the actual products sold during the year. As our pricing policy is based on a cost-plus pricing model, the selling price of each machine highly depends on the specification and requirements of the customers. For example, if a customer wants to integrate a specific melting machine into our machine, we will source such melting machine on its behalf, and the amount under such sales contract would be increased by the cost of such melting machine.
- (iii) Components and parts mainly included customised U-type baby diaper system unit, circular base and transposition unit, etc.

Our revenue was on an upward trend, and increased from approximately RMB113.0 million for the year ended 31 December 2016 by approximately RMB148.0 million or approximately 131.0% to approximately RMB261.0 million for the year ended 31 December 2017, and further increased by approximately RMB76.2 million or approximately 29.2% to approximately RMB337.2 million for the year ended 31 December 2018.

The increase in revenue was mainly attributed to the increase in sales volume of baby diaper machines, which contributed approximately RMB104.9 million, RMB246.4 million and RMB270.6 million or 92.8%, 94.4% and 80.3% of our revenue, for the year ended 31 December 2016, 2017 and 2018, respectively.

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Our revenue increased from approximately RMB337.2 million for the year ended 31 December 2018 by approximately RMB40.8 million or approximately 12.1% to approximately RMB378.0 million for the year ended 31 December 2019. The increase in revenue during the year ended 31 December 2019 was mainly attributable to the increase in the number of adult diaper machines sold, which increased from four units for the year ended 31 December 2018 to 14 units for the year ended 31 December 2019 which contributed to an increase in revenue increase of approximately RMB81.1 million or 260.8%.

The table below sets out our revenue by geographical location during the Track Record Period:

	2016			For the year ended 31 December						2019		
	Units	RMB'000	%	Units	RMB'000	%	Units	RMB'000	%	Units	RMB'000	%
Sales of machines												
The PRC	25	106,268	94.1	35	199,415	76.5	48	233,397	69.2	39	203,491	53.8
Indonesia	—	—	—	1	8,390	3.2	3	23,372	6.9	3	44,105	11.6
The Philippines	1	6,017	5.2	2	8,866	3.4	1	7,188	2.1	3	28,152	7.4
Vietnam	—	—	—	—	—	—	1	13,460	4.0	2	27,340	7.1
Pakistan	—	—	—	—	—	—	1	4,137	1.1	4	14,210	3.7
India	—	—	—	—	—	—	—	—	—	1	9,761	2.5
Hong Kong	—	—	—	—	—	—	—	—	—	1	8,407	2.2
Thailand	—	—	—	—	—	—	—	—	—	1	8,144	2.2
Nigeria	—	—	—	—	—	—	1	7,624	2.3	1	7,876	2.0
Cambodia	—	—	—	—	—	—	1	9,307	2.8	1	4,874	1.3
Uzbekistan	—	—	—	2	21,896	8.3	—	—	—	1	4,708	1.2
Yemen	—	—	—	—	—	—	2	11,527	3.4	—	—	—
Angola	—	—	—	—	—	—	2	9,623	2.9	—	—	—
Russia	—	—	—	—	—	—	1	6,807	2.0	—	—	—
Bangladesh	—	—	—	2	19,802	7.6	—	—	—	—	—	—
Sub-total	26	112,285	99.3	42	258,369	99.0	61	326,442	96.7	57	361,068	95.0
Sales of components and parts												
The PRC	—	675	0.6	—	1,952	0.7	—	6,923	2.1	—	14,108	3.7
Angola	—	—	—	—	—	—	—	—	—	—	1,367	0.4
The Philippines	—	—	—	—	—	—	—	32	0.1	—	651	0.2
Pakistan	—	—	—	—	—	—	—	—	—	—	310	0.1
Indonesia	—	—	—	—	664	0.3	—	979	0.3	—	265	0.1
Cambodia	—	—	—	—	—	—	—	—	—	—	151	0.1
Nigeria	—	—	—	—	—	—	—	—	—	—	25	0.1
South Korea	—	—	—	—	—	—	—	—	—	—	20	0.1
Malaysia	—	20	0.1	—	—	—	—	—	—	—	18	0.1
Bulgaria	—	—	—	—	—	—	—	—	—	—	6	0.1
Vietnam	—	—	—	—	—	—	—	2,775	0.7	—	—	—
Bangladesh	—	—	—	—	—	—	—	89	0.1	—	—	—
Sub-total	—	695	0.7	—	2,616	1.0	—	10,798	3.3	—	16,921	5.0
Total	26	112,980	100.0	42	260,985	100.0	61	337,240	100.00	57	377,989	100.00

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Our Group's revenue for the three years ended 31 December 2016, 2017 and 2018 mainly derived from customers located in the PRC, which contributed approximately 94.7%, 77.2% and 71.3% of our revenue, respectively. With our Group's continuous proactive efforts in expanding our customer base by visiting our potential customers for our overseas markets, which the relevant business development expenses (e.g. the expenses for the business trips and entertainment corresponding to the trade exhibitions, trade fairs and customer visits) were charged to the profit or loss as incurred in the period ahead of the actual delivery of the Group's products, our PRC customer's revenue was 57.5% for the year ended 31 December 2019, and revenue derived from our overseas customers increased throughout the Track Record Period, representing 5.3%, 22.8%, 28.7% and 42.5% of our total revenue, respectively.

Cost of sales

Our cost of sales mainly comprised raw materials, manufacturing overhead and staff costs. The following table sets out the breakdown of the cost of sales of our Group during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials	73,927	83.4	185,209	90.6	229,728	88.1	245,213	85.3
Manufacturing overhead	7,612	8.6	12,795	6.3	22,561	8.7	26,387	9.2
Staff costs	6,785	7.7	5,915	2.9	6,885	2.6	14,257	5.0
Others (<i>Note</i>)	280	0.3	479	0.2	1,479	0.6	1,513	0.5
Total	88,604	100.0	204,398	100.0	260,653	100.0	287,370	100.0

Note:

Others include Educational Surcharges and Urban Maintenance and Construction Tax, etc.

During the Track Record Period, the largest component of our cost of sales was raw materials, which amounted to approximately RMB73.9 million, RMB185.2 million, RMB229.7 million and RMB245.2 million, representing approximately 83.4%, 90.6%, 88.1% and 85.3% of our total cost of sales, respectively.

FINANCIAL INFORMATION

The table below sets out the consumption of raw materials in our cost of sales during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Electrical appliances (<i>Note (i)</i>)	41,556	56.2	98,320	53.1	109,184	47.5	111,442	45.5
Processed parts (<i>Note (ii)</i>)	17,846	24.1	61,126	33.0	92,122	40.1	109,253	44.6
Steel	8,686	11.7	15,928	8.6	13,650	5.9	12,315	5.0
Components and parts (<i>Note (iii)</i>)	4,230	5.7	5,723	3.1	7,388	3.3	5,470	2.2
Excipients (<i>Note (iv)</i>)	1,609	2.3	4,112	2.2	7,384	3.2	6,733	2.7
Total	<u>73,927</u>	<u>100.0</u>	<u>185,209</u>	<u>100.0</u>	<u>229,728</u>	<u>100.0</u>	<u>245,213</u>	<u>100.0</u>

Notes:

- (i) Electrical appliances include melting machines, servo actuators and servo motors. Melting machines heat up and liquefy glue to suitable temperatures for application onto the products. Servo actuators and servo motors drive the rotational movement mechanisms in the production line.
- (ii) Processed parts include blades that cut transversely, curved blades and gearboxes that modify the speed and orientation of semi-finished products from the previous stage of the production line.
- (iii) Components and parts include bearings and synchronous pulleys. Bearings are mainly used to support the drive axles, and synchronous pulleys serve as the conduit for motion energy to be distributed throughout the production line.
- (iv) Excipients mainly include non-woven fabrics, which are mainly used for channelling urine away and also to prevent side leakage due to overflow. Our Group consumed excipients during the course of test production of the machines.

Our raw materials are mainly classified into five categories. Despite the fact that raw materials accounted for a significant part of our cost of sales during the Track Record Period, we are of the view that the increase or decrease in the cost of raw materials would not have a significant impact on our profitability as we have a widely diversified range of materials involved in our production.

FINANCIAL INFORMATION

The table below sets out the sensitivity analysis of the estimated increase (decrease) of our profit before tax in relation to general percentage changes to cost of raw materials, with all other variables being constant:

Impact on increase (decrease) in profit before tax				
For the year ended 31 December				
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of raw materials increase/ decrease by:				
+20%	(14,785)	(37,042)	(45,946)	(49,043)
+10%	(7,393)	(18,521)	(22,973)	(24,521)
+5%	(3,696)	(9,260)	(11,486)	(12,261)
-5%	3,696	9,260	11,486	12,261
-10%	7,393	18,521	22,973	24,521
-20%	14,785	37,042	45,946	49,043

The table below sets out the sensitivity analysis of the estimated increase (decrease) of our profit before tax in relation to general percentage changes to the cost of electrical appliances, being the largest component of our costs of raw materials during the Track Record Period, with all other variables being constant:

Impact on increase (decrease) in profit before tax				
For the year ended 31 December				
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of electrical appliances increase/decrease by:				
+20%	(8,311)	(19,664)	(21,837)	(22,288)
+10%	(4,156)	(9,832)	(10,918)	(11,144)
+5%	(2,078)	(4,916)	(5,459)	(5,572)
-5%	2,078	4,916	5,459	5,572
-10%	4,156	9,832	10,918	11,144
-20%	8,311	19,664	21,837	22,288

FINANCIAL INFORMATION

The table below sets out the details of manufacturing overhead in our cost of sales during the Track Record Period:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs	2,891	38.0	4,148	32.4	7,344	32.6	5,992	22.7
Rental expenses	1,807	23.7	2,688	21.0	4,328	19.2	—	—
Subcontracting fee (Note (i))	466	6.1	1,785	14.0	3,117	13.8	3,197	12.1
Consumables (Note (ii))	531	7.0	760	5.9	2,866	12.7	4,485	17.0
Utilities	939	12.3	1,299	10.2	1,604	7.1	2,547	9.7
Travelling expenses	352	4.6	494	3.9	805	3.6	1,036	3.9
Depreciation	270	3.5	496	3.9	780	3.5	7,162	27.1
Others (Note (iii))	356	4.8	1,125	8.7	1,717	7.5	1,968	7.5
Total	7,612	100.0	12,795	100.0	22,561	100.0	26,387	100.0

Notes:

- (i) Subcontracting fee mainly represented fees arising from the engagement of third party subcontractors for certain procedures such as the surface treatment and processed parts used for our products.
- (ii) Consumables mainly represented small hardware tools such as screws and other hardware.
- (iii) Others include cleaning costs and transportation costs, etc..

Gross profit and gross profit margin

The table below sets out our gross profit and gross profit margin by product category during the Track Record Period:

	For the year ended 31 December											
	2016			2017			2018			2019		
	Gross profit margin RMB'000	% to gross profit	% to total gross profit	Gross profit margin RMB'000	% to gross profit	% to total gross profit	Gross profit margin RMB'000	% to gross profit	% to total gross profit	Gross profit margin RMB'000	% to gross profit	% to total gross profit
Baby diaper machines	23,016	21.9	94.5	52,922	21.5	93.5	61,213	22.6	79.9	54,416	24.0	60.0
Adult diaper machines	863	15.8	3.5	2,700	24.0	4.8	6,658	21.4	8.7	26,610	23.7	29.4
Lady sanitary napkin machines	295	15.0	1.2	49	7.0	0.1	5,457	22.1	7.1	4,284	19.0	4.7
Components and parts	202	29.1	0.8	916	35.0	1.6	3,259	30.2	4.3	5,309	31.4	5.9
Total	24,376	21.6	100.0	56,587	21.7	100.0	76,587	22.7	100.0	90,619	24.0	100.0

FINANCIAL INFORMATION

During the Track Record Period, our gross profit was approximately RMB24.4 million, RMB56.6 million, RMB76.6 million and RMB90.6 million, respectively, and our overall gross margin was approximately 21.6%, 21.7%, 22.7% and 24.0%, respectively. Our gross profit margin depends on a combination of factors, including specifications of our products, pricing of our products and the cost of raw materials.

Our overall gross profit margin remained relatively stable during the years ended 31 December 2016, 2017 and 2018, among which, baby diaper machines had a relatively high gross profit margin of approximately 21.9%, 21.5% and 22.6%, respectively. According to the Industry Report, we ranked the fourth in the disposable hygiene product machinery industry in the PRC in terms of revenue with market share of approximately 4.0% in 2019. Our overall gross profit margin further increased from approximately 22.7% for the year ended 31 December 2018 to approximately 24.0% for the year ended 31 December 2019, mainly due to both the higher volume and the higher gross profit margin of adult diaper machines sold by our Group during the year ended 31 December 2019, resulting in the gross profit margin contribution of these machines to our total gross profit increasing from 8.7% for the year ended 31 December 2018 to 29.4% for the year ended 31 December 2019. During the Track Record Period, we designed, developed and produced our products under our proprietary brand “Haina Machinery”, which is considered to be a renowned brand of disposal hygiene product machinery in the PRC market in accordance with the Industry Report.

For details of the pricing policy on our product, please refer to the section headed “Business — Customers — Pricing policy” in this prospectus.

Other income

Our other income mainly comprised government grants, bank interest income and income from the sale of scrap materials. During the Track Record Period, our other income accounted for approximately 2.7%, 2.2%, 1.4% and 2.2% of our total revenue, respectively. The table below sets out the breakdown of our other income:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Government grants (<i>Note (i)</i>)	2,162	71.2	4,334	75.6	2,010	41.6	7,341	87.2
Bank interest income (<i>Note (ii)</i>)	38	1.2	820	14.3	1,414	29.3	353	4.2
Supplier rebate (<i>Note (iii)</i>)	—	—	—	—	855	17.7	—	—
Sales of scrap materials	167	5.5	183	3.2	308	6.4	245	2.9
Investment income from financial assets at fair value through profit or loss (“FVPL”) (<i>Note (iv)</i>)	518	17.1	394	6.9	241	5.0	—	—
Exchange gain, net	151	5.0	—	—	—	—	311	3.7
Gain on disposal of plant and equipment (<i>Note (v)</i>)	—	—	—	—	—	—	108	1.3
Others	—	—	—	—	—	—	60	0.7
	<u>3,036</u>	<u>100.0</u>	<u>5,731</u>	<u>100.0</u>	<u>4,828</u>	<u>100.0</u>	<u>8,418</u>	<u>100.0</u>

FINANCIAL INFORMATION

Notes:

- (i) The government grants represent the government grants received from government authorities of Fujian Province such as Jinjiang Finance Bureau, Jinjiang Bureau of Economy and Information Technology and Quanzhou Municipal People's Government, the entitlements of which were unconditional and at the discretion of the relevant authorities. Criteria for awarding the government grants included but not limited to (i) the achievement of production volume and sales quantity for product related to Numerical Control Generation (數控一代) and Special Fund for development of industry and integration of generations (加快機械裝備產業和兩代融合發展專項資金項目); (ii) the obtain of certain patents; and (iii) the enhancement of research and development. All the government grants are one off and unconditional.
- (ii) Bank interest income mainly comprised interest income from fixed deposits and bank deposits.
- (iii) Supplier rebate mainly represented a rebate negotiated with, agreed by and received from a supplier.
- (iv) Investment income from financial assets at FVPL mainly comprised income from unlisted wealth management products subscribed from certain licensed banks in the PRC.
- (v) Gain on disposal of plant and equipment represented gain from disposal of a motor vehicle.

Selling and distribution costs

Our selling and distribution costs mainly comprised expenses for business trips and entertainment, depreciation and promotional expenses. During the Track Record Period, our selling costs accounted for approximately 3.2%, 3.3%, 2.8% and 3.9% of our total revenue, respectively. The table below sets out the breakdown of our selling and distribution costs:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Expenses for business trips and entertainment (<i>Note (i)</i>)	770	21.1	2,309	26.8	3,400	35.6	5,652	38.7
Depreciation (<i>Note (ii)</i>)	380	10.4	874	10.2	2,026	21.2	3,726	25.4
Promotional expenses (<i>Note (iii)</i>)	1,070	29.3	1,038	12.1	1,420	14.9	1,013	6.9
After-sales repairment	861	23.6	931	10.8	870	9.1	989	6.8
Staff costs	206	5.6	208	2.4	956	10.0	1,706	11.7
Freight and transportation expense	129	3.5	400	4.6	674	7.1	1,133	7.7
Agency fees (<i>Note (iv)</i>)	72	2.0	2,579	30.0	103	0.9	78	0.5
Others	161	4.5	265	3.1	111	1.2	344	2.3
Total	3,649	100.0	8,604	100.0	9,560	100.0	14,641	100.0

Notes:

- (i) Expenses for business trips and entertainment included business development expenses corresponding (a) to the trade exhibitions, trade fairs and customer visits for acquiring potential customers; and (b) the maintenance and development of the relationship with the new/existing customers.
- (ii) Depreciation mainly represented depreciation of machines used for demonstration purpose, which increased from 1 unit in 2016 to 2 units since December 2018.
- (iii) Promotional expenses mainly represented fees for exhibitions and advertising purposes.
- (iv) Agency fees mainly comprised customs declaration service fees paid to import and export agents and sales commission paid to an agent.

FINANCIAL INFORMATION

Administrative and other operating expenses

Our administrative and other operating expenses mainly comprised research and development expenses, staff costs, depreciation and amortisation, and office expenses. During the Track Record Period, our administrative and other operating expenses accounted for approximately 11.2%, 6.7%, 6.8% and 9.8% of our total revenue, respectively. The table below sets out the breakdown of our administrative and other operating expenses:

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Research and development expenses (excluding expenses that were capitalised) (Note (i))	6,081	48.0	10,345	59.4	8,744	38.3	19,508	52.9
Staff costs	3,441	27.2	2,969	17.0	7,058	30.9	10,024	27.1
Depreciation and amortisation	1,399	11.1	1,876	10.8	2,713	11.9	4,655	12.6
Office expenses	77	0.6	377	2.2	1,091	4.8	1,034	2.8
Exchange losses	—	—	373	2.1	886	3.9	—	—
Rental expenses	146	1.2	133	0.8	621	2.7	—	—
Utilities	258	2.0	257	1.5	322	1.4	212	0.6
Loss on disposal of plant and equipment	395	3.1	171	1.0	328	1.4	—	—
Loss on disposal of a wholly-owned subsidiary	8	0.1	—	—	—	—	—	—
Legal and professional fees (Note (ii))	41	0.3	137	0.8	216	0.9	147	0.4
Bank charges	228	1.8	114	0.7	214	0.9	276	0.7
Other taxes (Note (iii))	95	0.8	136	0.8	193	0.8	—	—
Donation	328	2.6	—	—	50	0.2	—	—
Others	159	1.2	514	2.9	421	1.9	1,079	2.9
Total	12,656	100.0	17,402	100.0	22,857	100.0	36,935	100.0

Notes:

- (i) Research and development expenses (excluding expenses that were capitalised) mainly represented the expenses incurred from our Group's major self-developed technologies, which included cost of materials, staff costs for the research and development and other expenses.
- (ii) Legal and professional fees mainly represented audit fees and legal fees.
- (iii) Other taxes mainly represented stamp duty and other miscellaneous taxes.

FINANCIAL INFORMATION

Finance costs

Our finance costs mainly comprised interest expenses for bank borrowings, obligations under finance lease and lease liabilities. During the Track Record Period, our finance costs accounted for approximately 0.7%, 0.2%, 0.1% and 0.3% of our total revenue, respectively. The table below sets out the breakdown of our finance costs:

	For the year ended 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs				
— Interest on bank borrowings	549	217	—	—
— Finance charges on obligations under finance leases (<i>Note(i)</i>)	201	366	58	—
— Finance charges on lease liabilities	—	—	—	1,014
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u> 750</u>	<u> 583</u>	<u> 58</u>	<u> 1,014</u>

Note:

- (i) Finance charges on obligations under finance lease arised as our Group leased certain CNC machines under finance lease with lease payment term of 24 months.

Income tax expenses

Our Group's entities established in the PRC are subject to PRC Enterprise Income Tax ("EIT") at a statutory rate of approximately 25% except for Jinjiang Haina which is recognised as a High and New-tech Enterprise and is entitled to a preferential tax rate of 15% for three years from 2016 and renewed in December 2019 for additional three years.

Our Company and Affluent International are exempted from income tax, if any, in the Cayman Islands and the BVI, respectively.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the years ended 31 December 2016, 2017 and 2018. For the year ended 31 December 2019, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rate regime under which, the first HK\$2 million assessable profits arising from Hong Kong of qualifying entity of the Group, Haina Technology are taxed at 8.25%, and assessable profits arising from Hong Kong above HK\$2 million are taxed at 16.5%.

In the opinion of our Group's management, our Group's entities are not subject to taxation in any other jurisdictions as (i) our Group's entities do not have any permanent establishment situated in the jurisdictions other than Hong Kong and the PRC; (ii) our Group's operation are all conducted in the PRC and export sales are all concluded in the PRC and Hong Kong; and (iii) our Group's overseas customers are responsible for their import taxes and duties declaration during the Track Record Period.

FINANCIAL INFORMATION

During the Track Record Period, our effective tax rate (being the ratio of our income tax expenses to our profit before tax) was approximately 16.0%, 15.8%, 13.1% and 14.1%, respectively.

The table below sets out the breakdown of our income tax expenses:

	For the year ended 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax				
PRC EIT — current year	1,012	3,803	6,669	4,705
Hong Kong Profits Tax — current year	—	—	—	2
	<u>1,012</u>	<u>3,803</u>	<u>6,609</u>	<u>4,707</u>
Deferred tax				
Origination and reversal of temporary differences	634	1,844	(764)	(378)
	<u>1,646</u>	<u>5,647</u>	<u>5,905</u>	<u>5,085</u>

Reconciliation of income tax expenses

	For the year ended 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>10,273</u>	<u>35,678</u>	<u>45,132</u>	<u>36,173</u>
Income tax at statutory tax rate applicable in respective tax jurisdictions	2,568	8,920	11,507	9,603
Effect of preferential tax treatments	(1,027)	(3,568)	(4,678)	(3,220)
Additional deduction allowance for research and development expenses	(553)	(744)	(1,648)	(3,146)
Non-deductible expenses	634	973	724	841
Deferred tax charged in respect of withholding tax on undistributed profits	—	—	—	1,000
Others	24	66	—	7
	<u>1,646</u>	<u>5,647</u>	<u>5,905</u>	<u>5,085</u>

FINANCIAL INFORMATION

COMPARISON OF OUR RESULTS FOR 2016 AND 2017

Revenue

Our revenue increased from approximately RMB113.0 million in 2016 by approximately RMB148.0 million or approximately 131.0% to approximately RMB261.0 million in 2017. The increase was attributable to the increase of revenue from PRC customers by approximately RMB94.5 million and the increase of revenue from overseas customers by approximately RMB53.6 million.

(i) Baby diaper machines

The revenue from our baby diaper machines increased from approximately RMB104.9 million in 2016 by approximately RMB141.5 million or approximately 134.9% to approximately RMB246.4 million in 2017, of which RMB97.5 million and RMB44.0 million were attributed to the increase in revenue from the PRC and overseas customers, respectively. The increase in revenue from baby diapers machines was mainly attributable to (i) an increase in the sales volume of baby diaper machines to PRC customers by 11 units from 23 units in 2016 to 34 units in 2017; and (ii) an increase in sales volume of baby diaper machines to overseas customers by 4 units from 1 unit in 2016 to 5 units in 2017. The increase in sales volume to PRC customers was mainly contributed by the referrals and business network established our executive Directors and sales and marketing team members. The increase in sales volume to overseas customers was mainly driven by our sales and marketing efforts through attending more international trade exhibitions and trade fairs with a view to attract new overseas customers and to further expand our overseas market. For details of our sources of customers during the Track Record Period, please refer to the section headed “Business — Customers — sales and marketing” in this prospectus.

(ii) Adult diaper machines

The revenue from our adult diaper machines increased from approximately RMB5.5 million in 2016 by approximately RMB5.7 million or approximately 103.6% to approximately RMB11.2 million in 2017. The increase was mainly attributable to the increase in revenue from the overseas which amounted to approximately RMB8.2 million, which partially offset by decrease in revenue from the PRC which amounted to approximately RMB2.5 million.

(iii) Lady sanitary napkin machines

The revenue from our lady sanitary napkin machines decreased from approximately RMB2.0 million in 2016 by approximately RMB1.3 million or approximately 65.0% to approximately RMB0.7 million in 2017. The decrease in revenue from lady sanitary napkin machines was mainly attributable to the different models of lady sanitary napkin machines we sold to the customers in the respective year.

Cost of sales

Our cost of sales increased from approximately RMB88.6 million in 2016 by approximately RMB115.8 million or approximately 130.7% to approximately RMB204.4 million in 2017, which was in line with the increase in revenue of approximately 131.0% of the same year.

FINANCIAL INFORMATION

Cost of raw materials increased from approximately RMB73.9 million in 2016 by approximately RMB111.3 million or approximately 150.6% to approximately RMB185.2 million in 2017. The increase in cost of raw materials was mainly attributable to increased demand for processed parts arising from the increased number of customer orders and a lack of production floor space for expanding the in-house steel processing capacity. We therefore increased our purchases of processed parts from third party steel processing providers for manufacturing our machines. The cost of direct procurement of processed parts from third parties increased from approximately RMB17.8 million in 2016 by approximately RMB43.3 million or approximately 243.3% to approximately RMB61.1 million in 2017, the percentage of steels over cost of raw materials decreased from 11.7% in 2016 by approximately 3.1% to approximately 8.6% in 2017, which in return resulting in decreased in direct staff costs from approximately RMB6.8 million in 2016 by approximately RMB0.9 million or approximately 13.2% to approximately RMB5.9 million in 2017.

The manufacturing overhead increased from approximately RMB7.6 million by approximately RMB5.2 million or approximately 68.4% to approximately RMB12.8 million in 2017. The increase in manufacturing overhead was mainly attributable to (i) an increase in the indirect staff costs by approximately RMB1.2 million or approximately 41.4% due to the increase in number of managerial and supervisor-grade staff relating to production from 65 in 2016 by 3 to 68 in 2017 and (ii) an increase in subcontracting fee by approximately RMB1.3 million or approximately 260.0%, which was mainly attributable to the subcontracting of certain procedures such as surface treatment and processed parts used for our products.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB24.4 million in 2016 by approximately RMB32.2 million or approximately 132.0% to approximately RMB56.6 million in 2017, which was in line with the year-to-year increase in revenue of approximately 131.0%. Our overall gross profit margin increased slightly from approximately 21.6% in 2016 to approximately 21.7% in 2017, which was mainly attributable to the decrease in direct staff costs being offset by the increase in the cost of raw materials as our Group changed to direct procurement of processed parts in order to meet the increase in sales volume.

Other income

Our other income increased from approximately RMB3.0 million in 2016 by approximately RMB2.7 million or approximately 90.0% to approximately RMB5.7 million in 2017. The increase in other income was mainly attributable to an increased in the received government grant for Numerical Control Generation (數控一代) Products which amounted to approximately RMB2.1 million from Fujian Province, the PRC in 2017.

Selling and distribution costs

Our selling and distribution costs mainly comprised expenses for business trips and entertainment, depreciation and after-sales repairment. Our selling and distribution costs increased from approximately RMB3.6 million in 2016 by approximately RMB5.0 million or approximately 138.9% to approximately RMB8.6 million in 2017, which was mainly attributable to (i) a commission fee of approximately RMB2.3 million paid to an agent for referring a customer order from Bangladesh in 2017 and (ii) an increase in travelling expenses of approximately RMB1.1 million.

FINANCIAL INFORMATION

Administrative and other operating expenses

Our administrative and other operating expenses mainly comprised research and development expenses, staff costs, depreciation and amortisation, and office expenses. Our administrative and other operating expenses increased from approximately RMB12.7 million in 2016 by approximately RMB4.7 million or approximately 37.0% to approximately RMB17.4 million in 2017, which was mainly attributable to the increase in research and development expenses from approximately RMB6.1 million in 2016 by approximately RMB4.2 million or approximately 68.9% to approximately RMB10.3 million in 2017.

Finance costs

Our finance costs decreased from approximately RMB0.8 million in 2016 by approximately RMB0.2 million or approximately 25.0% to approximately RMB0.6 million in 2017, which was mainly attributable to the settlement of bank borrowings in September 2017.

Income tax expenses

Our income tax expenses increased from approximately RMB1.6 million in 2016 by approximately RMB4.0 million or approximately 250.0% to approximately RMB5.6 million in 2017. The effective tax rate (being the ratio of our income tax expenses to our profit before tax) remained stable at approximately 16.0% and approximately 15.8% in 2016 and 2017 respectively.

Profit for the year

Due to the increase in profit before tax, our profit for the year increased from approximately RMB8.6 million in 2016 by approximately RMB21.4 million or approximately 248.8% to approximately RMB30.0 million in 2017.

Net profit margin for the year is calculated by dividing the profit for the year by revenue. For the two years ended 31 December 2017, the net profit margin was approximately 7.6% and 11.5% respectively. The increase in net profit margin was mainly attributable to the increase in gross profit by approximately 132%, while administrative and other operating expenses for corresponding period only increased by approximately 37.5%.

COMPARISON OF OUR RESULTS FOR 2017 AND 2018

Revenue

Our revenue increased from approximately RMB261.0 million in 2017 by approximately RMB76.2 million or approximately 29.2% to approximately RMB337.2 million in 2018. The increase was attributable to the increase in revenue from PRC customers by approximately RMB38.9 million and the increase in revenue from overseas customers by approximately RMB37.3 million.

The increase in revenue was the result of our marketing efforts in the PRC market and overseas markets through trade exhibitions, and the acquisition of Hangzhou Haina. The increase in customer base was beneficial to the increased sales volume of our products leading to the increase in revenue.

FINANCIAL INFORMATION

(i) *Baby diaper machines*

The revenue from our baby diaper machines increased from approximately RMB246.4 million in 2017 by approximately RMB24.2 million or approximately 9.8% to approximately RMB270.6 million in 2018, of which approximately RMB26.7 million were attributed to the increase in revenue from overseas customers, which was partially offset by decrease in revenue from PRC customers by approximately RMB2.5 million. The total number of baby diaper machines sold increased from 39 units in 2017 by 10 units or approximately 25.6% to 49 units in 2018, representing (i) an increase in the sales volume of baby diaper machines to PRC customers by 5 units from 34 units in 2017 to 39 units in 2018; and (ii) an increase in sales volume of baby diaper machines to overseas customers by 5 units from 5 units to 10 units in 2018. The increase in sales volume to PRC customers was mainly contributed by the referrals and business network established our executive Directors and sales and marketing team members. The increase in sales volume to overseas customers was mainly driven by (i) our sales and marketing efforts through attending more international trade exhibitions and trade fairs with a view to attract new overseas customers and to further expand our overseas market and (ii) the acquisition of Hangzhou Haina, which brought us an overseas customer from Angola that purchased our machines (including 1 unit of baby diaper machine and 1 unit of lady sanitary napkin machine). For details of our sources of customers during the Track Record Period, please refer to the section headed “Business — Customers — sales and marketing” in this prospectus.

(ii) *Adult diaper machines*

The revenue from our adult diaper machines increased from approximately RMB11.2 million in 2017 by approximately RMB19.9 million or approximately 177.7% to approximately RMB31.1 million in 2018, of which RMB21.5 million were attributed to the increase in revenue from the PRC, which partially offset by the decrease in revenue from the overseas by approximately RMB1.6 million. The increase in revenue from adult diaper machines was mainly attributable to (i) the additional 2 units of adult diaper machines being sold to our customer in the PRC in 2018, which amounted to approximately RMB7.8 million and (ii) increase in sales from 2 customers who purchased baby diaper machines before and now expanding their purchase on adult diaper machine from us, which amounted to approximately RMB16.7 million.

(iii) *Lady sanitary napkin machines*

The revenue from our lady sanitary napkin machines increased from approximately RMB0.7 million in 2017 by approximately RMB24.0 million to approximately RMB24.7 million in 2018, of which RMB15.1 million and RMB8.9 million were attributed to the increase in revenue from PRC and overseas customers, respectively. The increase was mainly due to (i) the sales volume of Hangzhou Haina (representing 5 units of lady sanitary napkin machines sold to PRC customers of Hangzhou Haina and 1 unit of lady sanitary napkin machine sold to an overseas customer of Hangzhou Haina from Angola) being consolidated into our Group in July 2018, which led to an additional revenue of approximately RMB17.8 million and (ii) an increase in the sales volume of Jinjiang Haina from 1 unit in 2017 by 1 unit to 2 units in 2018, which led to an increase in revenue from approximately RMB0.7 million in 2017 by approximately RMB6.3 million to approximately RMB7.0 million in 2018.

FINANCIAL INFORMATION

Cost of sales

Our cost of sales increased from approximately RMB204.4 million in 2017 by approximately RMB56.3 million or approximately 27.5% to approximately RMB260.7 million in 2018, which is in line with our revenue growth for the same period.

Cost of raw materials increased from approximately RMB185.2 million in 2017 by approximately RMB44.5 million or approximately 24.0% to approximately RMB229.7 million in 2018. The increase in cost of raw materials was mainly attributable to an increase in the sales volume of machines from 42 units in 2017 by 19 units or approximately 45.2% to 61 units in 2018.

Direct staff costs increased from approximately RMB5.9 million in 2017 by approximately RMB1.0 million or approximately 16.9% to approximately RMB6.9 million in 2018. The increase in direct staff costs was mainly attributable to an increase in the number of our Group's direct labour.

Manufacturing overhead increased from approximately RMB12.8 million in 2017 by approximately RMB9.8 million or approximately 76.6% to approximately RMB22.6 million in 2018. The increase in manufacturing overhead was mainly attributable to (i) an increase in the number of managerial and supervisor-grade staff relating to production from 68 in 2017 by 17 to 85 in 2018, resulting in an increase in the related staff costs from approximately RMB4.1 million in 2017 by approximately RMB3.2 million or approximately 78.0% to approximately RMB7.3 million in 2018, (ii) an increase in rental expenses from approximately RMB2.7 million in 2017 by approximately RMB1.6 million or approximately 59.3% to approximately RMB4.3 million in 2018 as we entered into a new lease agreement in 2018; (iii) an increase in the subcontracting fee from approximately RMB1.8 million in 2017 by approximately RMB1.3 million or approximately 72.2% to approximately RMB3.1 million in 2018, which was mainly attributable to subcontracting certain procedures such as surface treatment and processed parts used for our products.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB56.6 million in 2017 by approximately RMB20.0 million or approximately 35.3% to approximately RMB76.6 million in 2018. Our overall gross profit margin remains relatively stable at approximately 21.7% in 2017 and approximately 22.7% in 2018.

Other income

Our other income decreased from approximately RMB5.7 million in 2017 by approximately RMB0.9 million or approximately 15.8% to approximately RMB4.8 million in 2018. The decrease in other income was mainly attributable to a non-recurring government grant of approximately RMB2.3 million related to Numerical Control Generation (數控一代) Products being granted in 2017 which was not granted in 2018.

FINANCIAL INFORMATION

Selling and distribution costs

Our selling and distribution costs mainly comprised expenses for business trips and entertainment, depreciation, promotional expenses and repairment costs. Our selling and distribution costs increased from approximately RMB8.6 million in 2017 by approximately RMB1.0 million or approximately 11.6% to approximately RMB9.6 million in 2018. The increase in selling and distribution costs was mainly attributable to (i) an increase in expenses for business trips and entertainment increased by approximately RMB1.1 million; (ii) an increase in depreciation from approximately RMB0.9 million in 2017 by approximately RMB1.1 million or approximately 122.2% to approximately RMB2.0 million in 2018; and (iii) an increase in the number of staff from 4 in 2017 to 11 in 2018 resulting in the increase in staff costs of approximately RMB0.8 million.

Administrative and other operating expenses

Our administrative and other operating expenses mainly comprised research and development expenses, staff costs, and depreciation and amortisation. Our administrative and other operating expenses increased from approximately RMB17.4 million in 2017 by approximately RMB5.5 million or approximately 31.6% to approximately RMB22.9 million in 2018. The increase in administrative and other operating expenses was mainly attributable to the (i) increase in staff costs from approximately RMB3.0 million in 2017 by approximately RMB4.1 million or approximately 136.7% to approximately RMB7.1 million in 2018, due to the increase in number of staff from 38 in 2017 by 49 to 87 in 2018, including those arising from the acquisition of a non-wholly owned subsidiary, Hangzhou Haina; and (ii) the increase in depreciation and amortisation charges from approximately RMB1.9 million in 2017 by approximately RMB0.8 million or approximately 42.1% to approximately RMB2.7 million in 2018 as a result of the additions of plant and equipment and intangible assets in 2017.

Finance costs

Our finance costs decreased from approximately RMB0.6 million in 2017 by approximately RMB0.5 million or approximately 83.3% to approximately RMB0.1 million in 2018, which was mainly attributable to the full repayment of bank borrowings and obligations under finance leases.

Income tax expenses

Our income tax expense increased from approximately RMB5.6 million in 2017 by approximately RMB0.3 million or approximately 5.4% to approximately RMB5.9 million in 2018. The effective tax rate (being the ratio of our income tax expenses to our profit before tax) decreased from approximately 15.8% in 2017 to approximately 13.1% in 2018 mainly due to the increase in additional deduction allowance for research and development expenditure.

Profit for the year

Based on the above, our profit for the year increased from approximately RMB30.0 million in 2017 by approximately RMB9.2 million or approximately 30.7% to approximately RMB39.2 million in 2018 mainly due to the increase in operating profit.

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Net profit margin for the year is calculated by dividing the profit for the year by revenue. For the two years ended 31 December 2018, the net profit margin was approximately 11.5% and 11.6% respectively. The slightly increase in net profit margin was mainly attributable to approximately 35.3% increase in gross profit and such increase offset by (i) decrease in effective tax rate due to additional deduction allowance for research and development expense from 50% on qualified research and development expenses for the year ended 31 December 2017 to 75% for the year ended 31 December 2018; and (ii) increase in qualified research and development expenses from approximately RMB9.9 million for the year ended 31 December 2017 to approximately RMB14.6 million for the year ended 31 December 2018 which lead to lower tax expense, which was offset by the increase in selling and distribution costs, and administrative and other operating expenses by approximately 24.7%.

COMPARISON OF OUR RESULTS FOR 2018 AND 2019

Revenue

Our revenue increased from approximately RMB337.2 million in 2018 by approximately RMB40.8 million or approximately 12.1% to approximately RMB378.0 million in 2019. The increase was mainly attributable to the increase in revenue from our sales of adult diaper machines by approximately RMB81.1 million or 260.8%.

The increase in sales of adult diaper machines was the result of (i) our marketing efforts on such products in the PRC market and overseas markets through trade exhibitions and trade fairs; and (ii) captured growth of the demand for adult incontinence products by enhancing performance of adult diaper machine through investment in research and development.

(i) Baby diaper machines

The revenue from our baby diaper machines decreased from approximately RMB270.6 million in 2018 by approximately RMB44.3 million or approximately 16.4% to approximately RMB226.3 million in 2019. The decrease in revenue was due to a decrease in sales volume of baby diaper machines from 49 units by 12 units or approximately 24.5% to 37 units, and such decrease offset by an increase in average selling price of baby diaper machines from approximately RMB5.5 million in 2018 by approximately RMB0.6 million or approximately 10.9% to approximately RMB6.1 million in 2019.

(ii) Adult diaper machines

The revenue from our adult diaper machines increased from approximately RMB31.1 million in 2018 by approximately RMB81.1 million or approximately 260.8% to approximately RMB112.2 million in 2019, of which (i) RMB46.4 million were attributed to the increase in revenue from the PRC customers; and (ii) RMB34.7 million were attributed to the increase in revenue from overseas customers. The increase in revenue from adult diaper machines was mainly attributable to (i) three units of adult diaper machines sold to our three existing customer in the PRC, which amounted to approximately RMB25.7 million and seven units being sold to seven new customers in the PRC in 2019, which amounted to approximately RMB45.2 million and (ii) the additional three units of adult diaper machines sold to our three new overseas customers, which amounted to approximately RMB30.1 million and sales to our existing overseas customers who purchased baby diaper machines in previous years and purchasing adult diaper machines from us during the year ended 31 December 2019, which amounted to approximately RMB11.2 million.

FINANCIAL INFORMATION

(iii) Lady sanitary napkin machines

The revenue from our lady sanitary napkin machines decreased from approximately RMB24.7 million in 2018 by approximately RMB2.2 million or approximately 8.9% to approximately RMB22.5 million in 2019 mainly due to the decrease in number of units sold from eight units in 2018 to six units in 2019.

Cost of sales

Our cost of sales increased from approximately RMB260.7 million in 2018 by approximately RMB26.7 million or approximately 10.2% to approximately RMB287.4 million in 2019, which was in line with our revenue growth for the same period.

Cost of raw materials increased from approximately RMB229.7 million in 2018 by approximately RMB15.5 million or approximately 6.7% to approximately RMB245.2 million in 2019. The increase in cost of raw materials was mainly attributable to the average cost of raw material sold increased by RMB0.5 million or 13.2% from RMB3.8 million to RMB4.3 million due to some of machines are relatively larger in size and contained more components, and as a result more raw materials were used on average for each machine.

Direct staff costs increased from approximately RMB6.9 million in 2018 by approximately RMB7.4 million or approximately 107.2% to approximately RMB14.3 million in 2019. The increase in direct staff costs was mainly attributable to a salary increment in certain number of our Group's direct labours. Among that, there were 71 direct labours from a new subsidiary Hangzhou Haina 2019.

Manufacturing overhead increased from approximately RMB22.6 million in 2018 by approximately RMB3.8 million or approximately 16.8% to approximately RMB26.4 million in 2019. The increase in manufacturing overhead was mainly attributable to (i) depreciation of leased properties (i.e. right-of-use assets) in 2019 amounting to RMB7.9 million whereas rental expenses in 2018 amounting to approximately RMB4.3 million; (ii) an increase in consumables materials from RMB2.9 million in 2018 by RMB1.6 million or 55.2% to RMB4.5 million in 2019 as machines were relatively larger in size and contained more components, and more consumable materials used during production; and (iii) effect of acquisition of Hangzhou Haina in July 2018.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB76.6 million in 2018 by approximately RMB14.0 million or approximately 18.3% to approximately RMB90.6 million in 2019. Our overall gross profit margin increased from approximately 22.7% in 2018 by 1.3% to approximately 24.0% in 2019 mainly due to the increase in sales volume of adult diaper machines. The sales of adult diaper machines have higher gross profit margin in 2019 and revenue derived from adult diaper machines accounted for 8.7% of overall gross profit in 2018 and increased to 29.4% of overall gross profit in 2019.

FINANCIAL INFORMATION

Other income

Our other income increased from approximately RMB4.8 million in 2018 by approximately RMB3.6 million or approximately 75.0% to approximately RMB8.4 million in 2019. The increase in other income was mainly attributable to non-recurring government grant of approximately RMB7.3 million mainly related to Special Fund for development of industry and integration of generations (加快機械裝備產業和兩代融合發展專項資金項目) and Top Brand Award (品牌引領獎勵) received in 2019. Such increase was partially offset by (i) a decrease in bank interest income from approximately RMB1.4 million in 2018 by approximately RMB1 million or approximately 71.4% to approximately RMB0.4 million in 2019 as the result of decrease in average balance of restricted bank deposits in 2019 compared with that in 2018; and (ii) a decrease in supplier rebate of RMB0.9 million.

Selling and distribution costs

Our selling and distribution costs mainly comprised expenses incurred for business trips and entertainment, depreciation, promotional expenses and repairment costs. Our selling and distribution costs increased from approximately RMB9.6 million in 2018 by approximately RMB5.0 million or approximately 52.1% to approximately RMB14.6 million in 2019. The increase in selling and distribution costs was mainly attributable to (i) an increase in depreciation from approximately RMB2.0 million by approximately RMB1.7 million or approximately 85% to approximately RMB3.7 million in 2019; (ii) an increase in expense for business trips and entertainment increased from RMB3.4 million by approximately RMB2.3 million or approximately 67.6% to RMB5.7 million in 2019; and (iii) an increase in expenses for staff costs increased from approximately RMB1.0 million by approximately RMB0.7 million or approximately 70.0% to approximately RMB1.7 million.

Administrative and other operating expenses

Our administrative and other operating expenses mainly comprised research and development expenses, staff costs, and depreciation and amortisation. Our administrative and other operating expenses increased from approximately RMB22.9 million in 2018 by approximately RMB14.0 million or approximately 61.1% to approximately RMB36.9 million for the year ended 31 December 2019. The increase in administrative and other operating expenses was mainly due to (i) an increase in research and development expenses from approximately RMB8.7 million increased by RMB10.8 million or 124.1% to RMB19.5 million as number of research and development projects increased from seven in 2018 by seven or 100.0% to 14 in 2019; (ii) an increase in depreciation and amortisation from approximately RMB2.7 million for the year ended 31 December 2018 by approximately RMB2.0 million or approximately 74.1% to approximately RMB4.7 million in 2019 and (iii) an increasing of staff costs from RMB7.1 million by RMB2.9 million or approximately 40.8% to RMB10.0 million which, was due to a salary increment in certain number of our Group's labours.

Finance costs

Our finance costs increased from approximately RMB0.1 million in 2018 by approximately RMB0.9 million or approximately 900% to approximately RMB1.0 million in 2019, which was mainly due to an increase in financial charges on lease liabilities for right-of-use assets in respect of our Group's leased properties.

FINANCIAL INFORMATION

Income tax expenses

Our income tax expense decreased from approximately RMB5.9 million in 2018 by approximately RMB0.8 million or approximately 13.6% to approximately RMB5.1 million in 2019. The effective tax rate (being the ratio of our income tax expenses to our profit before tax) increased from approximately 13.1% in 2018 to approximately 14.1% in 2019 mainly due to the profit before tax decrease, which attributed by (i) the increase in listing expenses from approximately RMB3.2 million in 2018 by approximately RMB6.6 million or approximately 206.3% to approximately RMB9.8 million in 2019 and such expenses were not entitled to income tax deduction, and (ii) deferred tax charged in respect of withholding tax on undistributed profits of a PRC subsidiary amounting approximately RMB1.0 million. Such decrease in profit before tax was offset by the increase in tax effect of additional deduction allowance for research and development expenses from approximately RMB1.6 million in 2018 by approximately RMB1.5 million or approximately 93.8% to RMB3.1 million in 2019.

Profit for the year

Based on the above, our profit for the year decrease from approximately RMB39.2 million in 2018 by approximately RMB8.1 million or approximately 20.7% to approximately RMB31.1 million in 2019 mainly due to a decrease in our operating profit.

Net profit margin for the period is calculated by dividing the profit for the year by revenue for the corresponding year. For the two years ended 31 December 2018 and 2019, the net profit margin was approximately 11.6% and 8.2% respectively. The decrease in net profit margin was primarily attributable to (i) the increase in expenses for business trips and entertainment and depreciation of machines from approximately RMB5.4 million in 2018 by approximately RMB4.0 million or approximately 74.1% to approximately RMB9.4 million in 2019; (ii) the increase in research and development expenses with the reasons stated in above; (iii) the increase of total staff costs from approximately RMB22.2 million in 2018 by approximately RMB9.8 million or approximately 44.1% to approximately RMB32.0 million in 2019 which, was due to a salary increment in certain number of our Group's labours; and (iv) the increase in listing expenses from approximately RMB3.2 million in 2018 by approximately RMB6.6 million or approximately 206.3% to approximately RMB9.8 million in 2019.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our cash requirement was mainly related to costs associated with production, sales and expansion in production capacity. Looking forward, we are of the view that our operating capital and other liquidity requirements will be satisfied by cash from operating activities and banking facilities. We expect to continue to fund our operation through cash generated from operation and external financing. Net proceeds from the Share Offer will also be one of our primary sources of capital to fulfill our capital expenditures and capital needs for future expansion in the forthcoming years. Save for the aforesaid, our Group had no new external financing as at the Latest Practicable Date.

FINANCIAL INFORMATION

CASH FLOWS

	For the year ended 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movements in working capital	13,881	39,648	50,731	53,987
Change in working capital	(6,284)	(409)	(84,035)	(25,113)
Income tax paid	(146)	(1,600)	(6,905)	(8,741)
	<u>7,451</u>	<u>37,639</u>	<u>(40,209)</u>	<u>20,133</u>
Net cash from (used in) operating activities	7,451	37,639	(40,209)	20,133
Net cash (used in) from investing activities	(23,337)	(16,345)	20,799	(421)
Net cash from (used in) financing activities	14,688	(6,516)	25,337	(11,648)
	<u>(1,198)</u>	<u>14,778</u>	<u>5,927</u>	<u>8,064</u>
Net (decrease) increase in cash and cash equivalents	(1,198)	14,778	5,927	8,064
Cash and cash equivalents at the beginning of the year/period	9,606	8,408	23,187	27,709
Effect on exchange rate changes	—	1	(1,405)	(72)
	<u>8,408</u>	<u>23,187</u>	<u>27,709</u>	<u>35,701</u>
Cash and cash equivalents at the end of the year/period, represented by bank balances and cash	<u>8,408</u>	<u>23,187</u>	<u>27,709</u>	<u>35,701</u>

For further information on our Group's cash flows, please refer to Accountants' Report set out in Appendix I in this prospectus.

Net cash from operating activities

Our cash inflows from operating activities comprised (i) cash generated from or used in operations and (ii) income tax paid.

For 2016, we recorded net cash inflow from operating activities of approximately RMB7.5 million, which arose from profit before tax of approximately RMB10.2 million, mainly adjusted for (i) depreciation and amortisation of approximately RMB2.4 million, (ii) finance costs of approximately RMB0.8 million, (iii) loss on disposal of plant and equipment of approximately RMB0.4 million, (iv) decrease in trade and other receivables of approximately RMB9.9 million as we closely monitored the settlement status of trade receivables; (v) an increase in trade and other payables of approximately RMB8.4 million; which was offset by (vi) an increase in inventory of approximately RMB24.6 million to meet our production plan and (vii) income tax paid of approximately RMB0.1 million.

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For 2017, we recorded net cash inflow from operating activities of approximately RMB37.6 million, which arose from profit before tax of approximately RMB35.7 million, mainly adjusted for (i) depreciation and amortisation of approximately RMB4.0 million, (ii) finance costs of approximately RMB0.6 million, (iii) an increase in trade and other payables of approximately RMB94.5 million due to our suppliers agreed to extend credit terms from within 90 days to within 180 days, which was offset by (iv) interest income of approximately RMB0.8 million, (v) an increase in trade and other receivables of approximately RMB38.4 million which is in line with our revenue growth; (vi) an increase in inventory of approximately RMB56.5 million and (vii) income tax paid of approximately RMB1.6 million.

For 2018, we recorded net cash outflow from operating activities of approximately RMB40.2 million, which rose from profit before tax of approximately RMB45.1 million, mainly adjusted for (i) an increase in trade and other receivables of approximately RMB12.1 million in line with the increase of our revenue in 2018; (ii) payment for purchase of materials and other operating expenses of approximately RMB130.0 million mainly due to the acceleration of settlement of amounts due to our suppliers for a purpose to secure timely supply of raw materials and maintain a good relationship with suppliers; (iii) interest income of approximately RMB1.4 million; (iv) income tax paid of approximately RMB6.9 million; which was offset by (v) a decrease in inventory of approximately RMB58.1 million as we use the enterprise resource planning system (the “**ERP system**”) to control the procurement volume from suppliers; (vi) depreciation and amortisation of approximately RMB6.1 million; and (vii) loss on disposal of plant and equipment of approximately RMB0.3 million.

For 2019, we recorded net cash inflow from operating activities of approximately RMB20.1 million, which arise from profit before tax of approximately RMB36.2 million, mainly adjusted for (i) a decrease in trade and other payables of approximately RMB9.8 million due to an acceleration of settlement as our Directors believe that timely settlement can maintain a good relationship with our suppliers so that we are able to get raw material from suppliers in timely manner; and (ii) an increase in raw materials inventory of approximately RMB12.9 million, an increase in work in progress of approximately RMB8.2 million and partly offset by a decrease in finished goods of approximately RMB2.8 million.

Net cash used in investing activities

Our cash outflows used in investing activities mainly comprised (i) acquisition of plant and equipment and addition of intangible asset, (ii) restricted bank deposits as collaterals for bills payable, and (iii) investment in financial assets at FVPL.

For 2016, net cash used in investing activities of approximately RMB23.3 million mainly comprised: (i) purchase of plant and equipment of approximately RMB3.6 million, (ii) an increase in restricted bank deposits of approximately RMB1.8 million and (iii) purchase of financial assets at FVPL of approximately RMB17.0 million.

For 2017, net cash used in investing activities of approximately RMB16.3 million mainly comprised: (i) an increase in restricted bank deposits of approximately RMB17.6 million, (ii) purchase of plant and equipment of approximately RMB5.9 million and (iii) additions of intangible assets of approximately RMB3.7 million. These were partly offset by proceeds from disposal of financial assets at FVPL of approximately RMB10.0 million.

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For 2018, net cash from investing activities of approximately RMB20.8 million mainly comprised: (i) proceeds from disposal of financial assets at FVPL of approximately RMB16.0 million and (ii) a decrease in restricted bank deposits of approximately RMB10.0 million. These were partly offset by purchase of plant and equipment of approximately RMB5.7 million.

For 2019, net cash used in investing activities of approximately RMB0.4 million mainly comprised (i) additions of intangible asset of approximately RMB3.6 million and (ii) purchase of plant and equipment of approximately RMB1.4 million. Such increase was partly offset by a decrease in restricted bank deposits of approximately RMB4.0 million.

Net cash flows from financing activities

Our cash outflows used in financing activities mainly comprised repayment of bank borrowings and obligations under finance leases. Our cash inflow from financing activities mainly comprised bank borrowings and proceeds from finance leases. In addition, transactions with the Controlling Shareholders, ultimate holding company and non-controlling shareholders of a subsidiary would also result in cash inflow/outflow from financing activities.

For 2016, net proceeds from financing activities of approximately RMB14.7 million mainly comprised (i) advances from the Controlling Shareholders of approximately RMB19.0 million, and (ii) new bank borrowings raised of approximately RMB5.0 million. These were partly offset by (i) repayment of bank borrowings of approximately RMB7.0 million, and (ii) repayment of obligations under finance leases of approximately RMB1.6 million.

For 2017, net cash used in financing activities of approximately RMB6.5 million mainly comprised (i) repayment of bank borrowings of approximately RMB5.0 million and (ii) repayment of obligations under finance leases of approximately RMB3.2 million. These were partly offset by advances from the Controlling Shareholders of approximately RMB2.2 million.

For 2018, net cash from financing activities of approximately RMB25.3 million were mainly attributable to (i) advances from ultimate holding company of approximately RMB48.9 million, and (ii) partial settlement on capital contribution due from the non-controlling shareholders of a subsidiary of approximately RMB5.1 million. These were partly offset by (i) payment of dividends payable of approximately RMB5.9 million, (ii) repayment to the Controlling Shareholders of approximately RMB6.3 million and (iii) payment of approximately RMB15.8 million to acquire the entire equity interest of Jinjiang Haina.

For 2019, net cash used in financing activities of approximately RMB11.6 million were mainly attributable to (i) the repayment to the Controlling Shareholders of approximately RMB7.7 million, and (ii) repayment of lease liabilities and corresponding finance charge of approximately RMB8.9 million. Such decrease was partly offset by the advance from ultimate holding company of approximately RMB3.2 million.

FINANCIAL INFORMATION

NET CURRENT ASSETS

The following table sets out our current assets, current liabilities and net current assets as at the date indicated:

	As at 31 December				As at
	2016	2017	2018	2019	31 March
	<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					
Financial assets at FVPL	20,000	10,000	—	—	—
Inventories	111,375	167,850	126,528	144,839	165,751
Trade and other receivables	38,994	77,419	103,590	98,527	87,901
Income tax recoverable	—	—	—	1,203	—
Restricted bank deposits	6,467	24,068	14,040	10,000	7,000
Bank balances and cash	8,408	23,187	27,709	35,701	61,731
Subtotal	<u>185,244</u>	<u>302,524</u>	<u>271,867</u>	<u>290,270</u>	<u>322,383</u>
Current liabilities					
Trade and other payables	147,727	242,269	150,682	141,992	165,282
Bank borrowings	5,000	—	—	—	10,000
Obligations under finance leases	3,158	1,444	—	—	—
Amount due to the Controlling Shareholders	11,752	13,967	7,699	—	38,391
Amount due to ultimate holding company	—	—	48,936	52,150	—
Dividends payable	—	3,304	—	—	—
Lease liabilities	—	—	—	6,977	5,170
Income tax payable	866	3,069	2,833	2	1,409
Deferred tax liabilities	—	—	—	1,000	—
Subtotal	<u>168,503</u>	<u>264,053</u>	<u>210,150</u>	<u>202,121</u>	<u>220,252</u>
Net current assets	<u><u>16,741</u></u>	<u><u>38,471</u></u>	<u><u>61,717</u></u>	<u><u>88,149</u></u>	<u><u>102,131</u></u>

We recorded net current assets of approximately RMB16.7 million as at 31 December 2016, net current assets of approximately RMB38.5 million as at 31 December 2017, net current assets of approximately RMB61.7 million as at 31 December 2018, net current assets of approximately RMB88.1 million as at 31 December 2019 and net current assets of approximately RMB102.1 million as at 31 March 2020.

Our net current assets increased by approximately 130.5%, from approximately RMB16.7 million as at 31 December 2016 to approximately RMB38.5 million as at 31 December 2017, primarily attributable to increase in trade and other receivables of approximately RMB38.4 million, increase in bank balance and cash of approximately RMB14.8 million, increase in inventories of approximately RMB56.5 million and increase in restricted bank deposits of approximately RMB17.6 million, partly offset by the increase in trade and other payables of approximately RMB94.5 million and decrease in financial assets at FVPL of approximately RMB10.0 million.

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Our net current assets increased by approximately RMB23.2 million or approximately 60.3%, from approximately RMB38.5 million as at 31 December 2017 to approximately RMB61.7 million as at 31 December 2018, primarily attributable to increase in trade and other receivables of approximately RMB26.2 million, and increase in bank balance and cash of approximately RMB4.5 million and decrease in trade and other payables of approximately RMB91.6 million, partly offset by the increase in amount due to ultimate holding company of approximately RMB48.9 million and decrease in restricted bank deposits of approximately RMB10.1 million.

Our net current assets increased by approximately RMB26.4 million or approximately 42.8%, from approximately RMB61.7 million as at 31 December 2018 to approximately RMB88.1 million as at 31 December 2019, primarily attributable to increase in inventories of approximately RMB18.3 million and increase in bank balances and cash of approximately RMB8.0 million and decrease in trade and other payables of approximately RMB8.7 million, partly offset by an decrease in restricted bank deposits of approximately RMB4.0 million.

Our net current assets increased by approximately RMB14.0 million or approximately 15.9% from approximately RMB88.1 million as at 31 December 2019 to approximately RMB102.1 million as at 31 March 2020, primarily attributable to increase in bank balance and cash of approximately RMB26.0 million, the increase in inventories of approximately RMB21.0 million, partly offset by the increase in trade and other payables of approximately RMB23.3 million and the increase in bank borrowings of approximately RMB10.0 million which is repayable within one year and obtained mainly for the production of medical disposable face mask machines.

DESCRIPTION AND ANALYSIS OF PRINCIPAL ITEMS IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

Plant and equipment

The following table sets out a summary of our net book value of plant and equipment as at the date indicated:

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Plant and machinery	10,785	13,757	15,534	10,846
Motor vehicles	1,171	994	1,273	945
Office equipment	329	469	344	207
Computer equipment	71	161	858	1,366
Right-of-use assets	—	—	—	26,230
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>12,356</u>	<u>15,381</u>	<u>18,009</u>	<u>39,594</u>

The net book value of our plant and equipment increased from approximately RMB12.4 million as at 31 December 2016 by approximately RMB3.0 million or approximately 24.2% to approximately RMB15.4 million as at 31 December 2017, increased by approximately RMB2.6 million or approximately 16.9% to approximately RMB18.0 million as at 31 December 2018, and further increased by approximately RMB21.6 million or approximately 120.0% to approximately RMB39.6 million as at 31 December 2019.

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The increase from net book value of our plant and equipment as at 31 December 2016 to net book value as at 31 December 2017 was mainly attributable to the addition of one baby diaper machine amounting to approximately RMB3.1 million included in plant and machinery for customer demonstration purpose; the increase from net book value as at 31 December 2017 to net book value as at 31 December 2018 was mainly attributable to (i) the further enhancement costs assembled on the same existing baby diaper machines for demonstration purpose, which amounted to approximately RMB2.8 million; and (ii) the addition of one lady sanitary napkin machine which amounted to approximately RMB1.6 million included in plant and machinery for demonstration purpose.

The increase from net book value of our plant and equipment as at 31 December 2018 to net book value as at 31 December 2019 was mainly attributable to an increase in right-of-use assets upon application of HKFRS 16 on 1 January 2019.

GOODWILL

	<i>RMB'000</i>
Reconciliation of carrying amount	
At 1 January 2016 and 31 December 2016 and 2017	—
Additions	1,369
	<hr/>
At 31 December 2018 and 2019	1,369
	<hr/> <hr/>
At 31 December 2016 and 2017	
Cost	—
Accumulated impairment loss	—
	<hr/>
	—
	<hr/> <hr/>
At 31 December 2018 and 2019	
Cost	1,369
Accumulated impairment loss	—
	<hr/>
	1,369
	<hr/> <hr/>

Goodwill arises from the acquisition of 51% equity interest in Hangzhou Haina at cash consideration of RMB10,200,000 in July 2018. The excess of the fair value consideration transferred over the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed of approximately RMB1,369,000 was recognised as goodwill.

At 31 December 2018 and 2019, the Group assessed the recoverable amount of the relevant cash-generating unit with reference to a value-in-use calculation based on the cash flow projection of Hangzhou Haina. The calculation uses cash flow projection based on financial budgets approved by the directors covering a 3-year period. Cash flows beyond the 3-year period have been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

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Key assumptions used for value-in-use calculations are as follows:

At 31 December 2018 and 2019

Long-term growth rate	3%
Discount rate (pre-tax)	12%

Based on the above key assumption, the recoverable amount would exceed the carrying amounts of the cash-generating unit by not less than approximately RMB37 million. If the long-term growth rate decreased by 1% or the discount rate (pre-tax) increased by 1%, the recoverable amount of the relevant cash-generating unit would drop by approximately RMB3,946,000 and RMB4,434,000, respectively.

In the opinion of our Directors, a reasonably possible change in key parameters would not cause the carrying amount of the relevant cash-generating unit to exceed the recoverable amount. If the discount rate (pre-tax) increased from 12% to approximately 72%, the recoverable amount of the relevant cash-generating unit would be approximated to its carrying amount. Even though in an extreme situation, if the long-term growth rate decreased from 3% to approximately -100% (i.e. nil terminal value), the recoverable amount of the relevant cash-generating unit would still exceed its carrying amount.

There is no material changes in the key assumptions and other parameters to the cash flow projection of Hangzhou Haina used for the goodwill impairment assessment as at 31 December 2018 and 2019 because there is no material changes in the business strategy, production capacity, products/customers/suppliers mix, pricing policy and other relevant key factors that may affect the projected financial performance and cash flows of Hangzhou Haina.

Intangible assets

The following table sets out the summary of our intangible assets balances as at the dates indicated.

	As at 31 December			
	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 period	1,994	1,999	4,382	5,027
Additions	938	3,702	2,720	3,677
Amortisation	(933)	(1,319)	(2,075)	(3,398)
At the end of the period	<u>1,999</u>	<u>4,382</u>	<u>5,027</u>	<u>5,306</u>

Development costs represented costs incurred at the development phase of certain new technologies for the production of machinery for disposable hygiene products, which are capitalised and amortised (if applicable) in accordance with the accounting policies set out in the note 3 to the Accountants' Report in Appendix I in this prospectus.

FINANCIAL INFORMATION

The carrying amount of our intangible assets increased from approximately RMB2.0 million as at 31 December 2016 by approximately RMB2.4 million or approximately 120.0% to approximately RMB4.4 million as at 31 December 2017, and further increased by approximately RMB0.6 million or approximately 13.6% to approximately RMB5.0 million as at 31 December 2018, and increased by approximately RMB0.3 million or approximately 6.0% to approximately RMB5.3 million as at 31 December 2019.

The increase in the balances of intangible assets as at 31 December 2016, 2017, 2018 and 2019 were mainly attributable to the increase of the capitalised development costs as a result of our dedication on developing new technologies or technologies enhancement so as to keep abreast of our production of machines in the disposable hygiene products machinery market.

Financial assets at FVPL

Financial assets at FVPL were mainly the unlisted wealth management products subscribed from certain licensed banks in the PRC, which were redeemable less than one year from the date of issue. We recorded financial assets at FVPL of approximately RMB20.0 million and approximately RMB10.0 million as at 31 December 2016 and 2017 respectively, and have redeemed all financial assets at FVPL as at 31 December 2018.

During the Track Record Period, our investments in wealth management products mainly comprised (i) highly liquid assets, including but not limited to, PRC government bonds, financial bonds, enterprise bonds, short-term financing instruments, medium-term notes, subordinated bonds; and (ii) credit assets such as credit-based credit products and financial asset exchange credit instruments.

These wealth management products have different risk levels, ranging from relatively low to medium risk, depending on the types and percentages of the underlying assets in a particular investment portfolio. According to the underlying contracts for these wealth management products, the investment allocation decisions of these unlisted funds are generally made by licensed commercial banks on a discretionary basis. We made investments in these wealth management products primarily for the purposes of gaining higher short-term investment returns than the fixed rate returns from cash deposits at banks.

According to our treasury management policy, the investment decisions with respect to wealth management products are made on a case by case basis and after due and careful consideration of a number of factors, including, but not limited to, the market conditions, the economic developments, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment. We have established a set of internal control measures which allow us to achieve reasonable returns on our investment while mitigating our exposure to high investment risks. These policies and measures were formulated by the Board.

According to our internal policies, a proposal to invest in wealth management products must be reviewed and approved by the management of the Group. In assessing a proposal to invest in wealth management products, a number of criteria must be met, including but not limited to:

- we should generally only invest in short-term wealth management products;
- investments in high-risk wealth management products being prohibited;

FINANCIAL INFORMATION

- the proposed investment must not interfere with our business operation or capital expenditures; and
- the wealth management products should be issued by reputable and sizable licensed commercial bank

Once a decision is made to invest in the wealth management product, our finance team is responsible for reviewing and monitoring the investment and reports the performance of the investment to the Board on a regular basis.

The following table sets forth a summary of the expiry and number of wealth management products purchased by the Group during the Track Record Period:

	Amount subscribed (RMB'000)	Period
1.	10,000	From 25 March 2016 to 27 September 2016
2.	10,000	From 5 May 2016 to 3 November 2016
3.	10,000	From 3 August 2016 to 24 January 2017
4.	10,000	From 30 December 2016 to 4 July 2017
5.	10,000	From 13 July 2017 to 12 January 2018

Note: The above table excluded the wealth management products with principal amount of RMB6,000,000 from 1 June 2018 to 30 September 2018 which was purchased from acquisition of Hangzhou Haina completed on 12 July 2018.

The following table sets forth the balance of our financial assets at FVPL as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted wealth management products	<u>20,000</u>	<u>10,000</u>	<u>—</u>	<u>—</u>

For financial reporting purposes, our financial assets at FVPL are required to measure, recognise and disclose their fair values in the combined financial information on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13 “Fair Value Measurement” with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

During the Track Record Period, our financial assets at FVPL representing investments in unlisted wealth management products which are categorised into Level 3.

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The fair values of unlisted wealth management products was determined by our management using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires our management to make estimates about the expected future cash flows including expected future return on maturity of the wealth management products. Our management believes that the estimated fair values resulting from the valuation technique are reasonable and that they were the most appropriate values at the end of each of the Track Record Period.

Below is summary of significant unobservable inputs to valuation in respect of unlisted wealth management products classified as financial assets at FVPL included in Level 3 categories together with the sensitivity analysis at the end of each of the Track Record Period:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Unlisted wealth management products	Discounted cash flows	Expected return rate	The higher the expected return rate, the higher the fair value

An increase in the expected return rate used in isolation would result in an increase in the fair value measurement of the unlisted wealth management products, and vice versa. At 31 December 2016 and 2017, 1% and 1% increase/decrease in the expected return rate increased by 1% and 1% holding all other variables constant would increase/decrease the carrying amount of the unlisted wealth management products by approximately RMB43,000 and RMB48,000, respectively.

The management does not have any plan to purchase financial assets in the foreseeable future.

Our Group has established and implemented internal rules and procedures to ensure the reasonableness of the fair value measurements of our Level 3 financial instruments. Our Directors review the fair value measurement of our Level 3 financial instruments, taking into account the valuation techniques and various assumptions of unobservable inputs and determine if the fair value measurement of Level 3 financial instruments in compliance with the applicable HKFRSs. Our Directors consider no external professional valuer is required to be involved in the valuation because (i) a reference quotation price would be available from the licensed commercial banks from time to time which is approximated to the valuation performed by the management; (ii) the expected volatility of the key valuations inputs is low; (iii) the investment period is short; and (iv) all investment in the unlisted wealth management products had been subsequently realised at the amounts approximate to the valuation performed by the management.

In light of the above, our Directors are of the view that they are satisfied with the valuation of our Level 3 financial instruments in the historical financial information in the Accountants' Report as set out in Appendix I to this prospectus.

Mazars CPA Limited, our reporting accountants (the "Reporting Accountants"), have reviewed the valuations of the unlisted wealth management products for the purpose of expressing their audit opinion on the historical financial information of the Group, as a whole, for the Track Record Period is set out in Appendix I to this prospectus.

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The Sole Sponsor have (i) reviewed the investment contracts and related documents; (ii) re-calculated the expected future cash flows and (iii) reviewed the actual return, in view of the bases above, the sponsor is satisfied that the Group's management has made sufficient valuation for financial assets categorised within Level 3 of fair value measurement.

Taking into consideration (i) the Directors' view, (ii) the discussion among the Sole Sponsor and the Reporting Accountants in relation to the valuation work performed by the Company during the Track Record Period for the financial assets categorised within Level 3 of the fair value measurement, and (iii) the unqualified opinion on the historical financial information of the Group as a whole issued by the Reporting Accountants included in Appendix I of this prospectus, nothing has come to the Sole Sponsor's attention that would cause them to disagree with the valuation of financial assets categorised within Level 3 of the fair value measurement.

Trade and other receivables

Our trade and other receivables primarily comprised bills receivables, trade receivables due from third parties, prepayments, other prepaid expenses and other tax recoverable. Our trade receivables represent outstanding balances from our customers in relation to the sales of our products, which are usually settled by bank transfer and bank's acceptance bills.

Trade receivables as at 31 December 2016, 2017, 2018 and 2019 mainly represented outstanding amounts due to our Group from its customers less any ECL of trade receivables.

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade receivables	18,495	40,466	70,596	76,584
Less: Allowance for ECL	(411)	(462)	(1,045)	(1,473)
Net trade receivables	18,084	40,004	69,551	75,111
Bills receivables (<i>Note (i)</i>)	1,620	—	—	1,000
Deposits and other receivables	770	1,858	1,250	1,201
Prepayment to suppliers	18,084	29,896	19,055	4,843
Prepayment for listing expenses	—	—	749	2,836
Other prepaid expenses	436	901	1,200	1,129
Other tax recoverable	—	4,760	8,365	10,687
Capital contribution receivable from non-controlling shareholders of a subsidiary	—	—	3,420	1,720
Trade and other receivables	<u>38,994</u>	<u>77,419</u>	<u>103,590</u>	<u>98,527</u>
Turnover days of trade receivables (in days) (<i>Note (ii)</i>)	<u>73</u>	<u>41</u>	<u>60</u>	<u>70</u>
Turnover days of trade receivables (in days) (excluding retention receivables)	<u>58</u>	<u>25</u>	<u>31</u>	<u>36</u>

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Notes:

(i) Analysis of bills receivables as at the date indicated:

	At 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank acceptance note from customers	1,620	—	—	1,000

(ii) Turnover days of trade receivables is calculated by dividing the average trade receivables by revenue, then multiplied by the number of days for the year (i.e. 365 days). Average trade receivables equal the average of trade receivables at the beginning of the year and trade receivables at the end of the year.

The table below sets out the analysis of our net trade receivables (after allowance for ECL) as at the dates as follows:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Retention receivables	6,376	17,130	36,915	37,003
Trade receivables	11,708	22,874	32,636	38,108
Total	18,084	40,004	69,551	75,111

The table below sets out the ageing analysis of our net trade receivables (after allowance for ECL), based on revenue recognition date, as at the dates as follows:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	584	13,883	8,402	18,640
31-60 days	1,137	12,898	10,510	2,995
61-90 days	371	4,030	68	14,701
91-180 days	6,896	1,749	16,131	15,063
181-365 days	4,594	4,585	13,021	15,848
Over 365 days	4,502	2,859	21,419	7,864
Total	18,084	40,004	69,551	75,111

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The table below sets out the ageing analysis of our net trade receivables (after allowances for ECL but excluding retention receivables), based on revenue recognition date, as at the dates as follows:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	—	8,227	5,532	14,295
31-60 days	1,137	8,974	3,731	82
61-90 days	—	2,014	68	9,346
91-180 days	3,621	409	6,377	6,382
181-365 days	3,644	2,361	6,849	6,533
Over 365 days	3,306	889	10,079	1,470
	<u>11,708</u>	<u>22,874</u>	<u>32,636</u>	<u>38,108</u>

The table below sets out the ageing analysis of our net trade receivables (after allowance for ECL), by due date, as at the dates as follows:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not yet due	<u>5,367</u>	<u>16,196</u>	<u>18,043</u>	<u>28,725</u>
Past due:				
Within 30 days	—	6,491	8,252	14,348
31-60 days	1,921	8,666	6,440	125
61-90 days	—	1,921	1,711	9,663
91-180 days	1,700	2,908	8,288	6,650
181-365 days	4,594	1,999	13,226	10,705
Over 365 days	4,502	1,823	13,591	4,895
	<u>12,717</u>	<u>23,808</u>	<u>51,508</u>	<u>46,386</u>
	<u>18,084</u>	<u>40,004</u>	<u>69,551</u>	<u>75,111</u>

Our Directors believe that no write-off is necessary for our trade receivables that were past due as there has not been any sign of significant adverse charge in credit strength of our customers.

Our trade receivables increased from approximately RMB18.1 million as at 31 December 2016 by approximately RMB21.9 million or approximately 121.0% to approximately RMB40.0 million as at 31 December 2017, increased by approximately RMB29.6 million or approximately 74.0% to approximately RMB69.6 million as at 31 December 2018. Our trade receivables subsequently increased by approximately RMB5.5 million or approximately 9.2% to approximately RMB75.1 million as at 31 December 2019.

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For trade receivables without a significant financing components or otherwise for which our Group applies the practical expedient not to account for the significant financing components, our Group applies a simplified approach in calculating ECL. Our Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The ECL allowance on trade receivables subject to ECL model which are assessed for individual debtors are approximately RMB0.4 million, RMB0.5 million, RMB1.0 million and RMB1.5 million on gross carrying amount of approximately RMB18.5 million, RMB40.5 million, RMB70.6 million and RMB76.6 million at 31 December 2016, 2017, 2018 and 2019, respectively.

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed using a provision matrix with appropriate groupings based on shared credit risk characteristics of customers at 31 December 2016, 2017, 2018 and 2019.

At 31 December 2016

Internal credit rating <i>(Remarks)</i>	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.00	7,876	79
Risk Category 2	1.02	4,293	44
Risk Category 3	4.55	6,326	288
		<u>18,495</u>	<u>411</u>

At 31 December 2017

Internal credit rating <i>(Remarks)</i>	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	0.76	27,560	208
Risk Category 2	0.78	8,598	67
Risk Category 3	4.34	4,308	187
		<u>40,466</u>	<u>462</u>

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At 31 December 2018

Internal credit rating <i>(Remarks)</i>	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.24	63,190	785
Risk Category 2	1.54	3,646	55
Risk Category 3	5.45	3,760	205
		70,596	1,045
		70,596	1,045

At 31 December 2019

Internal credit rating <i>(Remarks)</i>	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.39	67,472	938
Risk Category 2	2.50	50	1
Risk Category 3	5.90	9,062	534
		76,584	1,473
		76,584	1,473

Remarks:

Risk Category	Description
Risk Category 1	The debtor has on-going business relationship with the Group with a good credit history. The Group expects the debtor to settle the receivable on time within one year.
Risk Category 2	The debtor has no recent business relationship with the Group but a good credit history is proven from various sources. The Group expects the debtor to settle the receivable within one year.
Risk Category 3	The debtor failed to settle on time due to a temporary problem, but the Group expects the problem could be resolved and the outstanding amount could be settled in a foreseeable future.

The following table shows the movements in allowance for ECL that has been recognised for trade receivables during the Track Record Period:

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
At the beginning of the year	327	411	462	1,045
Increase in allowance	84	51	560	428
Acquisition of a subsidiary	—	—	23	—
	411	462	1,045	1,473
	411	462	1,045	1,473

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The following significant changes in the gross carrying amounts of trade receivables contributed to the changes in the loss allowance during the Track Record Period:

- (a) changes because of trade receivables originated during the reporting period; and
- (b) changes because of trade receivables that were recognised from acquisition of a subsidiary during the year ended 31 December 2018.

Turnover days of trade receivables were 73 days, 41 days, 60 days and 70 days for the years ended 31 December 2016, 2017, 2018 and 2019. As at 31 December 2017, the significant decrease in the turnover days of trade receivables was mainly attributable to our Group's increased efforts in recovering the receivables. Turnover days of receivables increased from 41 days in 2017 to 60 days in 2018 and further increased to 70 days as at 31 December 2019. Despite long outstanding from Customer A amounting approximately RMB10.8 million settled during the year ended 31 December 2019, the sales in the fourth quarter of 2019 increased compared with that of 2018 and therefore the turnover days of trade receivables for the year ended 31 December 2019 increased compared with that of 2018. The trade receivables (net of allowance for ECL) not yet past due increased from approximately RMB18.0 million at 31 December 2018 by approximately RMB10.7 million or approximately 59.4% to approximately RMB28.7 million at 31 December 2019.

Subsequent settlement of trade receivables

As at Latest Practicable Date, approximately RMB17.4 million, RMB37.5 million, RMB66.1 million and RMB39.4 million or approximately 94.1%, 92.6%, 93.6% and 51.4% of the trade receivables (before allowance for ECL of trade receivables) as at 31 December 2016, 2017, 2018 and 2019 of approximately RMB18.5 million, RMB40.5 million, RMB70.6 million and RMB76.6 million was subsequently settled, respectively.

As at Latest Practicable Date, approximately RMB11.1 million, RMB21.7 million, RMB31.7 million and RMB21.7 million or approximately 92.5%, 93.5%, 95.5% and 56.1% of the trade receivables (excluded retention receivables but before allowance for ECL of trade receivables) as at 31 December 2016, 2017, 2018 and 2019 of approximately RMB12.0 million, RMB23.2 million, RMB33.2 million and RMB38.7 million was subsequently settled, respectively.

As at Latest Practicable Date, approximately RMB6.3 million, RMB15.8 million, RMB34.4 million and RMB17.7 million or approximately 96.9%, 91.3%, 92.0% and 46.7% of the retention receivables (before allowance for ECL of retention receivables) as at 31 December 2016, 2017, 2018 and 2019 of approximately RMB6.5 million, RMB17.3 million, RMB37.4 million and RMB37.9 million was subsequently settled, respectively.

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Subsequent settlement of past due trade receivables

As at Latest Practicable Date, approximately RMB11.9 million, RMB22.0 million, RMB48.2 million and RMB27.8 million or approximately 90.8%, 91.3%, 92.2% and 58.8% of the past due trade receivables (before allowance for ECL of trade receivables) as at 31 December 2016, 2017, 2018 and 2019 of approximately RMB13.1 million, RMB24.1 million, RMB52.3 million and RMB47.3 million was subsequently settled, respectively. The remaining outstanding was mainly attributable to balances arising from 3 customers who purchased our machines in 2019, amounted to approximately RMB10.9 million or approximately 23.0% of total past due trade receivables (before allowance for ECL) as at 31 December 2019 of which past due within 90 days. With the on-going business relationship with these customers with a good credit history, our Directors believe these customers will be able to settle the outstanding receivable after their internal payment procedures within one year.

As at Latest Practicable Date, approximately RMB21.6 million or approximately 61.7% of the past due trade receivables (exclude retention receivables but before allowance for ECL of trade receivables) as at 31 December 2019 of approximately RMB35.0 million was subsequently settled.

As at Latest Practicable Date, approximately RMB6.2 million or approximately 50.4% of the past due retention receivables (before allowance for ECL of retention receivables) as at 31 December 2019 of approximately RMB12.3 million was subsequently settled.

Our company closely monitors the settlement status of trade receivables and assesses the collectability of the trade receivables on a case-by-case basis to determine if any impairment of trade receivables is necessary under a provision matrix method with reference to our internal credit rating. Our assessment takes into account, among others, the evaluation of collectability, ageing analysis of the trade receivables, as well as creditworthiness, financial strength and payment history of the customers. We consider that there is no recoverability issue after assessing the individual condition of our debtors.

With respect to the trade receivables turnover days during the Track Record Period, we have implemented the following internal control measures to mitigate our potential adverse impact and enhance the effectiveness of our credit policy:

- (i) periodic review of collection status of trade receivables such as our finance personnel should send the monthly statements with account balances to customers and the responsible sales staff for their attention to follow up with customers;
- (ii) once the trade receivables become overdue, our sales staff would contact the relevant customers to follow up on the repayment status and report to our senior management on the recoverability of the trade receivables after such follow up;
- (iii) the Directors would periodically review our Group's credit policy taking into account the collection status of trade receivables; and
- (iv) the Directors would conduct monthly analysis of the overdue trade receivables balances and determine whether allowance for bad and doubtful debts is required, taking into consideration the ageing status and likelihood of collection of the trade receivables from our customers.

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Inventories

The table below sets out our inventories as at the dates as follows:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	86,410	48,604	50,233	63,153
Work in progress	4,256	119,246	67,375	75,546
Finished goods	20,709	—	8,920	6,140
Total	<u>111,375</u>	<u>167,850</u>	<u>126,528</u>	<u>144,839</u>

The value of inventories accounted for approximately 55.8%, 52.1%, 42.7% and 43.2% of our total assets respectively during the Track Record Period.

Raw materials mainly comprised electrical appliances, processed parts, and steel, etc.

Raw materials decreased from approximately RMB86.4 million as at 31 December 2016 by approximately RMB37.8 million or approximately 43.8% to approximately RMB48.6 million as at 31 December 2017, which was mainly attributable to our decrease in demand of raw materials as we changed from self-manufacturing of processed parts to procurement of processed parts from third parties, resulting in steels, electrical appliances, and components and parts decreased in aggregate by approximately RMB45.0 million or approximately 77.9%. Raw materials increased from approximately RMB48.6 million as at 31 December 2017 by approximately RMB1.6 million or approximately 3.3% to approximately RMB50.2 million as at 31 December 2018. The increase in raw materials was mainly attributable to (i) an increase in the level of inventories for production as sales volume increased; (ii) sales volume in 2018 increased by 19 and our revenue increased by approximately RMB76.2 million or approximately 29.2% in 2018. Raw materials increased by approximately RMB13.0 million or approximately 25.9% to approximately RMB63.2 million as at 31 December 2019. The increase in raw materials was mainly due to increasing in inventory level for increased level of production.

Work in progress represented semi-finished products under the production process.

Work in progress increased from approximately RMB4.3 million as at 31 December 2016 by approximately RMB114.9 million or approximately 2,672.1% to approximately RMB119.2 million as at 31 December 2017. The work in progress as at 31 December 2017 mainly included 24 units of machines being sold in 2018. 9 units of machines amounted to approximately RMB42.9 million or approximately 36.0% of the total work in progress as at 31 December 2017 were sold in the first quarter in 2018, and the remaining work in progress amounted to approximately RMB76.4 million or approximately 64.0% of the total work in progress were under early stage of production process.

Work in progress decreased from approximately RMB119.2 million as at 31 December 2017 by approximately RMB51.8 million or approximately 43.5% to approximately RMB67.4 million as at 31 December 2018 as (i) we used the ERP System to control the procurement volume from suppliers and production process; (ii) the work in progress as at 31 December 2018 which will be sold in 2019, of which 3 units of machines amounted to approximately RMB10.5 million or

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approximately 15.6% of the total work in progress as at 31 December 2018 were sold in the first quarter in 2019 and the remaining work in progress are still at the preliminary stage, of which less costs incurred as compared to the work in progress as at 31 December 2017.

Work in progress increased from approximately RMB67.4 million as at 31 December 2018 by approximately RMB8.1 million or approximately 12.0% to approximately RMB75.5 million as at 31 December 2019. The work in progress as at 31 December 2019 mainly included 22 units of machines that are expected to be sold in 2020, 8 units of machines amounted to approximately RMB34.5 million or approximately 45.7% of total work in progress as at 31 December 2019 were sold in the first quarter in 2020 and remaining work in progress amounted to approximately RMB41.0 million or approximately 54.3% of total work in progress were under early stage of production process.

Finished goods represented products which completed production process and satisfied our testing pending customers' certification and final acceptance.

Finished goods decreased by approximately RMB20.7 million as at year ended 31 December 2017, which was mainly attributable to three machines as at 31 December 2016 being sold subsequently in 2017. Finished goods increased by approximately RMB8.9 million as at 31 December 2018 due to one machine pending customer acceptance. Finished goods decreased by approximately RMB2.8 million or approximately 31.5% to approximately RMB6.1 million as at 31 December 2019 as one machine was pending our customer's acceptance.

The table below sets out our average inventory turnover days during the Track Record Period:

	As at 31 December			
	2016	2017	2018	2019
	<i>days</i>	<i>days</i>	<i>days</i>	<i>days</i>
Raw materials	357	121	70	73
Work in progress	9	111	131	91
Finished goods	43	19	7	10
Total inventory	<u>409</u>	<u>250</u>	<u>207</u>	<u>173</u>

Note: Inventory turnover days is calculated by dividing the average inventory balance by cost of sales, then multiplied by the number of days for the year (i.e. 365 days).

The inventory turnover days as at 31 December 2016, 2017, 2018 and 2019 were 409 days, 250 days, 207 days and 173 days, respectively.

Raw materials turnover days decreased from 357 days in 2016 to 121 days in 2017 since we changed from self-manufacturing to procurement of processed parts, which shortened the manufacturing time; Raw materials turnover days further decreased from 121 days in 2017 to 70 days in 2018, which was mainly attributable to the inventory control by implementing the ERP system. Meanwhile, raw material turnover days remain stable as at 31 December 2019.

Work in progress turnover days increased from 9 days in 2016 to 111 days in 2017, of which 9 units of machines were sold in the first quarter in 2018; work in progress turnover days further increased from 111 days in 2017 to 131 days in 2018, which was mainly attributable to our work in progress as at 31 December 2018 being at the preliminary stage. Meanwhile, work in progress turnover days decreased to 91 days as at 31 December 2019 as a result of decrease in average production cost incurred for each machine under production.

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Before the implementation of the ERP System in July 2017, which was effected at the end of 2017, we purchased inventories such as raw materials in advance for self-manufacturing purpose and may prepare buffer inventories to cope with production plan in the year.

As at the end of the Track Record Period, there were also occasions that our customers requested our Group to delay the scheduled delivery of our products under the sales contract because their production sites were still under construction and were not ready for on-site installation of our products.

As at Latest Practicable Date, approximately RMB49.4 million or approximately 34.1% of the inventories as at 31 December 2019 was subsequently utilised/sold.

Trade and other payables

Our trade and other payables mainly represented (i) the amounts payable to suppliers for purchasing raw materials, including electrical appliances, processed parts, steel and components and parts; (ii) bills payable; (iii) salaries payable; (iv) receipts in advance; and (v) other payables.

The table below sets out the summary of our trade and other payables as at the dates as follows:

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade payables (<i>Note (i)</i>)	64,518	119,198	49,009	52,939
Bills payables	26,168	40,070	23,000	10,000
Salaries payables	2,223	2,655	3,834	4,081
Receipts in advance	46,088	69,790	63,687	63,169
Other payables	8,730	10,556	11,152	11,630
Amount due to a director	—	—	—	173
Total	147,727	242,269	150,682	141,992
Turnover days of trade payables (in days) (<i>Note (ii)</i>)	328	165	118	65

Note:

- (i) During the Track Record Period, our Group had procured raw materials from companies controlled by the relative(s) of one of our Controlling Shareholders, which would have been connected transactions under the Listing Rules and were under normal commercial terms. The relevant procurement amounts and balances included in the trade payables as below:

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Procurement of raw materials

	For the year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Hengqin Machinery	—	5,826	5,069	4,515
Jinjiang Xianzi Machinery Company Limited (晉江仙資機械有限公司)	384	4,730	—*	—
Shengrong Machinery	—	2,565	1,888	2,602
	<u>384</u>	<u>13,121</u>	<u>8,741</u>	<u>7,117</u>

* Jinjiang Xianzi Machinery Company Limited ceased to be a connected person under the Listing Rules from 19 December 2017 onwards and hence this amount is not reported.

- (ii) Turnover days of trade payables are calculated by dividing the trade payables by cost of sales, then multiplied by the number of days for the year (i.e. 365 days). Average trade payables equal the average of trade payables at the beginning of the year and trade payables at the end of the year.

The table below sets out the ageing analysis of our trade payables based on the goods receipt date as at the dates as follows:

	As at 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Within 30 days	16,541	18,304	7,538	32,743
31-60 days	12,855	18,718	9,510	6,869
61-90 days	10,555	16,811	7,101	7,707
91-180 days	17,468	39,217	12,653	2,954
181-365 days	6,405	25,553	10,255	1,195
Over 365 days	694	595	1,952	1,471
Total	<u>64,518</u>	<u>119,198</u>	<u>49,009</u>	<u>52,939</u>

Our trade payables increased from approximately RMB64.5 million as at 31 December 2016 by approximately RMB54.7 million or approximately 84.8% to approximately RMB119.2 million as at 31 December 2017, which was mainly attributable to some of our suppliers agreeing to an extended credit terms from within 90 days to within 180 days in 2017, including (i) trade payable balance from two of top five suppliers for the year ended 2017 amounted to approximately RMB7.3 million; and (ii) trade payable balance from other suppliers amounted to approximately RMB31.0 million.

Our trade payables decreased from approximately RMB119.2 million as at 31 December 2017 by approximately RMB70.2 million or approximately 58.9% to approximately RMB49.0 million as at 31 December 2018, which was mainly attributable to (i) the settlement of trade payables with extended credit terms as at 31 December 2017 and trade payables arising in 2018, (ii) we use the ERP system to control the procurement of raw materials more efficiently, and hence reduce overall trade payables as at 31 December 2018.

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Our trade payables increased from approximately RMB49.0 million as at 31 December 2018 by approximately RMB3.9 million or approximately 8.0% to the approximately RMB52.9 million as at 31 December 2019 due to increase in purchase of raw materials to meet demand in 2020.

We order raw materials and components from our suppliers through individual purchase agreements, with payment terms typically ranging from three to six months. Trade payables turnover days were 328 days, 165 days, 118 days and 65 days for the years ended 31 December 2016, 2017, 2018 and 2019 respectively. Our turnover days were on a decreasing trend for the years ended 31 December 2016, 2017 and 2018 and 2019, mainly attributable to our production model of self-manufacturing of processed parts in 2016, which required longer time compared to the direct external purchase of processed parts and had a longer turnover of material use accordingly. From 2017, our production model was switched to the direct procurement of processed parts from third parties, and we reduced our inventory level through using the ERP system to monitor our procurement volume. Based on the above, the turnover days in 2017, 2018 and 2019 showed a trend of decline.

As at the Latest Practicable Date, approximately RMB47.7 million or approximately 90.1% of the trade payables as at 31 December 2019 was subsequently settled.

Our bills payables increased from approximately RMB26.2 million as at 31 December 2016 by approximately RMB13.9 million or approximately 53.1% to approximately RMB40.1 million as at 31 December 2017. The increase was mainly attributable to our enhanced management of operating capital with an increased usage of bills for payments to suppliers. As at 31 December 2018, the trade payables decreased by approximately RMB17.1 million or approximately 42.6% to approximately RMB23.0 million, mainly attributable to the subsequent settlement of the bills payable. As at 31 December 2019, the bills payables decreased by approximately RMB13.0 million or approximately 56.5% to approximately RMB10.0 million mainly attributable to the settlement of the bills payables during the year.

RELATED PARTY TRANSACTIONS

For details of our Group's related party transactions, please refer to note 33 to the Accountants' Report set out in Appendix I in this prospectus.

INDEBTEDNESS

The following table sets out our indebtedness as of the dates shown:

	As at 31 December				As at
	2016	2017	2018	2019	31 March 2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Bank borrowings	5,000	—	—	—	10,000
Obligations under finance leases	4,602	1,444	—	—	—
Amount due to the Controlling Shareholders	11,752	13,967	7,699	—	—
Amount due to a director (included in "Trade and other payables")	—	—	—	173	—
Amount due to ultimate holding company	—	—	48,936	52,150	38,391
Lease liabilities	—	—	—	25,926	22,384
	<u>21,354</u>	<u>15,411</u>	<u>56,635</u>	<u>78,249</u>	<u>70,775</u>
Total	<u>21,354</u>	<u>15,411</u>	<u>56,635</u>	<u>78,249</u>	<u>70,775</u>

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As at 31 December 2016, bank borrowings of approximately RMB5.0 million were secured by personal guarantee given by the Controlling Shareholders and corporate guarantee given by independent third party of the Group, which were fully repaid in 2017. As at 31 March 2020, bank borrowings of approximately RMB10.0 million are unsecured and repayable within one year. The carrying amounts of our borrowings were all denominated in RMB and the weighted average effective interest rates as of the dates shown as below:

	As at 31 December				As at
	2016	2017	2018	2019	31 March 2020
	%	%	%	%	%
Bank borrowings	5.7	—	—	—	5.1
Obligations under finance leases	1.0	1.0	—	—	—
	<u>5.7</u>	<u>1.0</u>	<u>—</u>	<u>—</u>	<u>5.1</u>

The amounts due to the Controlling Shareholders and ultimate holding company are non-trade nature, unsecured, interest-free and repayable on demand. Our Directors confirmed that these amounts due will be fully settled on or before Listing by cash settlement and/or by way of capitalisation. Before Listing, a lump sum of RMB40,000,000 was settled by the Group in relation to the amount due to the ultimate holding company and the remaining balance was waived and credit to the capital reserve under the equity.

The Group's lease liabilities represented the payment obligation in relation to the tenancy agreements the Group entered into in respect of leased properties including warehouse and office. After initial application of HKFRS 16 on 1 January 2019, the total lease liabilities as at 31 December 2019 and 31 March 2020 was approximately RMB25.9 million and RMB22.4 million, respectively. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate. The weighted average effective interest rate for the lease liabilities of the Group was 4.75% and 4.75% per annum for the year ended 31 December 2019 and the three months ended 31 March 2020, respectively. The following table sets out the maturity analysis of the Group's lease liabilities as at the date indicated:

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	Lease payments		Present value of lease payments	
	At 31 December 2019 <i>RMB'000</i>	At 31 March 2020 <i>RMB'000</i> <i>(Unaudited)</i>	At 31 December 2019 <i>RMB'000</i>	At 31 March 2020 <i>RMB'000</i> <i>(Unaudited)</i>
Amounts payable:				
Within 1 year	8,049	6,187	6,977	5,170
More than 1 year but within 2 years	10,469	10,031	9,379	8,989
More than 2 years but within 5 years	<u>9,982</u>	<u>8,578</u>	<u>9,570</u>	<u>8,225</u>
	28,500	24,796	25,926	22,384
Less: future finance charges	<u>(2,574)</u>	<u>(2,412)</u>	—	—
Total lease liabilities	<u><u>25,926</u></u>	<u><u>22,384</u></u>	<u><u>25,926</u></u>	<u><u>22,384</u></u>

As at 31 December 2016, 2017, 2018 and 2019 and 31 March 2020, we did not have unutilised banking facilities.

Save as aforesaid, as at 31 March 2020, our Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities, acceptance credits, any guarantees or other significant contingent liabilities.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date:

- (i) we were not in breach of any covenants under our banking facilities or other payables and credit facilities;
- (ii) we were not subject to any loan recall or early repayment request by our lenders;
- (iii) we did not encounter any difficulty in obtaining external borrowings required for our operation;
- (iv) there was no significant increase in the interest rates for our banking facilities; and
- (v) there was no default in payment of bank borrowings.

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 March 2020 and up to the Latest Practicable Date.

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CAPITAL EXPENDITURES

As at 31 December 2016, 2017, 2018 and 2019, we have incurred capital expenditures for the purchase of plant and equipment (excluding right-of-use assets) and additions to intangible assets. As at 31 December 2016, 2017, 2018 and 2019, our capital expenses amounted to approximately RMB10.7 million, RMB9.6 million, RMB8.4 million and RMB2.4 million respectively. We mainly fund our capital expenditures through internal resources and obligations under finance leases.

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Plant and equipment (excluding right-of-use assets)				
Plant and machinery	9,554	5,248	4,812	466
Motor vehicles	64	214	417	60
Office equipment	166	334	88	117
Computer equipment	—	124	367	722
	<u>9,784</u>	<u>5,920</u>	<u>5,684</u>	<u>1,365</u>
Intangible assets	938	3,702	2,720	1,031
	<u>10,722</u>	<u>9,622</u>	<u>8,404</u>	<u>2,396</u>
Total	<u>10,722</u>	<u>9,622</u>	<u>8,404</u>	<u>2,396</u>

We expect our capital expenditures in the years ending 31 December 2020/2021 to be in aggregate of approximately RMB23.0 million, which is mainly related to the expansion of plant and equipment. We intend to fund our intended capital expenditures through cash flow from operating activities and bank borrowings. For further details, please refer to the section “Future Plans and Use of Proceeds” of this prospectus.

COMMITMENTS UNDER OPERATING LEASES

Commitments under operating leases of our Group are related to the leased factories, warehouses and office premises, which typically run for a period from one to six years. As at the end of the Track Record Period, our Group fulfilled its commitments for future minimum rental expenses under the non-cancellable operating leases. The table below sets out our future minimum Rental expenses under non-cancellable operating leases as at the dates shown:

	As at 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	2,665	2,326	6,948	—
After one year but within five years	3,086	866	11,467	—
	<u>5,751</u>	<u>3,192</u>	<u>18,415</u>	<u>—</u>
Total	<u>5,751</u>	<u>3,192</u>	<u>18,415</u>	<u>—</u>

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As at 31 December 2019, the total future minimum lease payments for the non-cancellable operating lease after initial application of HKFRS 16 on 1 January 2019 is set out in note 37 to the Accountants' Report in Appendix I in this prospectus. In accordance with the transition provisions of HKFRS 16, comparative information is not stated.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, our Directors confirmed that the Group had no significant contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had no off-balance sheet commitments and arrangements.

WORKING CAPITAL

Our Directors confirm that after due and careful enquiries and taking into account the financial resources presently available to our Group, including the balance of our cash and bank balances, cash flows generated from our operating activities and the estimated net proceeds from the Share Offer, our Directors are of the opinion that our Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

KEY FINANCIAL RATIOS

	For the year ended 31 December			
	2016	2017	2018	2019
Profitability ratios				
Gross profit margin ratio (%) ⁽¹⁾	21.6%	21.7%	22.7%	24.0%
Net profit margin ratio (%) ⁽²⁾	7.6%	11.5%	11.6%	8.2%
Return on total equity (%) ⁽³⁾	30.9%	55.0%	47.1%	27.4%
Return on total assets (%) ⁽⁴⁾	4.3%	9.3%	13.2%	9.2%
	At as 31 December			
	2016	2017	2018	2019
Liquidity ratios				
Current ratio (times) ⁽⁵⁾	1.1	1.1	1.3	1.4
Quick ratio (times) ⁽⁶⁾	0.4	0.5	0.7	0.7
Capital adequacy ratios				
Gearing ratio (%) ⁽⁷⁾	46.4%	N/A	34.7%	37.6%
Interest coverage ratio (times) ⁽⁸⁾	14.7	62.2	779.1	36.7

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Notes:

- (1) Gross profit margin is gross profit divided by turnover and multiplied by 100%;
- (2) Net profit margin is profit attributable to owners of our Company divided by turnover and multiplied by 100%;
- (3) Return on total equity is calculated by dividing profit for the year by the total equity as at the end of the year and multiplied by 100%. Return on total equity is calculated on a full year basis;
- (4) Return on total assets is calculated by dividing profit for the year by the total assets as at the end of the year and multiplied by 100%. Return on total assets is calculated on a full year basis;
- (5) Current ratio is calculated by dividing total current assets by total current liabilities;
- (6) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities;
- (7) Gearing ratio is calculated by dividing net debt (being net of cash and cash equivalents) by total equity and multiplied by 100%;
- (8) Interest coverage ratio is calculated by dividing the profit before finance costs and income tax by finance costs for the year.

ANALYSIS OF SELECTED KEY FINANCIAL RATIOS

Gross profit margin

Our gross profit margin slightly increased from approximately 21.6% for 2016 to approximately 21.7% for 2017, increased to approximately 22.7% for 2018, and further increased to 24.0% for 2019. The increase in gross profit margin for 2019 is mainly attributable to the increase in sales of adult diaper machines which had a higher gross profit margin.

Net profit margin

Our net profit margin increased from approximately 7.6% for 2016 to approximately 11.5% for 2017 and further increased to approximately 11.6% for 2018, which was mainly due to the increase in our net profit margin before interest and tax as mentioned above, partly offset by the tax effect of the non-deductible listing expenses recognised in 2018.

Our net profit margin decreased from approximately 11.6% for 2018 to approximately 8.2% for 2019. Such decrease was mainly due to the decrease in profit in 2019 as discussed in paragraph headed “Comparison of our results for 2018 and 2019 — Profit for the year” in this section.

Return on total equity

Our return on total equity increased from approximately 30.9% in 2016 to approximately 55.0% in 2017, mainly attributable to a significant increase in the profits in 2017. The ratio decreased from approximately 55.0% in 2017 to approximately 47.1% in 2018, mainly attributable to the decrease in accumulated profits as mentioned above and partly offset by the acquisition of a non-wholly owned subsidiary, Hangzhou Haina, in the PRC in 2018.

Our return on equity decreased from approximately 47.1% to approximately 27.4% in 2019, which was mainly attributable to the decrease in profits in 2019 as discussed in paragraph headed “Comparison of our results for 2018 and 2019 — Profit for the year” in this section.

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Return on total assets

Our return on total assets increased from approximately 4.3% in 2016 to approximately 9.3% in 2017, and subsequently increased to approximately 13.2% in 2018, mainly attributable to the continuous increase in our profit during the Track Record Period.

Our return on total assets decreased from approximately 13.2% in 2018 to approximately 9.2% in 2019, mainly attributable to the increase in right-of-use assets upon application of HKFRS 16 in 1 January 2019.

Current ratio and quick ratio

As at 31 December 2016, 2017 and 2018, our current ratio was 1.1, 1.1 and 1.3 respectively, and our quick ratio was 0.4, 0.5 and 0.7, respectively. Current ratio and quick ratio remained relatively stable in 2016 and 2017, but recorded an increase in 2018 mainly due to a significant decrease in trade payables.

As at 31 December 2019, our current ratio was 1.4, and our quick ratio was 0.7. Our current ratio and quick ratio remained relatively stable for the year ended 31 December 2018 and 2019.

Gearing ratio

Our gearing ratio decreased from approximately 46.4% as at 31 December 2016 to Nil as at 31 December 2017, mainly attributable to a decrease in our secured bank borrowings and obligations under finance leases. The ratio increased to approximately 34.7% in 2018, mainly attributable to the increase in amount due to ultimate holding company by approximately RMB48.9 million. Our gearing ratio increased to approximately 37.6% as at 31 December 2019 was mainly due to the addition of lease liabilities of approximately RMB17.7 million as upon application of HKFRS 16 on 1 January 2019 and offset by the settlement of amount due to the Controlling Shareholders amounting RMB7.7 million during the year.

Interest coverage

Our interest coverage increased from approximately 14.7 times in 2016 to approximately 62.2 times in 2017, and further increased to approximately 779.1 times in 2018, mainly due to our decrease in finance costs as a result of the decrease in our bank borrowings and finance lease liabilities during the Track Record Period.

Our interest coverage was approximately 779.1 times as at 31 December 2018 and decreased to approximately 36.7 times as at 31 December 2019 due to the increase in finance costs on lease liabilities upon adoption of HKFRS 16 on 1 January 2019, the rent payable under our Group's leases were recognised as finance costs associated with the right-of-use assets.

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Impact of adoption of HKFRS 16

Upon adoption of HKFRS 16, the impact on key financial ratios as at 31 December 2019 compared to that of HKAS 17 are summarised as follows:

	Under HKAS 17	Increased/ (decreased) by	Under HKFRS 16
Liquidity ratios			
Current ratio (times)	1.5	(0.1)	1.4
Quick ratio (times)	0.7	—	0.7
Capital adequacy ratios			
Gearing ratio (%)	14.3%	23.3	37.6%
Interest coverage ratio (times)	N/A	36.7	36.7

There was no significant impact on gross profit margin ratio, net profit margin ratio, return on total equity (calculated on full year basis) and return on total assets (calculated on full year basis) upon adoption of HKFRS 16 for the year ended 31 December 2019.

SENSITIVITY ANALYSIS

Cost of materials

The table below sets out the sensitivity analysis of the estimated increase (decrease) of our profit before tax in relation to general percentage changes to the cost of raw materials, with all other variables being constant:

	Impact on increase (decrease) in profit before tax			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Cost of material increase/decrease by:				
+20%	(14,785)	(37,042)	(45,946)	(49,043)
+10%	(7,393)	(18,521)	(22,973)	(24,521)
+5%	(3,696)	(9,260)	(11,486)	(12,261)
-5%	3,696	9,260	11,486	12,261
-10%	7,393	18,521	22,973	24,521
-20%	14,785	37,042	45,946	49,043

FINANCIAL INFORMATION

Labour Costs

The table below sets out the sensitivity analysis of the estimated increase (decrease) of our profit before tax in relation to general percentage changes to the prices of labour costs, with all other variables being constant:

	Impact on increase (decrease) in profit before tax			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Labour costs increase/decrease by:				
+20%	(1,935)	(2,013)	(2,846)	(4,049)
+10%	(968)	(1,006)	(1,423)	(2,025)
+5%	(484)	(503)	(711)	(1,012)
-5%	484	503	711	1,012
-10%	968	1,006	1,423	2,025
-20%	1,935	2,013	2,846	4,049

FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance.

MARKET RISK

Foreign currency risk

Our certain transactions are not denominated in our functional currency and as a result are exposed to foreign currency risk. Currently, we have no foreign exchange hedging policy. However, the management closely monitors the foreign exchange risk exposures and will consider hedging significant foreign currency risk should the need arises. Details on foreign currency risk are set out in note 35 to the Accountants' Report in Appendix I in this prospectus.

DIVIDEND POLICY

Our Group's wholly-owned subsidiary, Jinjiang Haina declared dividends of approximately RMB3.3 million and approximately RMB2.6 million to the equity owners of the entities now comprising the Group during the years ended 31 December 2017 and 2018 respectively, all of which were fully paid during the year ended 31 December 2018.

It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Group's profits whilst retaining adequate reserves for the Group's future growth.

FINANCIAL INFORMATION

The declaration, payment and amount of dividends will be subject to our Directors' discretion. The Board shall consider the following factors before declaring or recommending dividends:

- the Company's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

The Board of directors may also consider other applicable factors to determine the declaration, payment and amount of dividends.

We do not have any fixed dividend policy or dividend payout ratio, however the Directors expect that after the Listing, the Group's dividend payout ratio will be not less than 25.0% of its annual distributable net profit.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the Company's constitutional documents. The Board will continually review our dividend policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to "Unaudited Pro Forma Financial Information" set out in Appendix II in this prospectus for details.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that they are currently not aware of any circumstance subsisting as at the Latest Practicable Date that triggered disclosure obligations under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had no distributable reserves available for distribution to our equity holders.

FINANCIAL INFORMATION

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group had entered into sales contracts with our customers for the sale and purchase of 24, 13, 149, 13 and two units of baby diaper machine, adult diaper machine, medical disposable face mask machine, lady sanitary napkin machine and underpad machine with aggregate contract values of approximately RMB147.7 million, RMB103.0 million, RMB99.0 million, RMB55.1 million and RMB4.4 million, respectively. There had not been any material changes to our business model, revenue structure or cost structure. Our Directors confirm that there had been no cancellation or delays of orders by any of the Group's customers due to the outbreak of coronavirus disease ("COVID-19"). Also, our Directors confirm that the suspension period during the outbreak of COVID-19 did not have any significant adverse impact on our operations or financial performance as we were entrusted by the Jinjiang Bureau of Industry and Information Technology to research and develop medical disposable face mask machines due to the outbreak of COVID-19. Our Jinjiang Production Base and Hangzhou Production Base were permitted by the PRC government to resume production on 7 February 2020 and 10 February 2020, respectively. After the outbreak of COVID-19, there is a sharp rise in market demand for medical disposable face mask machines in the PRC and globally. In response to the strong market demand of medical disposable face mask machines, our research and development team started to research and design medical disposable face mask machines as (i) our sizable research and development team has experience and skill set in mechanical engineering or design and our Directors believe that their experience and skill set are useful for the research and design of medical disposable face mask machines; (ii) the technology required for the manufacture of medical disposable face mask machines is similar to the technology that we possessed for the manufacture of other disposable hygiene product machines such as baby diaper machines, adult diaper machines and lady sanitary napkin machines; (iii) the supply chain of raw materials for disposable hygiene product machines also supply the raw materials for the manufacture of medical disposable face mask machines; and (iv) there is a strong demand of medical disposable face mask machines among our existing customers. Our Directors believe that there will be a sharp increase in revenue and profit mainly from sales of medical face mask machines for the year ending 31 December 2020. As one of the top disposable hygiene product machinery providers in the PRC, we are entrusted by the PRC government to research and design medical disposable face mask machines. We started to accept and process orders to produce medical disposable face mask machines when our research and development team successfully researched and designed medical disposable face mask machines. While our Directors believe that the demand of these machines may be temporary, these machines, which are currently demanded by our customers, are able to command favourable profit margins for our Group based on the unaudited management accounts of our Group, have a shorter production time and lower production space requirements, and are currently expected to make significant contributions to our revenue for the year ending 31 December 2020, and may also affect our production schedule in the short-term for other types of machines offered by us. Due to the rescheduling of production in response to strong demand of medical disposable face mask machines by our customers, our Directors expect that the number of sales of baby diaper machine will be decreased by at least five units. Up to the Latest Practicable Date, 81 face medical disposable face mask machines have been delivered to our customers. In the short run, certain of our planned production of machines other than medical disposable face mask machines had been slightly delayed as capacity had been requested by the PRC governmental authorities to cater for the sudden increase of demand for the manufacture of medical disposable face mask machines. Despite of the short delay in our production plan, our customers are generally not eligible for the refund of the deposits. Based on information currently available to the Directors, medical disposable face mask machines will contribute a significant portion of our revenue for the first half of 2020 and the Group will temporarily increase the number of hours worked by each shift and also to better cooperate with

FINANCIAL INFORMATION

our suppliers in timely delivery of raw materials so as to catch up with the production schedule of diaper and lady sanitary napkin machines as agreed with our customers. Once the supply of medical disposable face masks in the market stabilises, and there is a slow-down in the spread of the COVID-19, our Directors expect that a gradual decrease in global demand for medical disposable face mask machines, our Group will resume the normal production schedules for baby diaper machines, adult diaper machines and lady sanitary napkin machines.

The following table sets out the breakdown of production completed (excluding work-in-progress) by our production plant after the Track Record Period and up to the Latest Practicable Date:

	For the period from 1 January 2020 to the Latest Practicable Date	
	Number of machines produced at Jinjiang Production Base	Number of machines produced at Hangzhou Production Base
Baby diaper machines	2	1
Adult diaper machines	1	—
Lady sanitary napkin machines	—	—
Medical disposable face mask machines	61	20
	<hr/>	<hr/>
Total	64	21
	<hr/> <hr/>	<hr/> <hr/>

MATERIAL ADVERSE CHANGE

Save for (i) the expenses incurred in relation to the Listing; and (ii) the increase in administrative and other operating expenses mainly due to the increase in research and development expense incurred by our technical engineering team and technical design team for innovation, introduction and improvements of the Group's products as well as staff salaries of these departments, our Directors confirm that, since 31 December 2019 and up to the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our combined financial information set out in the Accountants' Report included in Appendix I to this prospectus.

The reporting accountants of our Company concur with our Directors' view that the outbreak of the COVID-19 has no significant impact to the measurement, recognition and disclosure of the relevant historical financial information of our Group as set out in the Accountants' Report in Appendix I to this prospectus and will not constitute an adjusting event after the reporting period pursuant to HKAS 10 "Events after the reporting period" taking into consideration the risk management measures as detailed in "Business — Health and Safety" in this prospectus.

FINANCIAL INFORMATION

LISTING-RELATED EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Share Offer. Listing expenses to be borne by us are estimated to be approximately RMB47.4 million (equivalent to approximately HK\$53.0 million), of which approximately RMB24.2 million (equivalent to approximately HK\$27.0 million) is directly attributable to the issue of Shares to the public and to be capitalised, and approximately RMB23.2 million (equivalent to approximately HK\$26.0 million) has been or is expected to be reflected in our combined statements of profit or loss and other comprehensive income. Approximately RMB3.2 million (equivalent approximately HK\$3.9 million) and RMB9.8 million (equivalent to approximately HK\$11.3 million) of the listing expenses in relation to services performed has been reflected in our combined statements of profit or loss and other comprehensive income during the year ended 31 December 2018 and 2019, respectively, and the remaining amount of approximately RMB10.2 million (equivalent to approximately HK\$10.8 million) is expected to be reflected in our combined statements of profit or loss and other comprehensive income subsequent to the Track Record Period. The Listing expenses represent approximately 35.4% of the gross proceeds from the Share Offer assuming the Offer Price is fixed at HK\$1.29 per Offer Share (being the mid-point of the proposed Offer Price range of HK\$1.08 to HK\$1.50 per Offer Share).

SUBSEQUENT EVENTS

For details of significant events after 31 December 2019, being the date to which the latest audited financial information was prepared, please refer to note 40 to the Accountants' Report set out in Appendix I in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For a detailed description of our future plans, please refer to the section headed “Business — Business Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$1.29 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK\$112.8 million (equivalent to approximately RMB100.9 million). We currently intend to apply these net proceeds for the following purposes:

- (i) approximately 23.2%, or HK\$26.2 million (equivalent to approximately RMB22.4 million), will be used for setting up a new research and development centre in Jinjiang, the PRC (the “R&D Centre”), allocated as below:
- approximately 2.2%, or HK\$2.5 million (equivalent to approximately RMB2.1 million), will be used for paying the deposit for acquiring a suitable site for the R&D Centre;
 - approximately 8.9%, or HK\$10.0 million (equivalent to approximately RMB8.6 million), will be used for paying the remaining balance for acquiring the site for the R&D Centre; and
 - approximately 12.1%, or HK\$13.7 million (equivalent to approximately RMB11.7 million), will be used to fund the construction of the R&D Centre;

For further details of the R&D Centre, please refer to the section headed “Business — Business Strategies — Continue to strengthen our research and development capabilities to keep abreast of the trend in the industry” in this prospectus.

- (ii) approximately 22.2%, or HK\$25.0 million (equivalent to approximately RMB21.4 million), will be used for strengthening our research and development capabilities, in particular, developing a new product and increasing the efficiency of our existing products such as production speed, allocated as below:
- approximately 10.2%, or HK\$11.5 million (equivalent to approximately RMB9.8 million), will be used for research and development on adult diaper machines;
 - approximately 7.3%, or HK\$8.2 million (equivalent to approximately RMB7.0 million), will be used for research and development on adult pull-up diaper machines; and
 - approximately 4.7%, or HK\$5.3 million (equivalent to approximately RMB4.6 million), will be used for research and development on underpad machines;

For further details of developing a new product and increasing the efficiency of our existing products, please refer to the section headed “Business — Business Strategies — Continue to strengthen our research and development capabilities to keep abreast of the trend in the industry” in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

(iii) approximately 16.2%, or HK\$18.3 million (equivalent to approximately RMB15.6 million), will be used for increasing our production capacity, allocated as below:

- approximately 4.2%, or HK\$4.8 million (equivalent to approximately RMB4.1 million), will be used for expanding the production capacity of our Jinjiang Production Base by leasing additional production premises with a floor area of approximately 10,000 sq.m. in Jinjiang (the “**New Production Base**”). The expected timeline for us to deploy the HK\$4.8 million is as follows:

HK\$ million

- | | |
|----------------------------------|-------------------|
| — First six months upon Listing | approximately 1.2 |
| — Second six months upon Listing | approximately 1.2 |
| — Third six months upon Listing | approximately 1.2 |
| — Fourth six months upon Listing | approximately 1.2 |
- approximately 4.9%, or HK\$5.5 million (equivalent to approximately RMB4.7 million), will be used for acquiring machineries and equipment for production in order to accommodate the expansion of our production capacity in the New Production Base;
 - approximately 2.6%, or HK\$2.9 million (equivalent to approximately RMB2.5 million), will be used for new recruitment and providing training for employees to operate the new machineries and equipment in the New Production Base; and
 - approximately 4.5%, or HK\$5.1 million (equivalent to approximately RMB4.3 million), will be used for other expenses such as renovation and utility expenses to be incurred for the operation of the New Production Base;

For further details of the New Production Base, please refer to the section headed “Business — Business Strategies — Increase production capacity” in this prospectus;

(iv) approximately 35.1%, or HK\$39.6 million (equivalent to approximately RMB38.3 million), will be used for acquisitions in order to increase the competitiveness of our products through acquisitions, allocated as below:

- approximately 17.6% or HK\$19.9 million (equivalent to approximately RMB19.2 million) will be used for acquiring a company which is engaged in the high-end precision automation equipment development, with related experience, skills and technology in the production of disposable hygiene product machines;
- approximately 17.5% or HK\$19.7 million (equivalent to approximately RMB19.1 million) will be used for acquiring a company which is engaged in the development, design and manufacture of automatic packaging equipment, with related experience, skills and technology in the production of disposable hygiene product machines;

FUTURE PLANS AND USE OF PROCEEDS

In considering the basis for allocating the net proceeds to the acquisition plans, we had estimated the total consideration for the acquisition, and then estimated the available internal resources that may be used to fund the acquisitions and finally considered the source of external funding (including the net proceeds of the Share Offer and also external debt financing).

After the Listing, we will start identifying targets companies matching the following criteria:

- (a) the target is an established company with a track record period of at least three years;
- (b) the target is expected to generate profit after tax of approximately RMB2.0 million per year;
- (c) the target has its own research and development team; and
- (d) the target is expected to have capability to produce high-end precision components that is necessarily for the production of our products in order to meet the specific designs and requirements of our customers.

Size of the mergers and acquisitions may vary, depending on the size of our target companies which we will only start identifying after the Listing. We currently do not have a specific timeframe for the acquisitions as it takes time to identify suitable targets. If there are suitable opportunities, we will acquire target companies which match the above criteria. As at the Latest Practicable Date, we had neither identified any specific target nor entered into any agreements or commitments in respect of the potential acquisitions, and we plan to start searching for suitable targets upon Listing;

For further details, please refer to the section headed “Business — Business Strategies — Increase the competitiveness of our products through acquisitions” in this prospectus;

- (v) approximately 3.3%, or HK3.7 million (equivalent to approximately RMB3.2 million), will be used for our working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

The table below sets out the estimated net proceeds of the Share Offer which we will receive after deducting underwriting fees and other estimated expenses in connection with the Share Offer:

	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
If the Offer Price is fixed at HK\$1.29 per Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$96.6 million	Approximately HK\$115.7 million
If the Offer Price is fixed at HK\$1.50 per Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$117.4 million	Approximately HK\$139.6 million
If the Offer Price is fixed at HK\$1.08 per Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$75.9 million	Approximately HK\$91.9 million

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$19.1 million, assuming an offer Price of HK\$1.29 per Share, being the mid-point of the Offer Price range stated in this prospectus. We intend to apply the additional net proceeds to the above uses on a pro-rata basis.

If the Offer Price is fixed at the high end or low end of the stated Offer Price range, and assuming that the Over-allotment Option is not exercised, our net proceeds will be increased or decreased by approximately HK\$20.8 million, respectively. In this event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

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 from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions for so long as it is in our best interests.

FUTURE PLANS AND USE OF PROCEEDS

Implementation Plan

The following table sets out the expected timeline for our Group to deploy the abovementioned net proceeds from the Share Offer in accordance with the implementation of our future plans.

	First six months upon Listing (HK\$ million)	Second six months upon Listing (HK\$ million)	Third six months upon Listing (HK\$ million)	Forth six months upon Listing (HK\$ million)	Fifth six months upon Listing (HK\$ million)	Total (HK\$ million)
Setting up the R&D Centre						
(1) Acquiring a land for the R&D Centre	2.4	10.1	—	—	—	12.5
(2) Constructing the R&D Centre	—	6.9	6.8	—	—	13.7
Subtotal	2.4	17.0	6.8	—	—	26.2
Strengthening our research and development capabilities						
(1) Increasing the efficiency of our existing products ⁽¹⁾						
• adult diaper machine	3.8	3.8	3.9	—	—	11.5
• adult pull-up diaper machine	—	2.7	2.7	2.8	—	8.2
(2) Developing new product ⁽²⁾						
• underpad machine	2.6	2.7	—	—	—	5.3
Subtotal	6.4	9.2	6.6	2.8	—	25.0
Increasing our production capacity	1.2	8.9	2.8	2.8	2.6	18.3
Increasing our competitiveness through acquisitions	—	—	39.6	—	—	39.6
Working capital and general corporate purposes	0.9	0.9	0.9	1.0	—	3.7
Total	<u>10.9</u>	<u>36.0</u>	<u>56.7</u>	<u>6.6</u>	<u>2.6</u>	<u>112.8</u>

FUTURE PLANS AND USE OF PROCEEDS

Notes:

1. Adult diapers are diapers that contain tab closures allowing users to open and close during diaper changes, whereas adult pull-up diaper are put on similar to regular underwear with side panels that can be torn to facilitate removal. During the Track Record Period, we have sold three and nine adult pull-up diaper machines in the year ended 31 December 2018 and the year ended 31 December 2019, respectively. We intend to increase the efficiency of our existing products producing such diapers, namely adult diaper machine and adult pull-up diaper machine, respectively, by conducting research and development on their design, assembly, testing and optimisation to achieve a production speed of 500 pieces per minute. According to the Industry Report, the consumption volume of adult incontinence products is expected to increase at a CAGR of 15.3% from 2019 to 2023, higher than that of feminine hygiene products (2.0%) and baby diapers (7.4%). This can be evidenced by the increase in sales volume of adult diaper machines of our Group during the Track Record Period, which significantly increased from four machines for the year ended 31 December 2018 to 14 machines for the year ended 31 December 2019. From the Track Record Period and up to the Latest Practicable Date, we had secured 30 sales contracts (inclusive of the 21 machines which the revenue was recognised) for adult diaper machines (including adult pull-up diaper machines). Hence, our Directors believe that there is a great potential demand for adult diaper machines in the disposable hygiene machinery market, and that the improvement in the production speed will increase the competitiveness of our products and attract more sales orders, which in turn will increase our revenue in the long run.
2. We intend to develop a new product, namely adult underpad machine, by conducting research and development on its design, assembly and testing to achieve a production speed of 300 pieces per minute. As at the Latest Practicable Date, we entered into sales contracts with two customers for the supply of underpad machines. Our Directors believe that the sales of underpad machine will be increased in the future.

REASONS FOR THE LISTING

The following are our principal reasons for seeking the Listing:

- according to the Industry Report, the sales value of disposable hygiene product market in the PRC is expected to grow at a CAGR of approximately 6.5% between 2020 and 2024. However, our business development and profitability is limited by our production capacity. Our estimated average capacity utilisation rate for production at our Jinjiang Production Base reached approximately 107.8% for the year ended 31 December 2018 and 107.9% for the year ended 31 December 2019. Our Group's high utilisation rate of production capacity would in turn affect the willingness of our customers to place new orders with us. Taking into account the limitations in our existing Jinjiang production capacity, our Directors believe that in order to satisfy the growing demand of disposable hygiene product machinery both locally and globally and to sustain our Group's persistent future growth, it is essential to increase our production capacity for production of disposable hygiene product machinery through investing in the capacity expansion plan in Jinjiang. Approximately HK\$18.3 million (equivalent to approximately RMB15.6 million) is intended to be used for increasing our production capacity;

FUTURE PLANS AND USE OF PROCEEDS

- according to the Industry Report, disposable hygiene product manufacturers are required to allocate additional resources in research and development for new machineries and solutions, as well as strengthening production efficiency in order to cope with the rapid changing market situation and diversified needs of manufacturers. As such, research and development will be integral for helping us to stay ahead of our competitors in the disposable hygiene product machinery industry. Through research and development, we are able to provide a higher level of customisation, such as product enhancement proposals for our customers and designs and ideas that address the needs of our customers. In addition, we strive to apply our knowledge derived from research and development efforts to optimise our production processes. With such knowledge and knowhow, we can enhance our production efficiency and increase our productivity. Based on the above, it is essential to invest additional capital into research and development. Approximately HK\$26.2 million (equivalent to approximately RMB22.4 million) will be used for setting up a new research and development centre in Jinjiang, the PRC, and approximately HK\$25.0 million (equivalent to approximately RMB21.4 million) will be used for strengthening our research and development capabilities, in particular, the efficiency of our disposable hygiene product machineries such as designed speed and stable work speed;
- Listing provides our Group with additional access of equity funding by means of the issuance of new Shares. Despite the cost of equity funding by way of the Share Offer after taking into account the Listing expenses might not be lower than debt financing, our Directors consider that: (i) the Share Offer will broaden our capital base and provide a platform for our Group to raise funds on a recurring basis which is not limited to the amount of net proceeds to be raised in the Share Offer to finance our future business expansion and long-term development; (ii) the Share Offer will broaden our shareholder base and enhance the liquidity of the Shares, as compared to the limited liquidity of the Shares that are privately held before the Listing; and (iii) the ability by a listed entity to obtain bank financing is generally easier as compared to a private entity and our Directors believe that a Listing status would allow us to gain leverage in obtaining bank financing with relatively more favourable terms in the PRC and Hong Kong, in which the latter in general has a lower interest rate than in the PRC;
- since the disposable hygiene product machinery industry is relatively fragmented and competitive, enhancing our corporate profile, visibility and our market presence will generate reassurance among our customers and suppliers. By way of Listing, we can elevate our corporate image and status and provide reassurance and confidence to our customers and suppliers, which in turn provides a stronger bargaining position when exploring new business opportunities with our customers and suppliers; and
- as a disposable hygiene product machinery manufacturer, experienced and quality staff are vital to our business operations and future development. Being a listed company can help to attract, recruit and retain our valued management personnel, employees and skilled professionals with additional incentives. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. Please refer to the section headed “Statutory and General Information – H. Share Option Scheme” in Appendix IV to this prospectus for a summary of principal terms of the scheme.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

BOA MS Capital Limited
CM Securities (Hongkong) Company Limited
DL Securities (HK) Limited
Red Eagle Securities Limited
Soochow Securities International Brokerage Limited
TradeMaster Securities (Hong Kong) Limited
VBG Capital Limited
Wealth Link Securities Limited
Zinvest Global Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer 11,600,000 Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any options that may be granted under the Share Option Scheme and any additional Shares to be issued pursuant to any exercise of the Over-allotment Option), and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly, agreed to underwrite the Public Offer Shares. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The Sole Sponsor and/or the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) shall be entitled by notice in writing to the Company, in their sole and absolute discretion to terminate the Public Offer Underwriting Agreement with immediate effect at any time at or prior to 8:00 a.m. on the Listing Date if:

- (a) there has come to the notice of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers or any of the Public Offer Underwriters or the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers or any Public Offer Underwriters have cause to believe:
 - (i) that any statement contained in any of the documents for the purpose of or in connection with the Share Offer and/or any notices, announcements or other documents issued or used by or on behalf of the Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Hong Kong Offer Documents**”) and/or any notices,

UNDERWRITING

announcements, or other document issued or used by or on behalf of our Company in connection with the Share Offer (but excluding the following information furnished by the Public Offer Underwriters for use in the Hong Kong Offer Documents, namely, the market names, legal names, logos and addresses of the Public Offer Underwriters) was when the same was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect in the sole and absolute opinion of the Sole Sponsor and/or the Joint Global Coordinators or that any forecast, expression of opinion, intention or expectation expressed in any of the Hong Kong Offer Documents issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) is not fair and honest and is not based on reasonable assumptions; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, have been considered by the Sole Sponsor and/or the Joint Global Coordinators in its/their sole and absolute discretion to constitute an omission from any of the Hong Kong Offer Documents; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Public Offer Underwriters); or
- (iv) any adverse change or development involving a prospective adverse change (whether or not permanent), in the sole and absolute opinion of the Sole Sponsor and the Joint Global Coordinators in the assets, liabilities, business, management, shareholders' equity, profits, losses, results of operations, prospects or the financial or trading position of the Group or performance of the Group as a whole; or
- (v) any breach of, or any event or circumstances rendering untrue, incomplete or inaccurate in any material respect, any of the representations, warranties, agreements and undertakings given by the Company, the executive Directors and the Controlling Shareholders as set forth in the Public Offer Underwriting Agreement; or
- (vi) any of the representations, warranties, agreements and undertakings given by the Company, the executive Directors and the Controlling Shareholders as set forth in the Public Offer Underwriting Agreement is untrue, inaccurate, misleading, deceptive or breached in any material respect when given or repeated; or
- (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any options which may be granted under the Share Option Scheme) under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the date of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

UNDERWRITING

- (viii) the Company withdraws any of the Hong Kong Offer Documents (and/or any other documents issued or used in connection with the Share Offer) or the Share Offer; or
 - (ix) any expert (other than the Sole Sponsor) named in the section headed “Statutory and General Information — I. Other Information — 6. Qualifications of experts” in **Appendix IV** to this prospectus has withdrawn its consent to being named in, or to the issue of, the Hong Kong Offer Documents; or
 - (x) any event, act or omission which gives rise to or is likely to give rise to any liability, in the sole and absolute opinion of the Sole Sponsor and the Joint Global Coordinators of any of the Company, the executive Directors and the Controlling Shareholders under an equivalent clause under the Placing Underwriting Agreement; or
 - (xi) a contravention by any member of the Group of the Listing Rules (other than those waivers that are expected to be granted by the Stock Exchange) or any other applicable laws; or
 - (xii) a prohibition on the Company for whatever reason from offering, allotting, selling or delivering the Shares pursuant to the terms of the Share Offer; or
 - (xiii) the chairman or an executive Director vacating his office.
- (b) there shall develop, occur, exist, continue to exist or come into effect:
- (i) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency of war, calamity, crisis, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, war, threat of war, acts of God, acts of terrorism, outbreak or escalation of hostilities (whether or not war is declared), widespread riot and public disorder events, economic sanctions, outbreak of diseases or pandemic, epidemics including SARS and avian influenza (excluding, for the purpose of this Clause, the outbreak of diseases arising from COVID-19) and such related/mutated forms or interruption or delay in transportation) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, Singapore, the United States, or where any member of the Group was incorporated or has established office(s) (the “**Relevant Jurisdictions**”); or
 - (ii) any change or development involving a prospective change, or any event or series of events or circumstances currently in existence or otherwise, likely to result in any change or development (whether or not permanent) in any local, national, regional or international, financial, economic, currency, legal, exchange control, political, military, industrial, fiscal, regulatory, credit or market or other conditions, circumstances or matters and/or disaster or any monetary or trading settlement systems (including without limitation, conditions in the stock and bond markets, money and major foreign exchange markets, the interbank markets and credit markets, or a material fluctuation in the exchange rate of Hong Kong dollars against any foreign currency, or any interruption in securities settlement or clearance service or procedures), in or affecting any Relevant Jurisdictions; or

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- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Stock Market, the London Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
- (iv) any new law or change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or in the interpretation or application thereof by any court or government authority or other competent authority in or affecting any Relevant Jurisdictions; or
- (v) the imposition of tariffs, economic or other sanctions, in whatever form, directly or indirectly, on or affecting any Relevant Jurisdictions which would or might affect the delivery of the Group's products or the purchase of the Group's raw materials; or
- (vi) a change or development occurs involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in or affecting any Relevant Jurisdictions; or
- (vii) any change or development involving a prospective change, or a materialisation of, any of the risks set forth in the section headed "Risk factors" in this prospectus; or
- (viii) any litigation, legal proceedings or claim of any third party being threatened or instigated against any member of the Group; or
- (ix) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (x) any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xi) a non-vexatious order or petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent Governmental Authority in Hong Kong or the PRC) or other Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading, or securities settlement or clearance services in those places or jurisdictions; or

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- (xiii) there is a change in the system under which the value of the HK\$ is linked to that of the US dollars or the peg of RMB to a basket of currencies including US dollars; or
- (xiv) a governmental authority or a political body or organisation in any Relevant Jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management members of the Group as set out in the “Directors and senior management” section of this prospectus; or any Directors or such senior management members 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
- (xv) non-compliance by the Company with law(s) of any Hong Kong Offer Documents or with respect to any matters relating to the Share Offer, the Offer Shares, the Listing and/or any other related matters,

which, individually or in aggregate, in the sole and absolute opinion (after consulting with the Company) of the Sole Sponsor and/or the Joint Global Coordinators (1) is or shall have or could be expected to have a material adverse effect; or (2) has or shall have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Share Offer; or (3) makes or will or may make it inadvisable, inexpedient, impracticable or not commercially viable (i) for the Share Offer to proceed or (ii) for any part of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement (including underwriting) to be performed or implemented in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or (4) having any compliance related concern in respect of the Share Offer, the Offer Shares, the Listing, and/or any other related matters, with consideration of law(s) that would have a material adverse impact.

Lock-up Undertakings to the Public Offer Underwriters

Undertakings by our Company

We have undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Public Offer Underwriters, and each of our Controlling Shareholders and executive Directors has undertaken to and covenanted with the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Public Offer Underwriters that he/she/it will procure our Company that:

- (a) except pursuant to the Share Offer, the Capitalisation Issue, the Over-allotment Option, any share options to be granted under the Share Option Scheme, the Stock Borrowing Agreement or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over,

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or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”);

- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Share Offer, the Capitalisation Issue or the exercise of the subscription rights attaching to any share options to be granted under the Share Option Scheme or any Shares issued pursuant to any exercise of the Over-allotment Option or the Stock Borrowing Agreement or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note (2) to Rule 10.07(2) of the Listing Rules;
- (c) not at any time within the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”) do any of the acts set out in (a) and (b) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Listing Rules); and
- (d) in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six-month Period or the Second Six-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein, provided that none of the above undertakings shall (i) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such subsidiaries ceasing to be a subsidiary of our Company; or (ii) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

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Undertakings by the Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and our Company that, except pursuant to the Share Offer, the Capitalisation Issue, the exercise of the Over-allotment Option, the grant of the options under the Share Option Scheme and unless in compliance with the Listing Rules, he/she/it shall not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), directly or indirectly, and shall procure that none of his/her/its close associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it shall, during the First Six-month Period:

- (a) offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which he/she/it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest therein or any of the voting or other rights attaching thereto); or
- (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under Note (2) to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules, and in the event of a disposal of any Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities at any time during the Second Six-month period, (i) such disposal shall not result in our Controlling Shareholders ceasing to be our controlling shareholders (as defined in the Listing Rules) of our Company at any time during the Second Six-month Period; and (ii) he/she/it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Each of our Company and our Controlling Shareholders has agreed and undertaken that it/he/she will not, and each of the Controlling Shareholders has further undertaken to procure that our Company will not, effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below 25% on or before the date falling six months after the Listing Date without first having obtained the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters).

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Lock-up Undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, except for the circumstances permitted pursuant to Rule 10.08 of the Listing Rules, our Company will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into our equity securities (whether or not of a class already listed) or form the subject of any agreement by us to such an issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Share Offer (including pursuant to the Over-allotment Option) and Capitalisation Issue, that he/she/it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Parent Shares**”); or
- (b) during the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be our controlling shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

- (a) if he/she/it pledges or charges any securities or interests in the Parent Shares beneficially owned by him/her/it 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, immediately inform us of such pledge or charge together with the number of securities and nature of interests so pledged or charged; and
- (b) if he/she/it receives indications, either verbal or written, from the pledgee or chargee of Shares that any of our pledged or charged securities referred to in paragraph (a) above will be disposed of, immediately inform us of such indications.

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Our Company will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Placing

In connection with the Placing, it is expected that our Company, will enter into the Placing Underwriting Agreement with, inter alia, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions, severally agree to underwrite the Placing Shares being offered pursuant to the Placing.

Indemnity

Each of our Company, our executive Directors and our Controlling Shareholders jointly and severally irrevocably undertakes to indemnify and keep indemnified on demand (on a full indemnity basis and an after-tax basis) and hold harmless each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Public Offer Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement, subject to the terms of the Public Offer Underwriting Agreement.

Commissions and Expenses

The Public Offer Underwriters will, and the Placing Underwriters are expected to, receive a commission of 15% of the total Offer Price for all the Offer Shares underwritten by them, out of which they shall pay any sub-underwriting commissions and other selling concessions payable.

The underwriting commission, listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees together with printing and other expenses relating to the Share Offer, assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$1.29 (being the mid-point of the indicative Offer Price range), are estimated to amount to HK\$22.4 million in total, and are payable by our Company.

SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Sponsor will receive a sponsor fee. The Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the other Underwriters will receive an underwriting commission. Particulars of such underwriting commission and expenses are set out in the paragraph headed "Underwriting Arrangements and Expenses — Commissions and Expenses" in this section.

Our Company has appointed VBG Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the second financial year commencing after such Listing Date, or until the agreement is terminated, whichever is earlier.

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Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of our Company nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in our Company nor any interest in the Share Offer.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

The Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 116,000,000 Offer Shares (subject to the Over-allotment Option) will be made available under the Share Offer, of which 104,400,000 Placing Shares (subject to reallocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and other investors under the Placing. The remaining 11,600,000 Public Offer Shares (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Public Offer. The Public Offer is open to all members of the public in Hong Kong as well as to institutional, professional and other investors. The Public Offer Underwriters have severally agreed to underwrite the Public Offer Shares under the terms of the Public Offer Underwriting Agreement. The Placing Underwriters will severally underwrite the Placing Shares pursuant to the terms of the Placing Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both. The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer — Pricing and Allocation” below.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$1.50 per Offer Share and is expected to be not less than HK\$1.08 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer, as explained below. 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.

Price Payable on Application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$1.50 per Public Offer Share plus 1.0% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$6,060.46 per board lot of 4,000 Shares. Each Application Form includes a table showing the exact amount payable on certain multiples of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$1.50, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Please see the section headed “How to Apply for the Public Offer Shares — 13. Refund of Application Monies” in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of 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 last day for lodging applications under the Public Offer.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Monday, 25 May 2020 and in any event, no later than Friday, 29 May 2020.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Friday, 29 May 2020, the Share Offer will not proceed and will lapse.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) considers it appropriate and together with the consent of our Company, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be made by our Company on the websites of our Company at www.fjhaina.com and the Stock Exchange at www.hkexnews.hk notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus. If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Public Offer will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

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 the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the Placing will be determined by the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) and will be based on a number of factors such as the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and other investors.

Allocation of Offer Shares to investors under the Public Offer will be based solely 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. The allocation of Public Offer Shares could, where appropriate, consist 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.

Over-allotment Option

In connection with the Share Offer, our Company is expected to grant an Over-allotment Option to the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters) that is exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters).

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time within 30 calendar days from the date of the last day of lodging application under the Public Offer, to require our Company to issue and sell up to 17,400,000 additional Shares, representing not more than 15% of the number of the Offer Shares initially being offered under the Share Offer at the Offer Price to cover the over-allocations in connection with the Placing, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Share Offer and the exercise of the Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

Announcement of Final Offer Price and Basis of Allocations

The applicable final Offer Price, the level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Tuesday, 2 June 2020 on the websites of our Company at www.fjhaina.com and the Stock Exchange at www.hkexnews.hk.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving electronic application instructions to HKSCC via CCASS or to the designated White Form eIPO Service Provider through the White Form eIPO Service at www.eipo.com.hk, will be made available through a variety of channels as described in the section headed “How to Apply for the Public Offer Shares — 11. Publication of Results” in this prospectus.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Listing Committee granting the approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any options that may be granted under the Share Option Scheme and any additional Shares to be issued pursuant to any exercise of the Over-allotment Option);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the Placing Underwriting Agreement on or before the Price Determination Date; and
- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement becoming, and continuing to be, 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 such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms. If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be announced by our Company on the websites of our Company at www.fjhaina.com and the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such eventuality, 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, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, 2 June 2020 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 3 June 2020, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Public Offer — Grounds for Termination” in this prospectus has not been exercised.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of Shares Initially Offered

Our Company is initially offering 11,600,000 new Shares at the Offer Price, representing 10% of the 116,000,000 Shares available under the Share Offer, for subscription by the public in Hong Kong (assuming the Over-allotment Option is not exercised). Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of the total number of Shares in issue after completion of the Share Offer, but without taking into account Shares which may be issued pursuant to the Over-allotment Option or options granted under the Share Option Scheme. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors. 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. Completion of the Public Offer is subject to the conditions as set out in the section headed “Conditions of the Public Offer” above.

Allocation

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 5,800,000 Public Offer Shares and Pool B will comprise 5,800,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus of the Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 5,800,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares).

Reallocation

The allocation of Shares between the Public Offer and the Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 34,800,000, 46,400,000 and 58,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Share Offer. In such cases, the number of Shares allocated in the Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the Offer Shares under the Placing are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Public Offer represents 100% or more, but less than 15 times, of the number of Offer Shares initially available under the Public Offer, the Joint Global Coordinators may, at their discretion, adjust the Offer Shares initially allocated from the Placing to the Public Offer to satisfy valid applications under the Public Offer, provided that the total number of Offer Shares available under the Public Offer shall not be increased to more than 23,200,000 Shares, representing double the number of Offer Shares initially available under the Public Offer and 20% of the total number of Offer Shares initially available under the Share Offer.

If the Public Offer Shares are not fully subscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Public Offer Shares to the Placing in such amount as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deem appropriate, provided that in accordance with Guidance Letter HKEx-GL91-18 (February 2018) issued by the Stock Exchange, (i) the number of the Placing Share reallocated to the Public Offer should not exceed 11,600,000 Shares, representing 10% of the Offer Shares initially available under the Share Offer, increasing the total number of Offer Shares available under the Public Offer to 23,200,000 Shares; and (ii) the final Offer Price should be fixed at the bottom end of the indicative Offer Price range (i.e. HK\$1.08 per Offer Share) stated in this prospectus, Details of any reallocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on Tuesday, 2 June 2020.

Applications

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person for whose benefit he is making 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, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing. References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

THE PLACING

Number of Offer Shares Offered

Our Company is initially offering for subscription 104,400,000 new Shares for subscription at the Offer Price under the Placing, representing 90% of the Offer Shares under the Share Offer, subject to adjustment as mentioned in the section headed "Structure of the Share Offer — The Public Offer — Reallocation" above and without taking into account Shares which may be issued pursuant to the Over-allotment Option or exercise of options granted under the Share Option Scheme. The Placing is subject to the Public Offer being unconditional.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

Pursuant to the Placing, the Placing Underwriters will conditionally place the Shares with institutional, professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong. Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the “book-building” process described in the section headed “Structure of the Share Offer — Pricing and Allocation” above and based on a number of factors, such as the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after Listing.

Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

STABILISATION

The Stabilising Manager may (but shall not be obliged to and not as agent for the Company), to the extent permitted by applicable laws, over-allocate (as determined by the Joint Global Coordinators), make purchases or effect any other transactions (in the market or otherwise) with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period (the “**Stabilising Period**”) commencing on the Listing Date and ending on the 30th day after the last day for the lodging of the Application Forms (the “**stabilising action**”), provided that the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) and all other applicable laws and regulatory requirements shall be complied with by the Stabilising Manager at all times.

The Company hereby acknowledges that the Stabilising Manager may, at its sole and absolute discretion, appoint any of its affiliates or any other person(s) to be its agent(s) for the purposes of taking any stabilising action, with such authorities and rights as the Stabilising Manager has. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 17,400,000 Shares, which is 15% of the number of Shares initially available under the Share Offer.

Stabilising action, if taken, may be discontinued at any time at the sole and absolute discretion of the Stabilising Manager.

Each of the Company, the executive Directors and the Controlling Shareholders undertakes to the Public Offer Underwriters, and each of the Public Offer Underwriters undertakes to the Stabilising Manager, that he/she/it will not take or cause or authorise any person other than the Stabilising Manager (and/or its agent(s)) to take, and the Company, the executive Directors and the Controlling Shareholders shall cause their respective affiliates, agents and/or subsidiaries not to take, directly or indirectly, any stabilising action or any action which is designed to or which constitutes or which might be expected to cause or result in the stabilisation or manipulation of the price of any security of the Company in violation of applicable laws, provided that the granting of the Over-allotment Option under the Placing Underwriting Agreement and/or the exercise thereof shall not constitute a breach of the Public Offer Underwriting Agreement.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

All liabilities, expenses and losses (calculated on a mark-to-market basis at the end of the Stabilising Period) arising from stabilisation actions effected by the Stabilising Manager for the purpose of stabilisation shall be shared by the Placing Underwriters in proportion to their respective commitments pursuant to the Placing Underwriting Agreement; and that any profit arising from stabilisation actions shall be retained by the Joint Global Coordinators and the Joint Global Coordinators shall distribute such profit in accordance with the respective commitments pursuant to the Placing Underwriting Agreement.

The Company, the executive Directors and the Controlling Shareholders shall not be responsible for any liabilities, expenses or losses by the Stabilising Manager in the carrying out the stabilisation action.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Share Offer, the Stabilising Manager may choose to borrow up to 17,400,000 Offer Shares (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option) from Prestige Name pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilising Manager and Prestige Name on or about the Price Determination Date, or acquire Shares from other sources, including exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price.

If the Stock Borrowing Agreement with Prestige Name is entered into, the borrowing of Offer Shares will only be effected by the Stabilising Manager for settlement of over-allocations in the Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with, being that (a) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the Placing, (b) the maximum number of Shares to be borrowed from Prestige Name pursuant to the Stock Borrowing Agreement is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option; (c) the same number of Shares so borrowed must be returned to Prestige Name or its nominees, as the case may be, on or before the third business day following the earlier of (i) the last day for exercising the Over-allotment Option, and (ii) the day on which the Over-allotment Option is exercised in full, or such earlier time as may be agreed in writing between the Stabilising Manager and Prestige Name; (d) the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements; and (e) no payment will be made to Prestige Name by the Stabilising Manager in relation to the Stock Borrowing Agreement.

OVER-ALLOCATION

In connection with the Share Offer, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 17,400,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters) at their sole and absolute discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Stabilising Manager may borrow up to 17,400,000 Shares from Prestige Name, equivalent to the maximum number of Shares to be issued on the full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. If such Stock Borrowing Agreement is entered into, it will comply with the requirements set forth in Rule 10.07(3) of the Listing Rules and thus not subject to the restriction of Rule 10.7(1) of the Listing Rule, and it will only be effected by the Stabilising Manager to settlement of over-allocation in the Placing.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies 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 on the Stock Exchange or any other date HKSCC chooses. 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.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 3 June 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 3 June 2020. The Shares will be traded in board lots of 4,000 Shares each under the stock code 1645.

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 the Placing Shares.

To apply for Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **White Form eIPO** Service Provider at **www.eipo.com.hk**; or
- (c) 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 Global Coordinators, 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:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide 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 authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** 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:

- (a) an existing beneficial owner of shares in our Company and/or any of our subsidiaries;
- (b) a director or chief executive of our Company and/or any of our subsidiaries;
- (c) a connected person (as defined in the Listing Rules) and/ or a core connected person (as defined in the Listing Rules) of the Company or will become a connected person (as defined in the Listing Rules) and/or a core connected person (as defined in the Listing Rules) of the Company immediately upon completion of the Share Offer;
- (d) a close associate (as defined in the Listing Rules) of any of the above; or
- (e) have been allocated or have applied for any Placing Shares or have otherwise participated 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 copy of this prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 May 2020 until 12:00 noon on Monday, 25 May 2020 from:

- (a) the following offices of the Underwriters:

Soochow Securities International Brokerage Limited	Level 17, Three Pacific Place 1 Queen's Road East Hong Kong
VBG Capital Limited	18/F, Prosperity Tower 39 Queen's Road Central Central Hong Kong
Wealth Link Securities Limited	Suite 1504, 15/F, Bangkok Bank Building 28 Des Voeux Road Central Central, Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

BOA MS Capital Limited	16/F, Kam Sang Building No. 257 Des Voeux Road Central, Hong Kong
CM Securities (Hongkong) Company Limited	24/F, China Taiping Tower 8 Sunning Road Causeway Bay, Hong Kong
DL Securities (HK) Limited	Flat 01 28/F Vertical Square 28 Heung Yip Road Wong Chuk Hang, Hong Kong
TradeMaster Securities (Hong Kong) Limited	21/F, Hip Shing Hong Centre 55 Des Voeux Road Central Hong Kong
Zinvest Global Limited	Room 1702B, 17/F, Lippo Center Tower 2 89 Queensway Hong Kong

- (b) any of the following branches of the receiving bank.

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	King's Road Branch	131-133 King's Road, North Point, Hong Kong
Kowloon	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	Shatin Branch	Shop 20, Level 1, Lucky Plaza, 1-15 Wang Pok Street, Sha Tin, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 May 2020 until 12:00 noon on Monday, 25 May 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 "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — HAINA INTELLIGENT EQUIPMENT 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:

Wednesday, 20 May 2020 — 9:00 a.m. to 5:00 p.m.
Thursday, 21 May 2020 — 9:00 a.m. to 5:00 p.m.
Friday, 22 May 2020 — 9:00 a.m. to 5:00 p.m.
Saturday, 23 May 2020 — 9:00 a.m. to 1:00 p.m.
Monday, 25 May 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 Monday, 25 May 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

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 Provider, 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 authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agent 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 our Articles of Association;
- (b) agree to comply with the Cayman Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and our 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 Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and 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 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, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving bank, 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (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 Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (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 of such Shares allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any 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 Global Coordinators 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (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 or to the **White Form eIPO** Service Provider; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as an agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria set out in “2. Who Can Apply” in this section may apply through the **White Form eIPO** Service Provider 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 Provider 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 authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service.

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 Wednesday, 20 May 2020 until 11:30 a.m. on Monday, 25 May 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 25 May 2020 or such later time in “10. Effects 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 Provider 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 Provider or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 “Haina Intelligent Equipment International Holdings Limited” **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

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 Center, of which the address is at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong, and complete an input request form.

You can also collect a copy of this 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 authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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:

- (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;
- (b) HKSCC Nominees will do the following things on your behalf:
 - (i) 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;
 - (ii) agree to accept the Public Offer Shares applied for or any lesser number of such Shares allocated;
 - (iii) 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;
 - (iv) (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
 - (v) (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as an agent;
 - (vi) confirm that you understand that our Company, our Directors and the Joint Global Coordinators 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;
 - (vii) authorised 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;
 - (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - (ix) 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (x) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers 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);
- (xi) agree to disclose your personal data to our Company, the Sole Sponsor, the Joint Global Coordinators, the Underwriters, the Hong Kong Share Registrar, receiving bank and/or their respective advisers and agents;
- (xii) 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;
- (xiii) 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;
- (xiv) 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;
- (xv) 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;
- (xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance the Companies (Winding Up and Miscellaneous Provisions) Ordinance and our Articles of Association; and

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(xvii) 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 Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- (a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong 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 Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorised 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 4,000 Public Offer Shares. Instructions for more than 4,000 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 ^(Note)

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Wednesday, 20 May 2020 — 9:00 a.m. to 8:30 p.m.
Thursday, 21 May 2020 — 8:00 a.m. to 8:30 p.m.
Friday, 22 May 2020 — 8:00 a.m. to 8:30 p.m.
Monday, 25 May 2020 — 8:00 a.m. to 12:00 noon

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Wednesday, 20 May 2020 until 12:00 noon on Monday, 25 May 2020 (24 hours daily, except on Monday, 25 May 2020, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 25 May 2020, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

Note: These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of 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 in the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, 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** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-lead Managers, 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** 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 Center to complete an input request form for electronic application instructions before 12:00 noon on Monday, 25 May 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:

- (a) an account number; or
- (b) 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 **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:

- (a) the principal business of that company is dealing in securities; and
- (b) 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 Hong Kong Stock Exchange.

"Statutory control" means you:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** or **YELLOW** Application Forms have tables showing the exact amount payable for our Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for our 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 Provider in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 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 Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure and Conditions of the Share Offer — Price Determination of the Share Offer” of 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) a tropical cyclone warning signal number 8 or above;
- (b) a “black” rainstorm warning signal; and/or
- (c) Extreme Conditions;

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 May 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 Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 25 May 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, 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 and the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 2 June 2020 on our Company’s website at **www.fjhaina.com** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on our Company's website at www.fjhaina.com and the Hong Kong Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, 2 June 2020;
- (b) 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 Tuesday, 2 June 2020 to 12:00 midnight on Monday, 8 June 2020;
- (c) by telephone enquiry line by calling 2862 8555 between 9:00 a.m. and 6:00 p.m. on Tuesday, 2 June 2020, Wednesday, 3 June 2020, Thursday, 4 June 2020 and Friday, 5 June 2020; and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 2 June 2020 to Thursday, 4 June 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. See "Structure and Conditions of the Share Offer" of this prospectus for details.

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 PUBLIC 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 procedures to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If our Company or our agents exercise our discretion to reject your application:

Our Company, the Joint Global Coordinators, 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 Hong Kong Stock Exchange does not grant permission to list our 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- your electronic application instructions through the **White Form eIPO** Service Provider are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the check 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 Joint Global Coordinators believe that by accepting your application, we or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

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\$1.50 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the conditions set out in "Structure and Conditions of the Share Offer — Conditions of the Public Offer" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 2 June 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).

No temporary document of title will be issued in respect of our 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:

- (a) 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (b) 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 Hong Kong 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(s), 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 despatch/collection of Share certificates and refund monies as mentioned below, any refund cheque(s) and Share certificates are expected to be posted on or before Tuesday, 2 June 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).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 3 June 2020 provided that the Share Offer has become unconditional and the right of termination escribed in the section “Underwriting” 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 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 Tuesday, 2 June 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 authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong 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 Tuesday, 2 June 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(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 Tuesday, 2 June 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 Tuesday, 2 June 2020, or in the event of a 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.

- If you are applying as a CCASS Investor Participant

Our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 2 June 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 Provider

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 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 Tuesday, 2 June 2020, or such other date as notified by our Company in the newspapers at 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 Tuesday, 2 June 2020 by ordinary post at your own risk.

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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

- (a) 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 Tuesday, 2 June 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- (b) 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 "11. Publication of Results" in this section on Tuesday, 2 June 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 2 June 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- (c) 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.
- (d) 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 Tuesday, 2 June 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.

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- (e) 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 Hong Kong 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 Tuesday, 2 June 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares 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 arrangements as such arrangements may affect their rights and interests.

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

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, Hong Kong.

**MAZARS CPA LIMITED**

中審眾環(香港)會計師事務所有限公司
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INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF HAINA INTELLIGENT EQUIPMENT INTERNATIONAL HOLDINGS LIMITED (FORMERLY KNOWN AS "HAINA INTERNATIONAL GROUP LIMITED")

The Directors

Haina Intelligent Equipment International Holdings Limited
(formerly known as "Haina International Group Limited")
VBG Capital Limited

Introduction

We report on the historical financial information of Haina Intelligent Equipment International Holdings Limited (formerly known as "Haina International Group Limited") (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages I-4 to I-67, which comprises the combined statements of financial position of the Group as at 31 December 2016, 2017, 2018 and 2019, the statements of financial position of the Company as at 31 December 2017, 2018 and 2019 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2016, 2017, 2018 and 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-67 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 20 May 2020 (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").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "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 depended on our 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, we considered internal control relevant to the Group'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 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 Group's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017, 2018 and 2019, of the Company's financial position as at 31 December 2017, 2018 and 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON OTHER 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 declared/paid by entities now comprising the Group in respect of the Track Record Period.

Preparation or audit of financial statements

At the date of this report, no statutory audited financial statements have been prepared for the Company since its incorporation.

Note 1 to the Historical Financial Information contains information about whether the financial statements of the members of the Group for the Track Record Period have been audited and, if applicable, the name of the auditors.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 20 May 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were prepared by the directors of the Company in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by Mazars CPA Limited, *Certified Public Accountants, Hong Kong* 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.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	5	112,980	260,985	337,240	377,989
Cost of sales		(88,604)	(204,398)	(260,653)	(287,370)
Gross profit		24,376	56,587	76,587	90,619
Other income	6	3,036	5,731	4,828	8,418
Selling and distribution costs		(3,649)	(8,604)	(9,560)	(14,641)
Administrative and other operating expenses		(12,656)	(17,402)	(22,857)	(36,935)
Impairment loss of trade receivables, net		(84)	(51)	(560)	(428)
Finance costs	7	(750)	(583)	(58)	(1,014)
Listing expenses		—	—	(3,248)	(9,846)
Profit before tax	7	10,273	35,678	45,132	36,173
Income tax expenses	10	(1,646)	(5,647)	(5,905)	(5,085)
Profit for the year		8,627	30,031	39,227	31,088
Other comprehensive income (loss):					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange difference on consolidation/ combination		—	1	(1,405)	(1,119)
Total comprehensive income for the year		8,627	30,032	37,822	29,969
Profit for the year attributable to:					
Owners of the Company		8,627	30,031	38,636	26,423
Non-controlling interests		—	—	591	4,665
		8,627	30,031	39,227	31,088
Total comprehensive income for the year attributable to:					
Owners of the Company		8,627	30,032	37,231	25,304
Non-controlling interests		—	—	591	4,665
		8,627	30,032	37,822	29,969

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-current assets					
Plant and equipment	13	12,356	15,381	18,009	39,594
Intangible assets	14	1,999	4,382	5,027	5,306
Goodwill	15	—	—	1,369	1,369
		<u>14,355</u>	<u>19,763</u>	<u>24,405</u>	<u>46,269</u>
Current assets					
Financial assets at fair value through profit or loss					
	16	20,000	10,000	—	—
Inventories	17	111,375	167,850	126,528	144,839
Trade and other receivables	18	38,994	77,419	103,590	98,527
Income tax recoverable		—	—	—	1,203
Restricted bank deposits	19	6,467	24,068	14,040	10,000
Bank balances and cash	20	8,408	23,187	27,709	35,701
		<u>185,244</u>	<u>302,524</u>	<u>271,867</u>	<u>290,270</u>
Current liabilities					
Trade and other payables	21	147,727	242,269	150,682	141,992
Bank borrowings, secured	22	5,000	—	—	—
Obligations under finance leases	23	3,158	1,444	—	—
Lease liabilities	24	—	—	—	6,977
Amount due to the Controlling Shareholders	25	11,752	13,967	7,699	—
Amount due to ultimate holding company	25	—	—	48,936	52,150
Dividends payable		—	3,304	—	—
Income tax payable		866	3,069	2,833	2
Deferred tax liabilities	26	—	—	—	1,000
		<u>168,503</u>	<u>264,053</u>	<u>210,150</u>	<u>202,121</u>
Net current assets		<u>16,741</u>	<u>38,471</u>	<u>61,717</u>	<u>88,149</u>
Total assets less current liabilities		<u>31,096</u>	<u>58,234</u>	<u>86,122</u>	<u>134,418</u>
Non-current liabilities					
Obligations under finance leases	23	1,444	—	—	—
Lease liabilities	24	—	—	—	18,949
Deferred tax liabilities	26	1,740	3,584	2,820	2,198
		<u>3,184</u>	<u>3,584</u>	<u>2,820</u>	<u>21,147</u>
NET ASSETS		<u><u>27,912</u></u>	<u><u>54,650</u></u>	<u><u>83,302</u></u>	<u><u>113,271</u></u>

	Note	At 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Capital and reserves					
Share capital	29(a)	—	—*	—*	—*
Reserves		27,912	54,650	74,226	99,530
Equity attributable to owners of the Company		27,912	54,650	74,226	99,530
Non-controlling interests	31	—	—	9,076	13,741
TOTAL EQUITY		27,912	54,650	83,302	113,271

* Represent amounts less than RMB1,000.

STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December		
		2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-current assets				
Investment in a subsidiary	29(b)	—	—*	—*
Current assets				
Other receivables		—*	501	722
Current liabilities				
Amounts due to subsidiaries	29(c)	—	3,671	13,503
Net current liabilities		—	(3,170)	(12,781)
Total assets less current liabilities		—	(3,170)	(12,781)
NET LIABILITIES		—	(3,170)	(12,781)
Capital and reserves				
Share capital	29(a)	—*	—*	—*
Reserves	29(d)	—	(3,170)	(12,781)
TOTAL EQUITY (DEFICIT)		—	(3,170)	(12,781)

* Represent amounts less than RMB1,000.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							Non-controlling interests RMB'000 (Note 31)	Total equity RMB'000
	Reserves					Total RMB'000			
	Share capital RMB'000 (Note 29(a))	Capital reserve RMB'000 (Note 30(a))	Statutory reserve RMB'000 (Note 30(b))	Translation reserve RMB'000 (Note 30(c))	Accumulated profits RMB'000				
At 1 January 2016	—	15,000	529	—	3,756	19,285	—	19,285	
Profit and total comprehensive income for the year	—	—	—	—	8,627	8,627	—	8,627	
Transaction with owners:									
<i>Contributions and distributions</i>									
Appropriation of statutory reserve	—	—	753	—	(753)	—	—	—	
At 31 December 2016	<u>—</u>	<u>15,000</u>	<u>1,282</u>	<u>—</u>	<u>11,630</u>	<u>27,912</u>	<u>—</u>	<u>27,912</u>	
At 1 January 2017	<u>—</u>	<u>15,000</u>	<u>1,282</u>	<u>—</u>	<u>11,630</u>	<u>27,912</u>	<u>—</u>	<u>27,912</u>	
Profit for the year	—	—	—	—	30,031	30,031	—	30,031	
Other comprehensive income:									
<i>Item that may be reclassified subsequently to profit or loss</i>									
Exchange difference on consolidation/combination	—	—	—	1	—	1	—	1	
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>30,031</u>	<u>30,032</u>	<u>—</u>	<u>30,032</u>	
Transactions with owners:									
<i>Contributions and distributions</i>									
Appropriation of statutory reserve	—	—	3,107	—	(3,107)	—	—	—	
Issue of share	—*	—	—	—	—	—*	—	—*	
Dividends (Note 12)	—	—	—	—	(3,304)	(3,304)	—	(3,304)	
Capital contribution made by the Controlling Shareholders	—	10	—	—	—	10	—	10	
	<u>—*</u>	<u>10</u>	<u>3,107</u>	<u>—</u>	<u>(6,411)</u>	<u>(3,294)</u>	<u>—</u>	<u>(3,294)</u>	
At 31 December 2017	<u>—*</u>	<u>15,010</u>	<u>4,389</u>	<u>1</u>	<u>35,250</u>	<u>54,650</u>	<u>—</u>	<u>54,650</u>	

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Reserves					Total			
	Share capital	Capital reserve	Statutory reserve	Translation reserve	Accumulated profits				
RMB'000 (Note 29(a))	RMB'000 (Note 30(a))	RMB'000 (Note 30(b))	RMB'000 (Note 30(c))	RMB'000	RMB'000	RMB'000 (Note 31)	RMB'000		
At 1 January 2018	—*	15,010	4,389	1	35,250	54,650	—	54,650	
Profit for the year	—	—	—	—	38,636	38,636	591	39,227	
Other comprehensive loss:									
<i>Item that may be reclassified subsequently to profit or loss</i>									
Exchange difference on consolidation/combination	—	—	—	(1,405)	—	(1,405)	—	(1,405)	
Total comprehensive income for the year	—	—	—	(1,405)	38,636	37,231	591	37,822	
Transactions with owners:									
<i>Contribution and distributions</i>									
Capital contributions made by the then shareholder of a subsidiary	—	790	—	—	—	790	—	790	
Deemed distributions to the then equity owners of Jinjiang Haina under Reorganisation (Remark)	—	(15,800)	—	—	—	(15,800)	—	(15,800)	
Dividends (Note 12)	—	—	—	—	(2,645)	(2,645)	—	(2,645)	
Appropriation of statutory reserve	—	—	3,868	—	(3,868)	—	—	—	
	—	(15,010)	3,868	—	(6,513)	(17,655)	—	(17,655)	
<i>Change in ownership interests</i>									
Non-controlling interest arising from acquisition of a subsidiary (Note 27)	—	—	—	—	—	—	8,485	8,485	
At 31 December 2018	—*	—	8,257	(1,404)	67,373	74,226	9,076	83,302	

Remark: Pursuant to the equity transfer agreements dated 31 May 2018, each of the then equity owners of Jinjiang Haina agreed to transfer their entire equity interests in Jinjiang Haina (of which in aggregate of 95% owned by the Controlling Shareholders and 5% owned by an independent third party) to Haina Technology for an aggregate consideration of US\$2.42 million (equivalent to approximately RMB15.8 million), which were determined based on arm's length negotiation and by reference to the capital contributions made by each of the then equity owners of Jinjian Haina. The equity transfer was completed on 6 June 2018 and formed part of the Reorganisation as detailed in the section headed "History, Development and Reorganisation" of the Prospectus. Therefore, the consideration paid was treated as deemed distribution from the Group to the then equity owners.

	Attributable to owners of the Company							Non-controlling interests RMB'000 (Note 31)	Total equity RMB'000
	Reserves					Total RMB'000			
	Share capital RMB'000 (Note 29(a))	Capital reserve RMB'000 (Note 30(a))	Statutory reserve RMB'000 (Note 30(b))	Translation reserve RMB'000 (Note 30(c))	Accumulated profits RMB'000				
At 1 January 2019	—*	—	8,257	(1,404)	67,373	74,226	9,076	83,302	
Profit for the year	—	—	—	—	26,423	26,423	4,665	31,088	
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>									
Exchange difference on consolidation/ combination	—	—	—	(1,119)	—	(1,119)	—	(1,119)	
Total comprehensive income for the year	—	—	—	(1,119)	26,423	25,304	4,665	29,969	
Transaction with owners: <i>Contributions and distributions</i>									
Appropriation of statutory reserve	—	—	3,938	—	(3,938)	—	—	—	
At 31 December 2019	—*	—	12,195	(2,523)	89,858	99,530	13,741	113,271	

* Represent amounts less than RMB 1,000.

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
OPERATING ACTIVITIES					
Cash generated from (used in) operations	32	7,597	39,239	(33,304)	28,874
Income tax paid		(146)	(1,600)	(6,905)	(8,741)
Net cash from (used in) operating activities		<u>7,451</u>	<u>37,639</u>	<u>(40,209)</u>	<u>20,133</u>
INVESTING ACTIVITIES					
Interest received		38	820	1,414	353
Purchase of plant and equipment		(3,620)	(5,920)	(5,684)	(1,365)
Proceeds from disposal of plant and equipment		—	23	7	140
(Increase) Decrease in restricted bank deposits, net		(1,821)	(17,601)	10,028	4,040
Additions of intangible assets		(926)	(3,667)	(2,649)	(3,589)
Purchase of financial assets at fair value through profit or loss		(17,000)	—	—	—
Proceeds from disposal of financial assets at fair value through profit or loss		—	10,000	16,000	—
Net cash inflow on acquisition of a subsidiary	27	—	—	1,683	—
Net cash outflow on disposal of a subsidiary	28	(8)	—	—	—
Net cash (used in) from investing activities		<u>(23,337)</u>	<u>(16,345)</u>	<u>20,799</u>	<u>(421)</u>

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
FINANCING ACTIVITIES				
New bank borrowings raised	5,000	—	—	—
Repayment of bank borrowings	(7,000)	(5,000)	—	—
Repayment of lease liabilities	—	—	—	(7,849)
Repayment of obligations under finance leases	(1,562)	(3,158)	(1,444)	—
Interest paid	(750)	(583)	(58)	(1,014)
Advance from (Repayment to) the Controlling Shareholders, net	19,000	2,215	(6,268)	(7,699)
Advance from ultimate holding company, net	—	—	48,936	3,214
Dividends paid	—	—	(5,949)	—
Partial settlement on capital contribution due from the non-controlling shareholders of a subsidiary	—	—	5,130	1,700
Capital contribution made by the Controlling Shareholders	—	10	—	—
Capital contribution made by the then shareholder of a subsidiary	—	—	790	—
Equity transaction arising from the Reorganisation	—	—	(15,800)	—
Net cash from (used in) financing activities	<u>14,688</u>	<u>(6,516)</u>	<u>25,337</u>	<u>(11,648)</u>
Net (decrease) increase in cash and cash equivalents	(1,198)	14,778	5,927	8,064
Cash and cash equivalents at the beginning of the reporting period	9,606	8,408	23,187	27,709
Effect on exchange rate changes	—	1	(1,405)	(72)
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	<u>8,408</u>	<u>23,187</u>	<u>27,709</u>	<u>35,701</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Island as an exempted company with limited liability on 20 December 2017. The Company's registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is situated at Flat C, 21/F, Max Share Centre, 373 King's Road, North Point, Hong Kong.

The principal activity of the Company is investment holding. During the Track Record Period, the Group is principally engaged in the design and production of automated machines for disposable hygiene products in the People's Republic of China (the "PRC").

At the date of this report, in the opinion of the directors of the Company, the immediate and ultimate holding company is Prestige Name International Limited ("Prestige Name"), a limited liability company incorporated in the British Virgin Islands (the "BVI"). The ultimate controlling parties are Mr. Hong Yiyuan, Mr. Zhang Zhixiong, Mr. Su Chengya and Mr. He Ziping (collectively referred to as the "Controlling Shareholders"), who have been acting in concert over the course of the Group's business history.

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 11 March 2019, as detailed in the section headed "History, Development and Reorganisation" of the Prospectus issued in connection with the initial listing on the Main Board of the Stock Exchange (the "Listing"), the Company became the holding company of the entities now comprising the Group.

At the date of this report, the particulars of the Company's subsidiaries, which are private limited liability companies, of which the Company has direct/indirect interests are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and paid up capital/registered capital	Attributable equity interests held by the Company	Principal activities/ place of operation
<i>Directly held by the Company</i>				
Affluent International Group Limited ("Affluent International")	The BVI, 16 January 2019	United States Dollar ("US\$") 1	100%	Investment holding/ Hong Kong
<i>Indirectly held by the Company</i>				
Haina Technology Group Limited (formerly known as "City China Limited") ("Haina Technology")	Hong Kong, 15 March 2017	Hong Kong Dollar ("HK\$") 1	100%	Trading of machines for disposable hygiene products and investment holding/ Hong Kong
晉江海納機械有限公司 (formerly known as "晉江市海納機械股份有限公司") Jinjiang Haina Machinery Co., Ltd. ("Jinjiang Haina")	The PRC, 24 January 2011	RMB50,000,000	100%	Design and production of machines for disposable hygiene products/The PRC
杭州海納機械有限公司 Hangzhou Haina Machinery Co., Ltd. ("Hangzhou Haina")	The PRC, 23 May 2017	RMB20,000,000	51%	Design and production of machines for disposable hygiene products/The PRC

The financial statements, as prepared in accordance with respective local financial reporting standards, of the Company's subsidiaries that fall into the Track Record Period have been audited as follows:

Subsidiary	Financial period	Auditors
Haina Technology	Period ended 31 December 2017 Year ended 31 December 2018	D & PARTNERS CPA LIMITED Mazars CPA Limited
Jinjiang Haina	Year ended 31 December 2016	福建中正恒瑞會計師事務所有限公司 (Fujian Zhongzhenghengrui Certified Public Accountants Co., Ltd.)

Notes:

- (i) No statutory audited financial statements of Affluent International have been prepared for the period ended 31 December 2019 as it is not required to issue audited financial statements under the statutory requirements at its place of incorporation.
- (ii) No statutory audited financial statements of Jinjiang Haina for the years ended 31 December 2017, 2018 and 2019 were available as there was no requirement to issue audited financial statements by the local authorities.
- (iii) Hangzhou Haina was acquired during the year ended 31 December 2018. No statutory audited financial statements of Hangzhou Haina have been prepared for the period/years ended 31 December 2017, 2018 and 2019 as there was no requirement to issue audited financial statements by the local authorities.
- (iv) The statutory audited financial statements of Haina Technology for the year ended 31 December 2019 are not yet due for issuance up to the date of this report.

2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Immediately prior to and after the Reorganisation, the Company and its subsidiaries now comprising the Group (except for Hangzhou Haina) are ultimately controlled by the Controlling Shareholders. The Group's business is mainly conducted through Jinjiang Haina, Hangzhou Haina and Haina Technology. The Company and Affluent International are investment holding companies and have not been involved in any other significant activities prior to and after the Reorganisation. Because the Reorganisation did not result in any change in the management and the ultimate control of the Group's business, it is considered as a business combination under common control. Accordingly, except for the acquisition of the 51% equity interest of Hangzhou Haina which was completed on 12 July 2018 as detailed in Note 27 for which acquisition method of accounting was adopted in accordance with the accounting policy as set out in paragraph headed "Basis of combinations — acquisition method of accounting" in Note 3, the Historical Financial Information as included in this report is prepared using the carrying values of the entities involved in the Reorganisation for all periods presented on a basis in accordance with the principles of merger accounting as set out in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

As further explained in the paragraph headed "Basis of combinations — merger accounting for common control combinations" in Note 3, the Historical Financial Information presents the combined financial performance, combined changes in equity, combined cash flows and combined financial positions of the entities now comprising the Group as if the current group structure, except for the acquisition of Hangzhou Haina prior to the Reorganisation, had always been in existence throughout the Track Record Period.

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conforms with HKFRSs issued by the HKICPA.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with the basis set out below which conforms with HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The HKICPA has issued a number of new/revised HKFRSs during the Track Record Period. For the purpose of the preparation of the Historical Financial Information, the Group has consistently adopted all those new/revised HKFRSs (including HKFRS 9 and HKFRS 15) that are relevant to its operations and are effective prior to 1 January 2019 throughout the Track Record Period and initially adopted HKFRS 16 from 1 January 2019 as set out below.

In particular, the Group adopted HKFRS 9 and HKFRS 15 consistently throughout the Track Record Period. The adoption of HKFRS 9 and HKFRS 15 does not have any significant impact on the Historical Financial Information.

Except for HKFRS 16, the adoption of those new/revised HKFRSs (including HKFRS 9 and HKFRS 15) does not have any significant impact on the Historical Financial Information.

Adoption of HKFRS 16

The Group has adopted HKFRS 16, which replaced HKAS 17, and the related consequential amendments to other HKFRSs for the year ended 31 December 2019 which resulted in changes in accounting policies. In accordance with the transition provisions of HKFRS 16, the Group has elected to apply the new standard retrospectively with the cumulative effect of initial application recognised at 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in profit or loss over the lease period on a straight-line basis.

Upon the initial adoption of HKFRS 16, the Group recognised the lease liabilities in relation to leases which had previously been classified as operating leases except for those are otherwise exempted. The Group did not reassess if a contract was or contained a lease at adoption. These liabilities were initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to profit or loss to the period in which it is incurred on the basis that produces a constant periodic rate of interest on the remaining lease liability balance.

At the inception of a contract that contains a lease component, as a lessee, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone-price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the combined statements of financial position immediately before the date of initial application. The right-of-use assets were recognised in the combined statements of financial position.

Depreciation was charged to profit or loss on a straight-line basis over the shorter of the assets useful lives or over the unexpired term of lease.

The following table reconciles the adjustments made to the carrying amounts recognised in relation to the lease commitment in the combined statements of financial position at the date of initial application of HKFRS 16 on 1 January 2019:

	Carrying amounts on 31 December 2018 under HKAS 17 RMB'000	Adjustments RMB'000	Carrying amounts on 1 January 2019 under HKFRS 16 RMB'000
Non-current assets			
Right-of-use assets, presented in plant and equipment	—	17,723	17,723
Current liabilities			
Lease liabilities	—	5,948	5,948
Non-current liabilities			
Lease liabilities	—	11,775	11,775

When measuring lease liabilities for leases previously classified as operating leases, the Group discounted lease payments using lessees' incremental borrowing rates at 1 January 2019. The weighted average discount rate applied is 4.8%.

	At 1 January 2019 RMB'000
Operating lease commitment at 31 December 2018	18,415
Lease liabilities recognised at 1 January 2019 discounted using the incremental borrowing rate	17,723
Analysed as:	
Current	5,948
Non-current	11,775
	17,723

A summary of the principal accounting policies adopted by the Group in preparing the Historical Financial Information is set out below.

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis, except for the financial assets at fair value through profit or loss which are measured at fair value as explained in the accounting policy set out below.

Basis of combinations

The Historical Financial Information comprises the financial statements of the Company and all of its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

The acquisition method is used to account for the acquisition of subsidiaries of the Group, except for those acquisitions which qualify as business combination under common control which are accounted for using merger accounting.

(a) Acquisition method of accounting

The acquisition method of accounting involves allocating cost of the business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values, where appropriate, at the acquisition date.

Acquisition-related costs are expensed as incurred.

Non-controlling interests are presented, separately from owners of the Company, in the combined statements of profit or loss and other comprehensive income and within equity in the combined statements of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Company and the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

(b) Merger accounting for common control combinations

The Historical Financial Information incorporates the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholders.

The net assets of the combining entities or businesses are combined using the existing carrying values from the Controlling Shareholders' perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Controlling Shareholders' interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities, arising from the Reorganisation, are recognised as part of the capital reserve. The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting, are recognised as an expense in the period in which they are incurred.

Goodwill

Goodwill arising on an acquisition of a business is measured at the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired business.

Goodwill on acquisition of business is recognised as a separate asset and is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

On the other hand, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired business over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as an income from bargain purchase.

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statements of financial position, investment in a subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Right-of-use assets	Shorter of assets expected useful lives or over the unexpired terms of lease
Plant and machinery	2 to 10 years
Motor vehicles	4 to 10 years
Office equipment	3 to 5 years
Computer equipment	3 to 10 years

Before the adoption of HKFRS 16, assets held under finance leases are depreciated over the shorter of their expected useful lives or the unexpired terms of the leases.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Intangible assets

Research and development cost

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. When the asset is available for use, the capitalised development costs are amortised on a straight-line basis over a period of 3 to 5 years.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

1) *Financial assets measured at amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include trade and other receivables, restricted bank deposits, and bank balances and cash.

2) *Financial assets at FVPL*

These investments include financial assets that are not measured at amortised cost or fair value through other comprehensive income, including financial assets held for trading, financial assets designated upon initial recognition as at FVPL, financial assets resulting from a contingent consideration arrangement in a business combination to which HKFRS 3 applies and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which does not include any dividend or interest earned on the financial assets. Dividend or interest income is presented separately from fair value gain or loss.

A financial asset is classified as held for trading if it is:

- (i) acquired principally for the purpose of selling it in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or
- (iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Financial assets are designated at initial recognition as at FVPL only if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

The Group's financial assets measured at FVPL include unlisted wealthy management products recognised as financial assets at FVPL.

Financial liabilities***Recognition and derecognition***

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, bank borrowings, obligations under finance leases, lease liabilities and amounts due to the Controlling Shareholders/ultimate holding company. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with HKFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("ECL") model under HKFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Impairment of financial assets

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) nature of financial instruments;
- (ii) past-due status;
- (iii) nature, size and industry of debtors; and
- (iv) external credit risk ratings where available.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial asset that meets any of the following criteria.

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information to demonstrate otherwise.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

Notwithstanding the foregoing, 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.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a 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.

Simplified approach of ECL

For trade receivables without a significant financing components or otherwise for which the Group applies the practical expedient not to account for the significant financing components, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

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:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) 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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the combined statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents 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 of 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.

Revenue recognition***Revenue from contracts with customers***

The Group adopts a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Nature of goods or services

The nature of the goods or services provided by the Group is the design and production of automated machines for disposable hygiene products.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sales of automated machines for disposable hygiene products and related components and parts are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are transferred to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Performance obligation: warranties

Sales-related warranties associated with machines of disposable hygiene products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for the warranties in accordance with HKAS 37.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

For sales of machines of disposable hygiene products, and components and parts, it is common for the Group to receive from the customer the whole or some of the contractual payments before the services are completed or when the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue. During that period, any significant financing components, if applicable, will be included in the contract liability and will be expensed as accrued unless the interest expense is eligible for capitalisation.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is HK\$ and majority of its subsidiaries have RMB as their functional currency. The Historical Financial Information is presented in the currency of RMB, which is the Company's presentation currency, and rounded to the nearest thousands unless otherwise stated.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;
- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;
- on the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;
- on the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and
- on all other partial disposals, which includes partial disposal of associates that do not result in the Group losing significant influence, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

Impairment of non-financial assets, other than goodwill

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that plant and equipment, intangible assets and the Company's investment in a subsidiary may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as an income in profit or loss immediately.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account/recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest shall be measured as the difference between the initial fair value of the loan and the proceeds received.

Leases***The Group as lessor***

Rental income under operating leases is recognised to profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee — Applicable from 1 January 2019

The Group leases various properties. Rental contracts are typically made for fixed periods of two to six years. The lease agreements do not impose any covenants and the lease terms are negotiated on an individual basis with a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may be used as security for borrowing purposes.

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.

Leases are recognised as a right-of-use asset (included in plant and equipment) and corresponding liability at the date of 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 expected useful life and the unexpired lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments that are not paid:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease if the lease term reflects the Group exercising an option to terminate the lease.

Right-of-use assets are measured at cost comprising the followings:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- restoration costs unless those costs are incurred to produce inventories.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis over the lease term as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture with individual value below RMB40,000.

The Group as lessee — Applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases, as lessee

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases, as lessee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme in Hong Kong are recognised as expense in profit or loss as incurred. The assets of the scheme are held separately from those of the Group's entities established in Hong Kong in an independently administered fund.

In accordance with the rules and regulations in the PRC, the employees of the Group's entities established in the PRC are required to participate in defined contribution retirement plans organised by local governments. Contributions to these plans are expensed in profit or loss as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits to its employees.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are nonassessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Group.

- (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 the key management personnel of the Group or of the holding company of the Group.
- (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 (which means that each holding company, subsidiary and fellow subsidiary is related to the others).
 - (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. If the Group is itself such a plan, the sponsoring employers are also 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 holding company of the entity).
 - (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 holding company of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Operating segments that meet the quantitative thresholds are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Other operating segments may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the Historical Financial Information. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty

- (i) *Useful lives of plant and equipment, and intangible assets*

The management determines the estimated useful lives of the Group's plant and equipment, and intangible assets based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

- (ii) *Impairment of plant and equipment, and intangible assets*

The management determines whether the Group's plant and equipment, and intangible assets are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of the plant and equipment, and intangible assets, which is equal to the higher of fair value less cost of disposal or the value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the plant and equipment, and intangible assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

- (iii) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) Loss allowance for ECL

The management of the Group estimates the loss allowance for trade receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivables.

(v) Allowance for inventories

The management reviews the condition of inventories at the end of each reporting period and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The management carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(vi) Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. In addition, the realisation of the future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and income tax loss carry-forwards, as appropriate. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on results and financial position of the Group.

Future changes in HKFRSs

At the date of approving the Historical Financial Information, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the Track Record Period, which the Group has not early adopted:

Amendments to HKASs 1 and 8	Definition of Material ⁽¹⁾
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁽¹⁾
Amendments to HKFRS 3	Definition of a Business ⁽²⁾
HKFRS 17	Insurance Contracts ⁽³⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2020

⁽²⁾ Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

⁽³⁾ Effective for annual periods beginning on or after 1 January 2021

⁽⁴⁾ The effective date to be determined

The management of the Group does not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group's combined financial information.

4. SEGMENT INFORMATION

The directors of the Company have determined that the Group has a single operating and reportable segment throughout the Track Record Period, as the Group manages its business as a whole as the design and production of automated machines for disposable hygiene products and the executive directors of the Company, being the chief operating decision makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group. Segment information is not presented accordingly.

Information about geographical areas

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of the revenue is presented based on the location of customers. The Group's all non-current assets are located in the PRC.

Revenue from external customers

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	106,943	201,367	240,320	217,599
Indonesia	—	9,054	24,350	44,370
The Philippines	6,017	8,866	7,219	28,803
Vietnam	—	—	16,235	27,340
Pakistan	—	—	4,137	14,520
India	—	—	—	9,761
Hong Kong	—	—	—	8,407
Thailand	—	—	—	8,144
Nigeria	—	—	7,624	7,901
Cambodia	—	—	9,307	5,025
Uzbekistan	—	21,896	—	4,708
Angola	—	—	9,623	1,367
South Korea	—	—	—	20
Malaysia	20	—	—	18
Bulgaria	—	—	—	6
Yemen	—	—	11,528	—
Russia	—	—	6,807	—
Bangladesh	—	19,802	90	—
	<u>112,980</u>	<u>260,985</u>	<u>337,240</u>	<u>377,989</u>

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of aggregate revenue of the Group during the Track Record Period are as follows:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	11,795	Note	Note	Note
Customer B	<u>11,350</u>	<u>Note</u>	<u>Note</u>	<u>Note</u>

Note: The customers contributed less than 10% of the total revenue of the Group for relevant years.

5. REVENUE

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Revenue from contracts with customers within</u>				
<u>HKFRS 15 — at a point in time</u>				
Sales of machines of				
— baby diaper	104,866	246,426	270,641	226,320
— adult diaper	5,453	11,242	31,072	112,207
— lady sanitary napkin	1,966	701	24,729	22,541
Sales of components and parts	695	2,616	10,798	16,921
	<u>112,980</u>	<u>260,985</u>	<u>337,240</u>	<u>377,989</u>

The amounts of revenue recognised for the years ended 31 December 2016, 2017, 2018 and 2019 that were included in the contract liabilities at the beginning of each of the years are approximately RMB26,733,000, RMB46,088,000, RMB95,724,000 (including RMB25,934,000 arising from acquisition of a subsidiary) and RMB46,630,000, respectively.

6. OTHER INCOME

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Bank interest income	38	820	1,414	353
Exchange gain, net	151	—	—	311
Government grants (<i>Note</i>)	2,162	4,334	2,010	7,341
Investment income from financial assets at FVPL	518	394	241	—
Sale of scrap materials	167	183	308	245
Supplier rebate	—	—	855	—
Gain on disposal of plant and equipment	—	—	—	108
Others	—	—	—	60
	<u>3,036</u>	<u>5,731</u>	<u>4,828</u>	<u>8,418</u>

Note: In the opinion of the management of the Group, there was no unfulfilled condition or contingency relating to the governments grants.

7. PROFIT BEFORE TAX

This is stated after charging (crediting):

	Year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
(a) Finance costs				
Interest on bank borrowings	549	217	—	—
Finance charges on obligations under finance leases	201	366	58	—
Finance charges on lease liabilities	—	—	—	1,014
	<u>750</u>	<u>583</u>	<u>58</u>	<u>1,014</u>
(b) Staff costs, including directors' remuneration				
Salaries, allowances, discretionary bonus and other benefits in kind	16,591	16,480	24,820	31,110
Contributions to defined contribution plans	2,984	1,334	2,347	4,681
	<u>19,575</u>	<u>17,814</u>	<u>27,167</u>	<u>35,791</u>
Less: capitalised as "intangible assets"	<u>(378)</u>	<u>(695)</u>	<u>(124)</u>	<u>(720)</u>
	<u>19,197</u>	<u>17,119</u>	<u>27,043</u>	<u>35,071</u>
(c) Other items				
Cost of inventories (<i>Note (i)</i>)	88,604	204,398	260,653	287,370
Auditor's remuneration	6	—	—	58
Amortisation of intangible assets (included in "administrative and other operating expenses")	933	1,319	2,075	3,398
	<u>89,543</u>	<u>205,717</u>	<u>262,728</u>	<u>290,826</u>
Depreciation of plant and equipment (included in "cost of sales" and "administrative and other operating expenses", as appropriate)	1,488	2,701	4,063	13,523
Less: capitalised as "intangible assets"	<u>(12)</u>	<u>(35)</u>	<u>(71)</u>	<u>(88)</u>
	<u>1,476</u>	<u>2,666</u>	<u>3,992</u>	<u>13,435</u>
Exchange (gain) loss, net	(151)	373	886	(311)
Loss (Gain) on disposal of plant and equipment	395	171	328	(108)
Operating lease payments on premises (included in "cost of sales" and "administrative and other operating expenses", as appropriate)	2,552	3,524	5,362	—
	<u>2,796</u>	<u>3,695</u>	<u>6,196</u>	<u>—</u>
Research and development expenses	7,007	14,012	11,393	23,097
Less: capitalised as "intangible assets" (<i>Note (ii)</i>)	<u>(926)</u>	<u>(3,667)</u>	<u>(2,649)</u>	<u>(3,589)</u>
	<u>6,081</u>	<u>10,345</u>	<u>8,744</u>	<u>19,508</u>

Notes:

- (i) During the years ended 31 December 2016, 2017, 2018 and 2019, cost of inventories included approximately RMB15,979,000, RMB16,157,000, RMB22,272,000 and RMB26,283,000 respectively, relating to the aggregate amount of certain staff costs, depreciation and operating lease payments, which were included in the respective amounts as disclosed above.
- (ii) During the years ended 31 December 2016, 2017, 2018 and 2019, capitalised intangible assets included approximately RMB378,000, RMB695,000, RMB124,000 and RMB720,000 respectively, relating to the staff costs which were included in the amounts as disclosed above.

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The Company was incorporated in the Cayman Islands on 20 December 2017 and Mr. Hong Yiyuan, Mr. Zhang Zhixiong, Mr. Su Chengya and Mr. He Ziping were appointed as executive directors of the Company on 21 March 2019. Mr. Chang Chi Hsung was appointed as a non-executive director on 21 March 2019. Mr. Chan Ming Kit, Mr. Ng Tat Fung and Dr. Wang Fengxiang were appointed as independent non-executive directors of the Company on 4 May 2020.

Certain directors of the Company received remuneration from the entities now comprising the Group during the Track Record Period for their appointment as employees of these entities. The aggregate amounts of remuneration received and receivable by the directors of the Company during the Track Record Period are set out below.

Year ended 31 December 2016

	Directors' fees <i>RMB'000</i>	Salaries, allowances and other benefits in kind <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Contributions to defined contribution plans <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive directors</i>					
Mr. Hong Yiyuan	—	147	18	7	172
Mr. Zhang Zhixiong	—	126	12	4	142
Mr. Su Chengya	—	99	18	5	122
Mr. He Ziping	—	75	18	5	98
	—	447	66	21	534

Year ended 31 December 2017

	Directors' fees <i>RMB'000</i>	Salaries, allowances and other benefits in kind <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Contributions to defined contribution plans <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive directors</i>					
Mr. Hong Yiyuan	—	164	18	8	190
Mr. Zhang Zhixiong	—	122	18	7	147
Mr. Su Chengya	—	102	18	5	125
Mr. He Ziping	—	124	18	5	147
	—	512	72	25	609

Year ended 31 December 2018

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Contributions to defined contribution plans RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Hong Yiyuan	—	216	12	7	235
Mr. Zhang Zhixiong	—	144	12	7	163
Mr. Su Chengya	—	144	12	4	160
Mr. He Ziping	—	180	12	6	198
	—	684	48	24	756

Year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Contributions to defined contribution plans RMB'000	Total RMB'000
<i>Executive directors</i>					
Mr. Hong Yiyuan	—	208	12	15	235
Mr. Zhang Zhixiong	—	158	12	15	185
Mr. Su Chengya	—	137	12	12	161
Mr. He Ziping	—	173	12	15	200
<i>Non-executive director</i>					
Mr. Chang Chi Hsung	—	—	—	—	—
	—	676	48	57	781

Mr. Hong Yiyuan is the chief executive officer of the Group, and his emoluments disclosed above included those for services rendered by him as chief executive officer during the Track Record Period.

During the Track Record Period, no emoluments were paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

9. FIVE HIGHEST PAID INDIVIDUALS

An analysis of the five highest paid individuals during the Track Record Period is as follows:

	Number of individuals			
	Year ended 31 December			
	2016	2017	2018	2019
Director	2	3	3	1
Non-director	3	2	2	4
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of the remuneration of the above highest paid non-director individuals are as follows:

	Year ended 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances, discretionary bonus and other benefits in kind	306	220	320	870
Contributions to defined contribution plans	17	10	14	125
	<u>323</u>	<u>230</u>	<u>334</u>	<u>995</u>

The number of these non-director individuals whose emoluments fell within the following emoluments band is as follows:

	Number of individuals			
	Year ended 31 December			
	2016	2017	2018	2019
Nil to HK\$1,000,000	3	2	2	4
	<u>3</u>	<u>2</u>	<u>2</u>	<u>4</u>

During the Track Record Period, no remuneration were paid by the Group to any of these highest paid non-director individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which any of these highest paid non-director individuals waived or has agreed to waive any emoluments during the Track Record Period.

10. INCOME TAX EXPENSES

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax				
PRC Enterprise Income Tax – current year	1,012	3,803	6,669	4,705
Hong Kong Profits Tax – current year	—	—	—	2
	<u>1,012</u>	<u>3,803</u>	<u>6,669</u>	<u>4,707</u>
Deferred tax				
Origination and reversal of temporary differences (<i>Note 26</i>)	634	1,844	(764)	378
	<u>1,646</u>	<u>5,647</u>	<u>5,905</u>	<u>5,085</u>

The Group's entities established in the PRC are subject to PRC Enterprise Income Tax at a statutory rate of 25% except for Jinjiang Haina which is recognised as a High and New-tech Enterprise and is entitled to a preferential tax rate of 15% for 3 years from 2016 and renewed in December 2019 for additional 3 years.

The Company and Affluent International are exempted from income tax in the Cayman Islands and the BVI, respectively.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the years ended 31 December 2016, 2017 and 2018. For the year ended 31 December 2019, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime under which, the first HK\$2 million assessable profits arising from Hong Kong of qualifying entity of the Group, Haina Technology are taxed at 8.25%, and assessable profits arising from Hong Kong above HK\$2 million are taxed at 16.5%.

Save as disclosed above, in the opinion of the Group's management, the Group's entities are not subject to taxation in any other jurisdictions as (i) the Group's entities do not have permanent establishment situated in the jurisdictions other than Hong Kong and the PRC; (ii) the Group's production operations are all conducted in the PRC and export sales are all concluded in the PRC and Hong Kong and; (iii) the Group's overseas customers are responsible for their import taxes and duties declaration during the Track Record Period.

Reconciliation of income tax expenses

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	<u>10,273</u>	<u>35,678</u>	<u>45,132</u>	<u>36,173</u>
Income tax at statutory tax rate applicable in respective tax jurisdictions	2,568	8,920	11,507	9,603
Effect of preferential tax treatments	(1,027)	(3,568)	(4,678)	(3,220)
Additional deduction allowance for research and development expenses	(553)	(744)	(1,648)	(3,146)
Non-deductible expenses	634	973	724	841
Deferred tax charged in respect of withholding tax on undistributed profits	—	—	—	1,000
Others	<u>24</u>	<u>66</u>	<u>—</u>	<u>7</u>
Income tax expenses for the year	<u>1,646</u>	<u>5,647</u>	<u>5,905</u>	<u>5,085</u>

11. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

12. DIVIDENDS

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Dividends declared to the then equity owners of the entities now comprising the Group	—	3,304	2,645	—

Dividend per share is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

13. PLANT AND EQUIPMENT

	Right-of-use assets	Plant and machinery	Motor Vehicles	Office equipment	Computer equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reconciliation of carrying amount — year ended 31 December 2016						
At 1 January 2016	—	2,614	1,485	273	83	4,455
Additions	—	9,554	64	166	—	9,784
Disposals	—	(395)	—	—	—	(395)
Depreciation	—	(988)	(378)	(110)	(12)	(1,488)
At 31 December 2016	—	10,785	1,171	329	71	12,356
Reconciliation of carrying amount — year ended 31 December 2017						
At 1 January 2017	—	10,785	1,171	329	71	12,356
Additions	—	5,248	214	334	124	5,920
Disposals	—	(165)	(5)	(24)	—	(194)
Depreciation	—	(2,111)	(386)	(170)	(34)	(2,701)
At 31 December 2017	—	13,757	994	469	161	15,381
Reconciliation of carrying amount — year ended 31 December 2018						
At 1 January 2018	—	13,757	994	469	161	15,381
Acquisition of a subsidiary (Note 27)	—	557	268	52	465	1,342
Additions	—	4,812	417	88	367	5,684
Disposals	—	(205)	—	(125)	(5)	(335)
Depreciation	—	(3,387)	(406)	(140)	(130)	(4,063)
At 31 December 2018	—	15,534	1,273	344	858	18,009

	Right-of- use assets RMB'000	Plant and machinery RMB'000	Motor Vehicles RMB'000	Office equipment RMB'000	Computer equipment RMB'000	Total RMB'000
Reconciliation of carrying amount						
— year ended 31 December 2019						
At 1 January 2019	—	15,534	1,273	344	858	18,009
Adjustment on transition to HKFRS 16 (Note 3)	17,723	—	—	—	—	17,723
Additions	16,052	466	60	117	722	17,417
Disposals	—	—	(32)	—	—	(32)
Depreciation	(7,545)	(5,154)	(356)	(254)	(214)	(13,523)
At 31 December 2019	<u>26,230</u>	<u>10,846</u>	<u>945</u>	<u>207</u>	<u>1,366</u>	<u>39,594</u>
At 31 December 2016						
Cost	—	12,355	2,176	669	119	15,319
Accumulated depreciation	—	(1,570)	(1,005)	(340)	(48)	(2,963)
	<u>—</u>	<u>10,785</u>	<u>1,171</u>	<u>329</u>	<u>71</u>	<u>12,356</u>
At 31 December 2017						
Cost	—	17,347	2,304	958	244	20,853
Accumulated depreciation	—	(3,590)	(1,310)	(489)	(83)	(5,472)
	<u>—</u>	<u>13,757</u>	<u>994</u>	<u>469</u>	<u>161</u>	<u>15,381</u>
At 31 December 2018						
Cost	—	22,716	2,989	1,109	1,076	27,890
Accumulated depreciation	—	(7,182)	(1,716)	(765)	(218)	(9,881)
	<u>—</u>	<u>15,534</u>	<u>1,273</u>	<u>344</u>	<u>858</u>	<u>18,009</u>
At 31 December 2019						
Cost	33,775	23,182	2,759	1,226	1,798	62,740
Accumulated depreciation	(7,545)	(12,336)	(1,814)	(1,019)	(432)	(23,146)
	<u>26,230</u>	<u>10,846</u>	<u>945</u>	<u>207</u>	<u>1,366</u>	<u>39,594</u>

Included in plant and machinery, net carrying amounts of approximately RMB6,950,000, RMB6,261,000 and Nil are held under finance leases at 31 December 2016, 2017 and 2018, respectively (Note 23).

14. INTANGIBLE ASSETS

	Development costs RMB'000
Reconciliation of carrying amount — year ended 31 December 2016	
At 1 January 2016	1,994
Additions	938
Amortisation	(933)
	<u>1,999</u>
At 31 December 2016	<u>1,999</u>
Reconciliation of carrying amount — year ended 31 December 2017	
At 1 January 2017	1,999
Additions	3,702
Amortisation	(1,319)
	<u>4,382</u>
At 31 December 2017	<u>4,382</u>
Reconciliation of carrying amount — year ended 31 December 2018	
At 1 January 2018	4,382
Additions	2,720
Amortisation	(2,075)
	<u>5,027</u>
At 31 December 2018	<u>5,027</u>
Reconciliation of carrying amount — year ended 31 December 2019	
At 1 January 2019	5,027
Additions	3,677
Amortisation	(3,398)
	<u>5,306</u>
At 31 December 2019	<u>5,306</u>
At 31 December 2016	
Cost	3,529
Accumulated amortisation	(1,530)
	<u>1,999</u>
At 31 December 2017	
Cost	7,231
Accumulated amortisation	(2,849)
	<u>4,382</u>
At 31 December 2018	
Cost	9,951
Accumulated amortisation	(4,924)
	<u>5,027</u>
At 31 December 2019	
Cost	13,628
Accumulated amortisation	(8,322)
	<u>5,306</u>

Development costs represented costs incurred at the development phase of certain new technologies for the production of machine for disposable hygiene products, which are capitalised and amortised (if applicable) in accordance with the accounting policies set out in Note 3.

15. GOODWILL

	<i>RMB'000</i>
Reconciliation of carrying amount	
At 1 January 2016 and 31 December 2016 and 2017	—
Additions	1,369
	<hr/>
At 31 December 2018 and 2019	1,369
	<hr/> <hr/>
At 31 December 2016 and 2017	
Cost	—
Accumulated impairment loss	—
	<hr/>
	<hr/> <hr/>
At 31 December 2018 and 2019	
Cost	1,369
Accumulated impairment loss	—
	<hr/>
	<hr/> <hr/>

Goodwill arises from the acquisition of 51% equity interest in Hangzhou Haina at cash consideration of RMB10,200,000 in July 2018. The excess of the fair value consideration transferred over the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed of approximately RMB1,369,000 was recognised as goodwill. Details of the acquisition are set out in Note 27.

At 31 December 2018 and 2019, the Group assessed the recoverable amount of the relevant cash-generating unit with reference to a value-in-use calculation based on the cash flow projection of Hangzhou Haina. The calculation uses cash flow projection based on financial budgets approved by the directors covering a 3-year period. Cash flows beyond the 3-year period have been extrapolated using a 3% long-term growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Key assumptions used for value-in-use calculation are as follows:

At 31 December 2018 and 2019

Long-term growth rate	3%
Discount rate (pre-tax)	12%
	<hr/> <hr/>

Based on the above key assumptions, the recoverable amount would exceed the carrying amounts of the cash-generating unit by not less than approximately RMB37 million. If the long-term growth rate decreased by 1% or the discount rate (pre-tax) increased by 1%, the recoverable amount of the relevant cash-generating unit would be dropped by approximately RMB3,946,000 and RMB4,434,000, respectively.

In the opinion of the directors of the Company, a reasonably possible change in key parameters would not cause the carrying amount of the relevant cash-generating unit to exceed the recoverable amount. If the discount rate (pre-tax) increased from 12% to approximately 72%, the recoverable amount of the relevant cash-generating unit would be approximated to its carrying amount. Even though in an extreme situation, if the long-term growth rate decreased from 3% to approximately -100% (i.e. nil terminal value), the recoverable amount of the relevant cash-generating unit would still exceed its carrying amount.

There is no material changes in the key assumptions and other parameters to the cash flow projection of Hangzhou Haina used for the goodwill impairment assessment as at 31 December 2018 and 2019 because there is no material changes in the business strategy, production capacity, products/customers/suppliers mix, pricing policy and other relevant key factors that may affect the projected financial performance and cash flows of Hangzhou Haina.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Wealth management products, unlisted	20,000	10,000	—	—

These unlisted wealth management products were subscribed from certain licensed banks in the PRC and comprised of listed and unlisted debt securities, funds and financial products. These wealth management products were redeemable upon maturity with less than one year from issue date and had expected return rates in the range of 4.0% to 4.2% per annum. At 31 December 2017, the financial assets at FVPL of approximately RMB10,000,000 were pledged for securing the issuance of bills payables (Note 21(b)).

17. INVENTORIES

	At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Raw materials	86,410	48,604	50,233	63,153
Work-in-progress	4,256	119,246	67,375	75,546
Finished goods	20,709	—	8,920	6,140
	<u>111,375</u>	<u>167,850</u>	<u>126,528</u>	<u>144,839</u>

18. TRADE AND OTHER RECEIVABLES

	Note	At 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade receivables		18,495	40,466	70,596	76,584
Less: Allowance for ECL	18(b)	(411)	(462)	(1,045)	(1,473)
	18(a)	<u>18,084</u>	<u>40,004</u>	<u>69,551</u>	<u>75,111</u>
Bills receivables	18(c)	<u>1,620</u>	—	—	1,000
Other receivables					
Deposits and other receivables		770	1,858	1,250	1,201
Prepayment to suppliers		18,084	29,896	19,055	4,843
Prepayment for listing expenses		—	—	749	2,836
Other prepaid expenses		436	901	1,200	1,129
Value-added tax ("VAT") and other tax recoverable		—	4,760	8,365	10,687
Capital contribution receivable from the non-controlling shareholders of a subsidiary	27	—	—	3,420	1,720
	18(b)	<u>19,290</u>	<u>37,415</u>	<u>34,039</u>	<u>22,416</u>
		<u>38,994</u>	<u>77,419</u>	<u>103,590</u>	<u>98,527</u>

18(a) Trade receivables

Apart from a portion of the contract sum retained by customers to cover the Group's product quality warranty, the Group does not grant credit terms to customers in the sales contract. However, the Group would normally grant credit terms up to 30 days from the date of issuance of invoices to its customers for their processing of billing settlement as approved by the management on a case by case basis.

Included in trade receivables at 31 December 2016, 2017, 2018 and 2019 were retained sums of approximately RMB6,376,000 RMB17,130,000, RMB36,915,000 and RMB37,003,000, respectively. These are due for collection upon the expiry of product quality warranty period (which is usually 12 months from the acceptance by the customer of the machine).

The ageing analysis of trade receivables (net of allowance for ECL) based on revenue recognition date at the end of each reporting period is as follows:

	At 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	584	13,883	8,402	18,640
31 to 60 days	1,137	12,898	10,510	2,995
61 to 90 days	371	4,030	68	14,701
91 to 180 days	6,896	1,749	16,131	15,063
181 to 365 days	4,594	4,585	13,021	15,848
Over 365 days	4,502	2,859	21,419	7,864
	<u>18,084</u>	<u>40,004</u>	<u>69,551</u>	<u>75,111</u>

At the end of each reporting period, the ageing analysis of the trade receivables (net of allowance for ECL) by due date is as follows:

	At 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Not yet due	<u>5,367</u>	<u>16,196</u>	<u>18,043</u>	<u>28,725</u>
Past due:				
Within 30 days	—	6,491	8,252	14,348
31 to 60 days	1,921	8,666	6,440	125
61 to 90 days	—	1,921	1,711	9,663
91 to 180 days	1,700	2,908	8,288	6,650
181 to 365 days	4,594	1,999	13,226	10,705
Over 365 days	4,502	1,823	13,591	4,895
	<u>12,717</u>	<u>23,808</u>	<u>51,508</u>	<u>46,387</u>
	<u>18,084</u>	<u>40,004</u>	<u>69,551</u>	<u>75,111</u>

The Group does not hold any collateral over the trade receivables.

18(b) Allowance for ECL

Trade receivables

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The ECL allowance on trade receivables subject to ECL model which are assessed for individual debtors are approximately RMB411,000, RMB462,000, RMB1,045,000 and RMB1,473,000 on gross carrying amount of approximately RMB18,495,000, RMB40,466,000, RMB70,596,000 and RMB76,584,000 at 31 December 2016, 2017, 2018 and 2019, respectively.

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed using a provision matrix with appropriate groupings based on shared credit risk characteristics of customers at 31 December 2016, 2017, 2018 and 2019.

At 31 December 2016

Internal credit rating (Remarks)	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.00	7,876	79
Risk Category 2	1.02	4,293	44
Risk Category 3	4.55	6,326	288
		<u>18,495</u>	<u>411</u>

At 31 December 2017

Internal credit rating (Remarks)	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	0.75	27,560	208
Risk Category 2	0.78	8,598	67
Risk Category 3	4.34	4,308	187
		<u>40,466</u>	<u>462</u>

At 31 December 2018

Internal credit rating (Remarks)	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.24	63,190	785
Risk Category 2	1.51	3,646	55
Risk Category 3	5.45	3,760	205
		<u>70,596</u>	<u>1,045</u>

At 31 December 2019

Internal credit rating <i>(Remarks)</i>	Average loss rate %	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Risk Category 1	1.39	67,472	938
Risk Category 2	2.50	50	1
Risk Category 3	5.90	9,062	534
		<u>76,584</u>	<u>1,473</u>

Remarks:

Risk Category	Description
Risk Category 1	The debtor has on-going business relationship with the Group with a good credit history. The Group expects the debtor to settle the receivable within one year.
Risk Category 2	The debtor has no recent business relationship with the Group but a good credit history is proven from various sources. The Group expects the debtor to settle the receivable within one year.
Risk Category 3	The debtor failed to settle on time due to a temporary problem, but the Group expects the problem could be resolved and the outstanding amount could be settled in a foreseeable future.

The following table shows the movements in allowance for ECL that has been recognised for trade receivables during the Track Record Period:

	Year ended 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
At the beginning of the reporting period	327	411	462	1,045
Increase in allowance	84	51	560	428
Acquisition of a subsidiary <i>(Note 27)</i>	—	—	23	—
At the end of the reporting period	<u>411</u>	<u>462</u>	<u>1,045</u>	<u>1,473</u>

The following significant changes in the gross carrying amounts of trade receivables contributed to the changes in the loss allowance during the Track Record Period:

- (a) changes because of trade receivables originated during the reporting period; and
- (b) changes because of trade receivables that were recognised from acquisition of a subsidiary during the year ended 31 December 2018 (Note 27).

Other receivables

The management of the Group considers that the financial assets included in other receivables have low credit risk based on its strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. Impairment on other receivables is measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL, the management of the Group has taken into account the historical actual credit loss experience over the past three years and the financial position of the counterparties, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Group considers the ECL of other receivables to be insignificant after taking into account the financial position and credit quality of the counterparties.

There was no change in the estimation techniques or significant assumptions made during the Track Record Period.

18(c) Bills receivables

At the end of each reporting period, all bills receivables are interest-free and guaranteed by banks in the PRC and have maturities of less than six months.

19. RESTRICTED BANK DEPOSITS

Restricted bank deposits are deposits which are placed in the PRC banks as securities for the issuance of bills payables (Note 21(b)).

20. BANK BALANCES AND CASH

Cash at banks earn interest at floating rates based on daily bank deposit rates. The carrying amounts of bank balances and cash are denominated in the following currencies:

	At 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	5,802	21,454	19,204	24,614
HK\$	—	99	218	47
US\$	2,606	1,634	8,287	11,040
	<u>8,408</u>	<u>23,187</u>	<u>27,709</u>	<u>35,701</u>

As at 31 December 2016, 2017, 2018 and 2019, bank balances that were placed with banks in the PRC amounted to approximately RMB8,408,000, RMB23,088,000, RMB23,789,000 and RMB35,399,000, respectively. Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

21. TRADE AND OTHER PAYABLES

	Note	At 31 December			
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Trade payables	21(a)	64,518	119,198	49,009	52,939
Bills payables	21(b)	26,168	40,070	23,000	10,000
Other payables					
Salaries payable		2,223	2,655	3,834	4,081
Contract liabilities – receipts in advance	21(c)	46,088	69,790	63,687	63,169
VAT and other tax payables		213	—	—	—
Accruals and other payables		8,517	10,556	11,152	11,630
Amount due to a director	21(d)	—	—	—	173
		57,041	83,001	78,673	79,053
		147,727	242,269	150,682	141,992

21(a) Trade payables

The trade payables are non-interest bearing and the Group is normally granted with credit term up to 180 days.

At the end of each reporting period, the ageing analysis of the trade payables based on goods receipt date is as follows:

	At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Within 30 days	16,541	18,304	7,537	32,743
31 to 60 days	12,855	18,718	9,510	6,869
61 to 90 days	10,555	16,811	7,101	7,707
91 to 180 days	17,468	39,217	12,653	2,954
181 to 365 days	6,405	25,553	10,255	1,195
Over 365 days	694	595	1,953	1,471
	64,518	119,198	49,009	52,939

21(b) Bills payables

At the end of each reporting period, the bills payables are interest-free, guaranteed by banks in the PRC and have maturities of less than six months.

The Group's bills payables are secured by:

- (i) pledge of the Group's restricted bank deposits of approximately RMB6,467,000, RMB24,068,000, RMB14,040,000 and RMB10,000,000 at 31 December 2016, 2017, 2018 and 2019, respectively; and
- (ii) pledge of the Group's financial assets at FVPL of approximately Nil, RMB10,000,000, Nil and Nil at 31 December 2016, 2017, 2018 and 2019, respectively.

21(c) Contract liabilities – receipts in advance

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts with customers within HKFRS 15 during the Track Record Period are as follows:

	Year ended 31 December			
	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 period	26,733	46,088	69,790	63,687
Acquisition of a subsidiary (<i>Note 27</i>)	—	—	25,934	—
Recognised as revenue	(26,733)	(46,088)	(95,724)	(46,630)
Receipt of advances	<u>46,088</u>	<u>69,790</u>	<u>63,687</u>	<u>46,112</u>
At the end of the reporting period	<u><u>46,088</u></u>	<u><u>69,790</u></u>	<u><u>63,687</u></u>	<u><u>63,169</u></u>

At 31 December 2016, 2017, 2018 and 2019, the contract liabilities that are expected to be settled within 12 months are approximately RMB46,088,000, RMB69,790,000, RMB63,687,000 and RMB63,169,000, respectively.

21(d) Amount due to a director

The amount due is non-trade nature, unsecured, interest-free and repayable on demand. The amount has been subsequently settled in full on 19 March 2020.

22. BANK BORROWINGS, SECURED

The secured bank borrowings of approximately RMB5,000,000 at 31 December 2016 were repayable within one year and carried effective interest rate of approximately 5.70% per annum. The bank borrowings were secured by personal guarantee given by the Controlling Shareholders and corporate guarantee given by an independent third party of the Group.

In September 2017, the secured bank borrowings were fully settled.

23. OBLIGATIONS UNDER FINANCE LEASES

During the years ended 31 December 2016, 2017 and 2018, the Group leased certain machineries and equipment under finance leases with lease term of 24 months. During the years ended 31 December 2016, 2017 and 2018, the weighted average effective interest rate of the obligations under finance leases of the Group was approximately 1.00%, 1.00% and 1.00%, respectively.

	Minimum lease payments			Present value of minimum lease payments		
	At 31 December			At 31 December		
	2016	2017	2018	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount payable:						
Within one year	3,524	1,502	—	3,158	1,444	—
In the second to fifth years inclusive	1,502	—	—	1,444	—	—
	5,026	1,502	—	4,602	1,444	—
Future finance charges	(424)	(58)	—			
Present value of lease obligations	<u>4,602</u>	<u>1,444</u>	<u>—</u>			
<i>Less:</i> Amounts due for settlement within 12 months				<u>(3,158)</u>	<u>(1,444)</u>	<u>—</u>
Amount due for settlement after 12 months				<u>1,444</u>	<u>—</u>	<u>—</u>

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets and personal guarantee given by the Controlling Shareholders.

24. LEASES

	At 31 December 2019 RMB'000
Right-of-use assets (Note 13)	
Leased properties	<u>26,230</u>
Lease liabilities	
Current	6,977
Non-current	<u>18,949</u>
	<u>25,926</u>

In addition to the information disclosed in Note 7 and 13, the Group had the following amounts relating to leases during the Track Record Period:

	Year ended 31 December 2019 RMB'000
Depreciation charge of right-of-use assets	
Leased properties	7,545

The total cash outflow for leases for the year ended 31 December 2019 were approximately RMB7,849,000.

Commitments and present value of lease liabilities:

	Lease payments At 31 December 2019 RMB'000	Present value of lease payments At 31 December 2019 RMB'000
Amounts payable:		
Within 1 year	8,049	6,977
More than 1 year but within 2 years	10,469	9,379
More than 2 years but within 5 years	9,982	9,570
	28,500	25,926
<i>Less: future finance charges</i>	(2,574)	—
Total lease liabilities	25,926	25,926

25. AMOUNTS DUE TO THE CONTROLLING SHAREHOLDERS/ULTIMATE HOLDING COMPANY

The amounts due are non-trade nature, unsecured, interest-free and repayable on demand. The amount due to the Controlling Shareholders was fully settled during the year ended 31 December 2019. The entire amount due to the ultimate holding company will be settled and/or waived and credited to the capital reserve under the equity prior to the Listing..

26. DEFERRED TAXATION

The movements in the Group's deferred tax liabilities for the Track Record Period were as follows:

	Depreciation allowance <i>RMB'000</i>	Accrued revenue and costs <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Withholding tax on undistributed profits of a PRC subsidiary <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	113	694	299	—	1,106
Charge to profit or loss	92	541	1	—	634
At 31 December 2016 and 1 January 2017	205	1,235	300	—	1,740
Charge to profit or loss	328	1,159	357	—	1,844
At 31 December 2017 and 1 January 2018	533	2,394	657	—	3,584
Charge (Credit) to profit or loss	354	(1,215)	97	—	(764)
At 31 December 2018 and 1 January 2019	887	1,179	754	—	2,820
(Credit) Charge to profit or loss	(559)	(105)	42	1,000	378
At 31 December 2019	328	1,074	796	1,000	3,198
			At 31 December		
		2016	2017	2018	2019
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts expected to be settled:					
Within 12 months		—	—	—	1,000
After 12 months		1,740	3,584	2,820	2,198
		1,740	3,584	2,820	3,198

At the end of each reporting period, other than amounts recognised in the Historical Financial Information, no deferred tax has been recognised for withholding taxes that would be payables on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the management of the Group, it is probable that the earnings will not be distributed in the foreseeable future. The estimated withholding tax effects on the distribution of accumulated profits that have not been recognised were approximately RMB582,000, RMB1,763,000, RMB3,503,000 and RMB3,863,000 at 31 December 2016, 2017, 2018 and 2019 respectively.

27. ACQUISITION OF A SUBSIDIARY

On 28 June 2018, Jinjiang Haina, two independent third parties (each of them held 60% and 40% of the equity interests in Hangzhou Haina on that date, respectively) and Hangzhou Haina entered into an agreement, pursuant to which (i) Hangzhou Haina has agreed to increase its registered capital from RMB1,250,000 to RMB20,000,000; and (ii) Jinjiang Haina and the two independent third parties have agreed to inject capital of RMB10,200,000 and RMB8,550,000, respectively, into Hangzhou Haina by way of cash contribution (the "Capital Injection"). The principal activities of Hangzhou Haina are the design and production of automated machines for disposable hygiene products in the PRC. On 12 July 2018, Hangzhou Haina has become 51% indirectly owned subsidiary of the Company.

The management considered that the Capital Injection constituted a business combination and had been accounted for using the acquisition method of accounting under HKFRS 3 (Revised) "Business Combinations".

The followings summarise the consideration paid and the amounts of the assets acquired and liabilities assumed, as well as the amount of non-controlling interests recognised at the date of acquisition:

	<i>RMB'000</i>
Consideration paid/payable, satisfied by capital injection	10,200
	<i>RMB'000</i>
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Plant and equipment	1,342
Inventories	16,729
Financial assets at FVPL	6,000
Trade and other receivables	11,192
Bank balances and cash	1,683
Trade and other payables	(12,446)
Contract liabilities	(25,934)
Total identifiable net liabilities	(1,434)
Capital injection	
— by the Group	10,200
— by the non-controlling shareholders	8,550
Total identifiable net assets after capital injection	17,316
Non-controlling interests recognised	(8,485)
Goodwill arising on acquisition	1,369
	10,200
	<i>RMB'000</i>
Net cash inflow on acquisition of Hangzhou Haina – bank balances and cash	1,683

The management of the Group considered that the carrying values of all identifiable net assets of Hangzhou Haina approximate their fair values at 12 July 2018.

The Group has selected to measure the non-controlling interest at its proportionate interest in the identifiable assets and liabilities of Hangzhou Haina.

Goodwill arising from the acquisition represents the excess of the fair value of the consideration paid by the Group over the fair value of identifiable net liabilities and contingent liabilities (if any) of Hangzhou Haina.

The goodwill arising from the acquisition is attributable to the growth and profit potential as a result of benefiting from expansion of core business of the Group due to synergies. However, in the opinion of the management of the Group, the fair values of the growth and profit potential cannot be reasonably estimated and thus no individual intangible assets have been recognised. None of the goodwill recognised is expected to be deductible for income tax purpose.

The fair values of trade and other receivables acquired included trade receivables with fair value of approximately RMB820,000 and other receivables with fair value of RMB10,395,000. The total gross contractual amounts of the trade and other receivables are approximately RMB11,215,000, of which provision of approximately RMB23,000 and Nil were made against trade receivables and other receivables, respectively.

Since acquisition and up to 31 December 2018, Hangzhou Haina has contributed revenue and net profit of approximately RMB23,673,000 and RMB1,208,000 to the Group, respectively. If the business combination of Hangzhou Haina effected during the year ended 31 December 2018 had been taken up at 1 January 2018, the combined revenue and profit for the Group for the year ended 31 December 2018 would have been approximately RMB360,539,000 and approximately RMB36,324,000, respectively.

28. DISPOSAL OF A SUBSIDIARY

In October 2016, the Group disposed of its 100% equity interest in 馬鞍山鑫海納機械製造有限公司 (Maanshanxin Haina Machinery Manufacturing Co., Ltd.*), which was established in the PRC and remained inactive, to independent third parties at Nil consideration. The details at the date of disposal are as follows:

	<i>RMB'000</i>
Net assets disposed of:	
Bank balances and cash	8
Loss on disposal	(8)
	<hr/>
Consideration	—
	<hr/> <hr/>

Analysis of net outflow of cash and cash equivalents in respect of disposal of a subsidiary:

	<i>RMB'000</i>
Net outflow of cash and cash equivalents	(8)
	<hr/> <hr/>

The loss on disposal of a subsidiary is included in administrative and other operating expenses in the combined statements of profit or loss and other comprehensive income for the year ended 31 December 2016.

* *English translation is for identification purpose only.*

29. SHARE CAPITAL AND FINANCIAL INFORMATION OF THE COMPANY

29(a) Share capital

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 December 2017. Upon its incorporation, the authorised share capital of HK\$380,000 was divided into 3,800,000 ordinary shares at HK\$0.1 each and 1 ordinary share of HK\$0.1 each was ultimately issued to and paid up by Prestige Name.

Pursuant to the Reorganisation completed on 11 March 2019, the Company became the holding company of the entities now comprising the Group. Further details of the changes in authorised and issued share capital of the Company since its incorporation are set out in the section headed "History, Development and Reorganisation" of the Prospectus.

29(b) Investment in a subsidiary

Investment in a subsidiary represented 100% of the issued share capital of Affluent International (2018: Haina Technology).

29(c) Amounts due to subsidiaries

The amounts due are unsecured, interest-free and repayable on demand.

29(d) Reserves of the Company

	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 20 December 2017 (date of incorporation)	—	—	—
Loss for the period and total comprehensive loss for the period	—	—	—
At 31 December 2017	—	—	—
Loss for the year	—	(3,041)	(3,041)
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation	(129)	—	(129)
At 31 December 2018	(129)	(3,041)	(3,170)
Loss for the year	—	(8,910)	(8,910)
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation	(701)	—	(701)
At 31 December 2019	<u>(830)</u>	<u>(11,951)</u>	<u>(12,781)</u>

The translation reserve represents foreign exchange differences arising from the translation of the Company's functional currency into the presentation currency.

During the period/years ended 31 December 2017, 2018 and 2019, certain corporate administrative expenses of the Company and listing expenses were borne by the subsidiaries of the Company without recharge.

30. RESERVES

30(a) Capital reserve

Capital reserve of the Group represents the aggregate amount of the issued and paid-up share capital of the entities now comprising the Group before completion of the Reorganisation less consideration paid to acquire the relevant interests (if any) in relation to the Reorganisation.

30(b) Statutory reserve

As stipulated by the relevant laws and regulations for enterprises incorporated/established in the PRC, the Group's subsidiaries in the PRC are required to maintain certain statutory reserves. The statutory reserve can be used to make up for losses, expand the existing operation and convert to additional capital.

30(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Group's entities that have functional currency different from the presentation currency for combinations/consolidation.

31. NON-CONTROLLING INTERESTS

The following table shows the information relating to the non-wholly owned subsidiary, Hangzhou Haina that has material non-controlling interests ("NCI") during the years ended 31 December 2018 and 2019.

	At 31 December	
	2018 RMB'000	2019 RMB'000
Proportion of NCI's ownership interests	49%	49%
Non-current assets	1,610	17,616
Current assets	53,172	71,435
Current liabilities	(36,259)	(49,201)
Non-current liabilities	—	(11,806)
Net assets	<u>18,523</u>	<u>28,044</u>
Carrying amount of NCI	<u>9,076</u>	<u>13,741</u>
	From 12 July 2018 (date of acquisition) to 31 December 2018 RMB'000	Year ended 31 December 2019 RMB'000
Proportion of NCI's ownership interests	49%	49%
Revenue	23,673	123,962
Other income	44	642
Expenses	(22,509)	(115,084)
Profit and total comprehensive income for the period/year	<u>1,208</u>	<u>9,520</u>
Profit and total comprehensive income for the period/year attributable to NCI	<u>591</u>	<u>4,665</u>
Dividends paid to NCI	<u>—</u>	<u>—</u>
Net cash flow (used in) from:		
Operating activities	<u>(19,206)</u>	<u>7,850</u>
Investing activities	<u>6,749</u>	<u>(455)</u>
Financing activities	<u>11,130</u>	<u>4,900</u>

32. CASH GENERATED FROM (USED IN) OPERATIONS

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	10,273	35,678	45,132	36,173
Adjustments for:				
Amortisation of intangible assets	933	1,319	2,075	3,398
Depreciation of plant and equipment	1,476	2,666	3,992	13,435
Finance costs	750	583	58	1,014
Loss (Gain) on disposal of plant and equipment	395	171	328	(108)
Loss on disposal of a subsidiary	8	—	—	—
Bank interest income	(38)	(820)	(1,414)	(353)
Impairment loss on trade receivables, net	84	51	560	428
Changes in working capital				
Trade and other receivables	9,908	(38,476)	(12,119)	3,004
Inventories	(24,592)	(56,475)	58,051	(18,311)
Trade and other payables	8,400	94,542	(129,967)	(9,806)
	<u>7,597</u>	<u>39,239</u>	<u>(33,304)</u>	<u>28,874</u>

33. RELATED PARTY/CONNECTED TRANSACTIONS

(a) Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, there are no other related party transactions during the Track Record Period.

(b) Remuneration for key management personnel of the Group

There was no remuneration to members of key management other than the Company's directors as disclosed in Note 8 for the Track Record Period.

(c) **Connected transactions**

Save as disclosed elsewhere in the Historical Financial Information, during the Track Record Period, the Group had the following transactions with persons who would be regarded as connected persons as defined in the Listing Rules:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of materials from:				
晉江市恒勤機械工貿有限公司 (Jinjiang City Hengqin Machinery Industry and Trade Limited) ("Hengqin Machinery") (Note (i))	—	5,826	5,069	4,515
晉江仙資機械有限公司 (Jinjiang Xianzi Machinery Limited) ("Jinjiang Xianzi") (Note (ii))	384	4,730	—	—
晉江市盛榮機械設備有限公司 (Jinjiang City Shengrong Machinery Equipment Limited) ("Shengrong Machinery") (Note (iii))	—	2,565	1,888	2,602
	<u>—</u>	<u>2,565</u>	<u>1,888</u>	<u>2,602</u>

Notes:

- (i) Hengqin Machinery is a limited liability company established in the PRC, and is wholly-owned by three relatives of one of the Controlling Shareholders of the Company.
- (ii) Jinjiang Xianzi is a limited liability company established in the PRC, and is controlled by a relative of one of the Controlling Shareholders of the Company. Jinjiang Xianzi ceased to be connected person from 19 December 2017 onwards.
- (iii) Shengrong Machinery is a limited liability company established in the PRC, and is a wholly-owned by a relative of one of the Controlling Shareholders of the Company.

34. ADDITIONAL INFORMATION ON CASH FLOWS**(a) Major non-cash transactions**

During the year ended 31 December 2016, the Group entered into finance lease arrangements in respect of certain machineries and equipment with total capital values at the inception of the leases of approximately RMB6,164,000.

The dividend declared in 2017 of RMB3,304,000 was paid during the year ended 31 December 2018.

Right-of-use assets with a total capital value of approximately RMB17,723,000 with the corresponding amount of lease liabilities were initially recognised on 1 January 2019 upon adoption of HKFRS 16 and the Group further recognised right-of-use assets by incurring lease liabilities of approximately RMB16,052,000 during the year ended 31 December 2019.

(b) Reconciliation of liabilities arising from financing activities

The movements during the Track Record Period in the Group's liabilities arising from financing activities are as follows:

Year ended 31 December 2016

	At 1 January 2016 <i>RMB'000</i>	Cash flows, net <i>RMB'000</i>	Non-cash additions <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Bank borrowings, secured	7,000	(2,000)	—	5,000
Amount due to the Controlling Shareholders	(7,248)	19,000	—	11,752
Obligations under finance leases	—	(1,562)	6,164	4,602
	<u>(248)</u>	<u>15,438</u>	<u>6,164</u>	<u>21,354</u>

Year ended 31 December 2017

	At 1 January 2017 <i>RMB'000</i>	Cash flows, net <i>RMB'000</i>	Non-cash additions <i>RMB'000</i>	At 31 December 2017 <i>RMB'000</i>
Bank borrowings, secured	5,000	(5,000)	—	—
Obligations under finance leases	4,602	(3,158)	—	1,444
Amount due to the Controlling Shareholders	11,752	2,215	—	13,967
Dividends payable	—	—	3,304	3,304
	<u>21,354</u>	<u>(5,943)</u>	<u>3,304</u>	<u>18,715</u>

Year ended 31 December 2018

	At 1 January 2018 <i>RMB'000</i>	Cash flows, net <i>RMB'000</i>	Non-cash additions <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Obligations under finance leases	1,444	(1,444)	—	—
Amount due to the Controlling Shareholders	13,967	(6,268)	—	7,699
Amount due to ultimate holding company	—	48,936	—	48,936
Dividends payable	3,304	(5,949)	2,645	—
	<u>18,715</u>	<u>35,275</u>	<u>2,645</u>	<u>56,635</u>

Year ended 31 December 2019

	At 1 January 2019 RMB'000	Cash flows, net RMB'000	Non-cash additions RMB'000	At 31 December 2019 RMB'000
Amount due to the Controlling Shareholders	7,699	(7,699)	—	—
Amount due to ultimate holding company	48,936	3,214	—	52,150
Lease liabilities	—	(7,849)	33,775	25,926
	<u>56,635</u>	<u>(12,334)</u>	<u>33,775</u>	<u>78,076</u>

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of financial assets at FVPL, restricted bank deposits, bank balances and cash, secured bank borrowings, obligations under finance leases, lease liabilities and amounts due to the Controlling Shareholders/ultimate holding company. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the management meet regularly and co-operate closely with key management to identify and evaluate risks and generally adopt conservative strategies on its risk management and limit the Group's exposure to these risks to a minimum as follows:

Foreign currency risk

The Group's transactions are mainly denominated in RMB, HK\$ and US\$.

Certain financial assets and financial liabilities of the Group are denominated in currencies other than the functional currency of the respective group entities and therefore exposed to foreign currency risk. The net carrying amounts of those financial assets and liabilities are analysed as follows:

	Financial assets, net At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
US\$	—	3,088	4,585	22,473

The following table indicates the approximate change in the Group's pre-tax results if exchange rates of US\$ had changed against the functional currencies of the respective group entities by 5% and all other variables were held constant at the end of each reporting period.

	At 31 December			
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
US\$	—	154	229	1,124

The sensitivity analysis has been determined assuming that the changes in foreign exchange rates had occurred at the end of each reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the end of the next reporting period.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of each reporting period does not reflect the exposure during the Track Record Period.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risk is mainly attributable to trade and other receivables, pledged bank deposits and bank balances and cash. The Group limits its exposure to credit risk by selecting the counterparties with reference to their past credit history and/or market reputation. The Group's maximum exposure to the credit risk is summarised as follows:

	At 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	20,474	41,862	74,221	79,032
Restricted bank deposits	6,467	24,068	14,040	10,000
Bank balances and cash	8,408	23,187	27,709	35,701
	<u>35,349</u>	<u>89,117</u>	<u>115,970</u>	<u>124,733</u>

The carrying amount of financial assets recognised on the combined statements of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

The Group trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures.

The management considers the credit risk in respect of pledged bank deposits and bank balances is minimal because the counter-parties are authorised financial institutions with high credit ratings.

The management limits the Group's exposure to credit risk by taking timely actions once there is any indication for recoverability problem of each individual debtor.

The management also reviews the recoverable amount of each individual debtor, including related and third parties, at the end of each reporting period to ensure adequate allowance is made for irrecoverable amount.

At 31 December 2016, 2017, 2018 and 2019, the Group had a concentration of credit risk as approximately 20%, 23%, 15% and 8%, respectively, of the total trade receivables was due from the Group's largest trade debtor and approximately 61%, 69%, 41% and 36%, respectively, of the total trade receivables was due from the Group's five largest trade debtors.

Liquidity risk

Management of the Group aims at maintaining sufficient level of cash and cash equivalents to finance the Group's operations and expected expansion. The Group's primary cash requirements include payments for operating expenses and additions or upgrades of plant and equipment and intangible assets. The Group finances its working capital requirements mainly by the funds generated from operations.

The Group's non-derivative financial liabilities at the end of each reporting period based on contractual undiscounted payments are summarised below:

	Total carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Less than 1 year or on demand <i>RMB'000</i>	1-2 years <i>RMB'000</i>	2-5 years <i>RMB'000</i>
At 31 December 2016					
Trade and other payables	101,426	101,426	101,426	—	—
Bank borrowings	5,000	5,215	5,215	—	—
Obligations under finance leases	4,602	5,026	3,524	1,502	—
Amount due to the Controlling Shareholders	11,752	11,752	11,752	—	—
	<u>122,780</u>	<u>123,419</u>	<u>121,917</u>	<u>1,502</u>	<u>—</u>
At 31 December 2017					
Trade and other payables	172,479	172,479	172,479	—	—
Obligations under finance leases	1,444	1,502	1,502	—	—
Amount due to the Controlling Shareholders	13,967	13,967	13,967	—	—
	<u>187,890</u>	<u>187,948</u>	<u>187,948</u>	<u>—</u>	<u>—</u>
At 31 December 2018					
Trade and other payables	86,995	86,995	86,995	—	—
Amount due to the Controlling Shareholders	7,699	7,699	7,699	—	—
Amount due to ultimate holding company	48,936	48,936	48,936	—	—
	<u>143,630</u>	<u>143,630</u>	<u>143,630</u>	<u>—</u>	<u>—</u>

	Total carrying amount	Total contractual undiscounted cash flow	Less than 1 year or on demand	1-2 years	2-5 years
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2019					
Trade and other payables	78,823	78,823	78,823	—	—
Amount due to ultimate holding company	52,150	52,150	52,150	—	—
Lease liabilities	25,926	28,500	8,049	10,469	9,982
	<u>156,899</u>	<u>159,473</u>	<u>139,022</u>	<u>10,469</u>	<u>9,982</u>

36. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The management consider the total equity as disclosed in the combined statements of financial position as the Group's capital.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes during the Track Record Period.

37. COMMITMENTS

Commitments under operating leases

The Group leases a number of factories, warehouses and office premises under operating leases, which typically run for a period from one year to six years. None of the leases includes contingent rentals.

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31 December			
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	2,665	2,326	6,948	—
In the second to fifth years inclusive	3,086	866	11,467	—
	<u>5,751</u>	<u>3,192</u>	<u>18,415</u>	<u>—</u>

At 31 December 2019, the total future minimum lease payments for the non-cancellable operating leases after initial application of HKFRS 16 on 1 January 2019 is set out in Note 24. In accordance with the transition provisions of HKFRS 16, comparative information is not restated.

38. FINANCIAL GUARANTEES ISSUED

At 31 December 2016 and 2017, the Group had issued guarantees to reimburse several banks for losses it might incur as a result of granting bank loans to several independent third parties to the total extent of approximately RMB4,700,000 and RMB2,400,000 without charge, respectively. The Group has not recognised a value for the financial guarantees given in the combined financial statements as their fair values as assessed by the management of the Group are insignificant and its transaction price is zero.

At 31 December 2016 and 2017, the management of the Group does not consider it probable that a claim will be made against the Group under these guarantees. At 31 December 2016 and 2017, the maximum liabilities of the Group under these guarantees were approximately RMB4,700,000 and RMB2,400,000, respectively, representing the bank loans borrowed by the independent third parties at the end of each reporting period.

Up to January 2018, all financial guarantees were released.

39. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

a) Financial assets measured at fair value

At 31 December 2016

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Assets				
Financial assets at FVPL – wealth management products	—	—	20,000	20,000

At 31 December 2017

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Assets				
Financial assets at FVPL – wealth management products	—	—	10,000	10,000

At 31 December 2018

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Assets				
Financial assets at FVPL – wealth management products	—	—	—	—

At 31 December 2019

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Assets				
Financial assets at FVPL – wealth management products	—	—	—	—

The fair value of unlisted wealth management products have been estimated using a discounted cash flow valuation model based on assumption that are not supported by observable market prices or rates. The valuation required the management of the Group to make estimates about the expected future cash flows including expected future return on maturity of the wealth management products. The management of the Group believes that the estimated fair values resulting from the valuation technique are reasonable and that they were most appropriate values at the end of each of the Track Record Period.

Below is summary of significant unobservable inputs to valuation in respect of unlisted wealth management products classified as financial assets at FVPL included in Level 3 categories together with the sensitivity analysis at the end of each of the Track Record Period:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Unlisted wealth management products	Discounted cash flows	Expected return rate	The higher the expected return rate, the higher the fair value

During the Track Record Period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

An increase in the expected return rate used in isolation would result in an increase in the fair value measurement of the unlisted wealth management products, and vice versa. At 31 December 2016 and 2017, 1% and 1% increase/decrease in the expected return rate holding all other variables constant would increase/decrease the carrying amount of the unlisted wealth management products by approximately RMB43,000 and RMB48,000, respectively.

Reconciliation of Level 3 fair value measurements of financial assets:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year	3,000	20,000	10,000	—
Acquisition of a subsidiary (Note 27)	—	—	6,000	—
Purchases	17,000	—	—	—
Disposals	—	(10,000)	(16,000)	—
	<u>—</u>	<u>(10,000)</u>	<u>(16,000)</u>	<u>—</u>
At the end of the year	<u>20,000</u>	<u>10,000</u>	<u>—</u>	<u>—</u>

b) Financial assets and liabilities not measured at fair value

The carrying amounts of the financial assets and liabilities of the Group carried at amounts other than their fair values are not materially different from their fair values as at 31 December 2016, 2017, 2018 and 2019.

40. EVENTS AFTER THE REPORTING PERIOD

In addition to information disclosed elsewhere in the Historical Financial Information, subsequent to 31 December 2019, the Group has the following subsequent events:

- (i) Pursuant to the resolution in writing of the Company's sole shareholder passed on 8 May 2020, inter-alia, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of additional 1,962,000,000 shares of HK\$0.01 each and the Capitalisation Issue (as defined below) was conditionally approved.
- (ii) Pursuant to the resolution in writing of the Company's sole shareholder passed on 8 May 2020, subject to the share premium account of the Company being credited as a result of the offering of the Company's shares, the directors of the Company were authorised to allot and issue a total of 347,999,990 shares of HK\$0.01 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of HK\$3,479,999.9 standing to be credit of the share premium account of the Company (the "Capitalisation Issue") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the right to participate in the Capitalisation Issue).
- (iii) Subsequent to 31 December 2019, the amount due to the ultimate holding company amounting to approximately RMB40,000,000 was settled and the remaining balance was waived and credited to the capital reserve under the equity.
- (iv) Subsequent to 31 December 2019, the relevant government authorities have imposed certain measures in response to the outbreak of COVID-19. At the date of this report, the Group does not expect those events or measures have any significant adverse impacts to the financial position as at 31 December 2019 and the application of going concern basis for the preparation of the Historical Financial Information.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared in accordance with HKFRSs and/or other applicable financial reporting standards for the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by Mazars 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 purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The unaudited pro forma statement of adjusted combined net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the combined net tangible assets of the Group attributable to owners of the Company at 31 December 2019 as if the Share Offer had taken place on that date and is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company at 31 December 2019 derived from the Accountants' Report, as set out in Appendix I to this prospectus and adjusted as indicated below.

This unaudited pro forma statement of adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group at 31 December 2019 or at any future dates following the Share Offer.

	Audited combined net tangible assets attributable to owners of the Company at 31 December 2019		Estimated net proceeds from the Share Offer		Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company		Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company per Share	
	<i>(Note 1)</i> RMB'000	<i>(Note 6)</i> HK\$'000	<i>(Note 2)</i> RMB'000	<i>(Note 6)</i> HK\$'000	<i>(Note 6)</i> RMB'000	<i>(Note 6)</i> HK\$'000	<i>(Note 3)</i> RMB	<i>(Note 6)</i> HK\$
Based on the Offer Price of HK\$1.08 per Offer Share	92,855	103,765	82,386	92,066	175,241	195,831	0.38	0.42
Based on the Offer Price of HK\$1.50 per Offer Share	92,855	103,765	119,443	133,478	212,298	237,243	0.46	0.50

**NOTES TO THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED
COMBINED NET TANGIBLE ASSETS**

1. The audited combined net tangible assets of the Group attributable to owners of the Company at 31 December 2019 is based on the audited combined net assets attributable to owners of the Company at 31 December 2019 of approximately RMB99,530,000 with an adjustment for the intangible assets and goodwill at 31 December 2019 of approximately RMB5,306,000 and RMB1,369,000, respectively, extracted from the Group's combined financial information included in the Accountants' Report as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 116,000,000 new Shares and the indicative Offer Price of HK\$1.08 and HK\$1.50 per Offer Share, respectively, after deduction of relevant estimated underwriting commissions and fees and other related expenses payable by the Company and excluding approximately RMB13,094,000 listing-related expenses which has been accounted for prior to 31 December 2019. The estimated net proceeds have not taken into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.
3. The calculation of the pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is based on 464,000,000 Shares expected to be in issue after the completion of the Capitalisation Issue and the Share Offer. It has not taken into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates given to the Directors.
4. Subsequent to 31 December 2019, the amount due to the ultimate holding company amounting to RMB40,000,000 (equivalent to approximately HK\$44,700,000) was settled and the remaining balance was waived and credited to capital reserve under equity. Taking into account the estimate net proceeds from Share Offer at the Offer Price of HK\$1.08 or HK\$1.50; and the impact of the waiver on the net tangible assets of the Group of approximately HK\$13,578,000, the unaudited pro forma adjusted net tangible assets per Share would have been approximately HK\$0.45 or HK\$0.53, respectively.
5. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2019.
6. These amounts are converted from Renminbi to Hong Kong dollars or Hong Kong dollars to Renminbi at an exchange rate of RMB to HK\$1.1175. No representation is made that Renminbi/Hong Kong dollars amount have been, could have been or may be converted to Hong Kong dollars/Renminbi at that rate or at all.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants of the Company, Mazars CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

B. ASSURANCE REPORT FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP



MAZARS CPA LIMITED
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20 May 2020

The Directors

Haina Intelligent Equipment International Holdings Limited
(formerly known as “Haina International Group Limited”)
VBG Capital Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Haina Intelligent Equipment International Holdings Limited (formerly known as “Haina International Group Limited”) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) prepared by the directors of the Company (the “Directors”). The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets attributable to owners of the Company at 31 December 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 20 May 2020 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited by the way of Share Offer on the Group’s financial position at 31 December 2019 as if the event had taken place at 31 December 2019. As part of this process, information about the Group’s financial position at 31 December 2019 has been extracted by the Directors from the Group’s combined financial information for each of the years ended 31 December 2016, 2017, 2018 and 2019, on which an accountants’ report set out in Appendix I to the Prospectus has been published.

Directors' responsibility for the unaudited pro forma financial information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountants' independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We did 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 date of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 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, in all material respects, the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7.

For purpose 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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The purpose of unaudited pro forma financial information included in a 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 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Mazars CPA Limited
Certified Public Accountants
Hong Kong

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR 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 20 December 2017 under the Cayman Companies Law. The Company's constitutional documents consist of the Memorandum and the 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 conditionally adopted on 8 May 2020 with effect from 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

(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

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

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.

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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.

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.

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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.

(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

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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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.

(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.

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(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.

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;

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- (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.

(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.

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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.

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.

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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 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' and not less than 20 Business Days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' and not less than 10 Business 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.

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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.

(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.

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(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.

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.

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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 shareholders 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 shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

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 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 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.

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;

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- (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 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.

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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
- (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.

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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 20 December 2017 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.

(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

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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

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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.

(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.

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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 (2017 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.

(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 appreciations shall apply to the Company or its operations; and

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (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 the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 25 January 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.

(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 (2017 Revision) of the Cayman Islands.

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(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.

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.

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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.

(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.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
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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 Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — 2. Documents 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 on 20 December 2017 in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law. Our Company has established a principal place of business in Hong Kong at Flat C, 21/F, Max Share Centre, 373 King’s Road, North Point, Hong Kong and our Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 19 March 2019. Ms. Li Zhenzhen has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong. Our address for acceptance of service of process and notices on our Company in Hong Kong is the same as its principal place of business in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of Cayman Islands and its constitution, comprising its Memorandum of Association and Articles of Association. A summary of the Cayman Company Law and the Memorandum of Association and the Articles of Association is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus.

2. Changes in Share Capital of our Company

Save as disclosed in the paragraphs headed “History, Development and Reorganisation — The Reorganisation — Incorporation of our Company” in this prospectus and “A. Further Information About our Company — 3. Written Resolutions of our then sole Shareholder passed on 8 May 2020” below in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Written Resolutions of our then sole Shareholder passed on 8 May 2020

Pursuant to the written resolutions of our then sole Shareholder passed on 8 May 2020, among other things:

- (a) our Company increased the authorised share capital from HK\$380,000.00 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares, by the creation of additional 1,962,000,000 Shares, each ranking *pari passu* in all respect with the Shares in issue at the date of passing of the relevant resolutions;
- (b) our Company approved and conditionally adopted the Memorandum of Association and the Articles of Association, upon the fulfilment of the Conditions (as defined below) and with effect from the Listing Date;
- (c) conditional upon (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue, Share Offer and the Shares to be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme; (ii) the Offer Price being fixed on or around the Price Determination Date; (iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and (iv) the obligations of the Underwriter(s) under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with their respective terms or otherwise (the “**Conditions**”), in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (1) the proposed Listing was approved and our Directors were authorised to implement the Listing;
 - (2) the Share Offer was approved and our Directors were authorised to effect the same and to allot and issue the new Shares pursuant to the Share Offer and to rank *pari passu* with the then existing Shares in all respects;
 - (3) the Capitalisation Issue was approved, and conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK\$3,479,999.9 (or any such amount any one Director may determine) standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 347,999,990 Shares (or any such number of Shares any one Director may determine) for allotment and issue to our sole Shareholder whose name appeared on the register of members or the principal share register of our Company as at the close of business on the date which the said resolution is passed (or another date as our Directors may direct), each ranking *pari passu* in all respects with the then Shares in issue;

- (4) the granting of the Over-allotment Option by the Company to the Placing Underwriters (exercisable by the Joint Global Coordinators on behalf of the Placing Underwriters), pursuant to which the Company is required to, upon exercise of the Over-allotment Option, allot and issue additional shares not exceeding 15% of the number of initial Offer Shares under the Share Offer at the Offer Price (the “**Over-allotment Shares**”) to cover over-allocations in the Placing be approved, and our Directors be authorised to effect the same and to allot and issue the Over-allotment Shares, credited as fully paid upon full payment of the same and to rank *pari passu* with the then existing Shares in all respects, upon the exercise of the Over-allotment Option (either in full or in part);
- (5) conditional further on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue or the Shares to be issued pursuant to the exercise of the Over-allotment Option or any Options which may be granted pursuant to the Share Option Scheme; and (ii) the commencement of trading of the Shares on the Stock Exchange, (A) the Share Option Scheme (subject to such amendments as any committee established by our Board or any Director may in its or his absolute discretion consider necessary or expedient in respect of the Share Option Scheme, provided that such amendments are not of a material nature) be approved and adopted; and (B) our Directors be authorised to grant Options under the Share Option Scheme and to allot, issue, procure the transfer of and otherwise deal with Shares issued pursuant to the exercise of any Options granted pursuant to the Share Option Scheme;
- (6) a general unconditional mandate was granted to our Directors to, among other things, allot, issue and deal with the Shares or securities or to grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by our Directors other than pursuant to (A) a rights issue, (B) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (C) the exercise of any options which may be granted pursuant to the Share Option Scheme, or (D) a specific authority granted by our Shareholders in general meeting, shall not exceed the aggregate of:
 - (i) 20% of the total number of Shares share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
 - (ii) the total number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in subparagraph (6) below,

such mandate to remain in effect during the period from the passing of the of the resolution until the earliest of (A) the conclusion of our next annual general meeting, (B) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or (C) the date on which the resolution is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting (the “**Relevant Period**”) (the “**Issue Mandate**”);

- (7) a general unconditional mandate was granted to our Directors to exercise all the power of our Company to repurchase 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), and which are made in accordance with all applicable laws and the requirements of the Listing Rules up to 10% of the number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), such mandate to remain in effect during the Relevant Period (the “**Repurchase Mandate**”); and
- (8) the Issue Mandate as referred to in sub-paragraph (6) above was extended by an amount representing the aggregate number of Shares repurchased by our Company pursuant to the Repurchase Mandate as referred to in sub-paragraph (7) above but excluding any Shares which may be issued pursuant to the exercise of the Options which may be granted under the Share Option Scheme.

B. OUR SUBSIDIARIES

The particulars of our subsidiaries are provided in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report, we do not have any other subsidiaries.

C. FURTHER INFORMATION ON OUR SUBSIDIARIES

Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company with the two years immediately preceding the date of this prospectus.

D. REPURCHASE BY OUR COMPANY OF OUR OWN SECURITIES

This section set out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

1. Relevant Legal and Regulatory Requirements

The Listing Rules permit a company whose primary listing is on the Stock Exchange to repurchase its securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(a) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of our Shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of our then sole Shareholder passed on 8 May 2020, the Repurchase Mandate was given to our Directors to exercise all powers of our Company to repurchase up to 10% of the total number of Shares immediately following completion of the Share Offer 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). The Repurchase Mandate will remain in effect during the Relevant Period.

(b) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities 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 as amended from time to time. Subject to the foregoing, under the Cayman Companies Law, any repurchases by our Company may be made out of our Company's profits, out of our Company's share premium account, out of the proceeds of a new issue of Shares made for the purpose of the repurchase, or, if authorised by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any amount of premium payable on a repurchase over the par value of the Shares to be repurchased must be out of either or both our Company's profits or our Company's share premium account, before or at time the Shares are repurchased, or, if authorised by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital.

(c) Trading Restrictions

A listed 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 on the Stock Exchange 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 listed 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.

(d) Suspension of Repurchase

Pursuant to the Listing Rules, a listed company may not make any repurchases of shares after inside information has come to its knowledge until the 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, quarter-year or any other interim period (whether or not required by the Listing Rules); and (ii) the deadline for a listed company to publish an announcement of its results for any year, half-year or quarter-year period under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange unless the circumstances are exceptional.

(e) 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 purchase, where relevant, and the aggregate prices paid.

(f) Core Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person" (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the company on the Stock Exchange.

2. Reasons for Repurchases

Our Directors believe that it is in our Company's and our Shareholders' best interests for our Directors to have general authority from our Shareholders to enable our Company to execute repurchases of the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

3. Funding of Repurchases

In purchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our Company's current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

4. General

The exercise in full of the Repurchase Mandate, on the basis of 464,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) could accordingly result in up to 46,400,000 Shares being repurchased by our Company during the Relevant Period.

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Shares to us or our subsidiaries.

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 and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of our Shareholders' interests, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made immediately after the listing of Shares on the Stock Exchange. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agrees to waive the Listing Rules requirements regarding the public shareholding referred to above. A waiver of this provision is not normally granted other than in exceptional circumstances.

No core connected person (as defined in the Listing Rules) of our Company has notified us that he or she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

E. CORPORATE REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for listing of the Shares on the Stock Exchange. Please refer to “History, Development and Reorganisation — The Reorganisation” in this prospectus for further details.

F. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are material:

- (a) a share transfer agreement dated 31 May 2018 entered into between Haina Technology and Mr. Hong for the transfer of 42.75% equity interest of Jinjiang Haina to Haina Technology for the consideration of RMB6,754,500;
- (b) a share transfer agreement dated 31 May 2018 entered into between Haina Technology and Mr. Zhang for the transfer of 23.75% equity interest of Jinjiang Haina to Haina Technology for the consideration of RMB3,752,500;
- (c) a share transfer agreement dated 31 May 2018 entered into between Haina Technology and Mr. Su for the transfer of 17.10% equity interest of Jinjiang Haina to Haina Technology for the consideration of RMB2,701,800;
- (d) a share transfer agreement dated 31 May 2018 entered into between Haina Technology and Mr. He for the transfer of 11.40% equity interest of Jinjiang Haina to Haina Technology for the consideration of RMB1,801,200;
- (e) a share transfer agreement dated 31 May 2018 entered into between Haina Technology and Mr. Lin Wei Cheng of Taiwan (台灣林威呈) for the transfer of 5.00% equity interest of Jinjiang Haina to Haina Technology for the consideration of RMB790,000;
- (f) a capital contribution agreement dated 28 June 2018 entered into among Mr. Xu Yuanquan (徐源泉), Mr. Xu Shuwei (徐書唯), Jinjiang Haina and Hangzhou Haina, pursuant to which the registered capital of Hangzhou Haina was increased from RMB1.25 million to RMB20.00 million, and the said capital contribution of RMB18.75 million consisted of Jinjiang Haina’s capital commitment of RMB10.20 million, and Mr. Xu Yuanquan (徐源泉) and Mr. Xu Shuwei’s (徐書唯) capital commitment of RMB8.55 million;
- (g) an instrument of transfer dated 6 March 2019 entered into between our Company and Affluent International for the transfer of one ordinary share of Haina Technology from our Company to Affluent International for nil consideration;
- (h) the Deed of Indemnity;

- (i) the deed of non-competition dated 8 May 2020 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee of each of its subsidiaries) regarding, among other things, undertakings and covenants given by our Controlling Shareholders to not carry on any activity or business which competes or is likely to compete, with our Group; and
- (j) the Public Offer Underwriting Agreement.

2. Our Intellectual Property Rights

As at the Latest Practicable Date, we had registered the following intellectual property rights which are material in relation to our business.

(a) Domain Name

As at the Latest Practicable Date, we have registered the following domain name which is material to our business:





Domain Name	Registrant	Expiry Date
fjhaina.com	Jinjiang Haina	19 February 2021

Information contained in the above website does not form part of this prospectus.

(b) Trademarks

As at the Latest Practicable Date, our Group registered the following trademarks which are material to our business;

No. Trademark	Place of Registration	Registrant	Class (Note)	Registration No.	Effective Date (dd/mm/yyyy)	
1	HOLD 裤	PRC	Jinjiang Haina	5	10414381	07/05/2014 — 06/05/2024
2	 HAINA 海纳机械	PRC	Jinjiang Haina	7	20968223	28/11/2017 — 27/11/2027
3	 HAINA MACHINERY 海纳机械	PRC	Jinjiang Haina	7	9420640	14/07/2012 — 13/07/2022
4	 给力 GEILI	PRC	Jinjiang Haina	7	9089490	21/05/2014 — 20/05/2024

No. Trademark	Place of Registration	Registrant	Class (Note)	Registration No.	Effective Date (dd/mm/yyyy)	
5		PRC	Jinjiang Haina	7	9146094	21/04/2012 — 20/04/2022
6		PRC	Jinjiang Haina	5	20393727	28/07/2018 — 27/07/2028
7	HAINA MACHINERY 海纳机械	Hong Kong	The Company	5,7,37,42,44	304800041	14/01/2019 — 13/01/2029
8	 HAINA MACHINERY 海纳机械	Hong Kong	The Company	5,7,37,42,44	304800050	14/01/2019 — 13/01/2029
9		Hong Kong	The Company	5,7,37,42,44	304800069	14/01/2019 — 13/01/2029

(c) Patents

- (i) As at the Latest Practicable Date, we had registered the following patents in the PRC that are material to our business:

No.	Patentee	Patent	Patent category	Patent number	Application date (dd/mm/yyyy)	Expiry date (dd/mm/yyyy)
1	Jinjiang Haina	A type of middle packaging machine	Invention	ZL 2012 1 0151068.0	16/05/2012	15/05/2032
2	Jinjiang Haina	A continuous ultrasonic welding machine	Utility model	ZL 2018 2 0324395.4	09/03/2018	08/03/2028
3	Jinjiang Haina	A control waist paster and divide disconnected set composite	Utility model	ZL 2017 2 0076013.6	19/01/2017	18/01/2027
4	Jinjiang Haina	An elastic waist transfer device, urine trousers production system	Utility model	ZL 2017 2 0042720.3	13/01/2017	12/01/2027
5	Jinjiang Haina	A pull-up diaper waistline limb device	Invention	ZL 2016 1 0786042.1	31/08/2016	30/08/2036
6	Jinjiang Haina	A type of paper diaper	Utility model	ZL 2016 2 0790227.5	26/07/2016	25/07/2026

No.	Patentee	Patent	Patent category	Patent number	Application date (dd/mm/yyyy)	Expiry date (dd/mm/yyyy)
7	Jinjiang Haina	An elasticity ring waistband of panty-shape diapers	Utility model	ZL 2016 2 0792267.3	26/07/2016	25/07/2026
8	Jinjiang Haina	An elastic waist of species pulling means and the species pulling means	Utility model	ZL 2016 2 0792359.1	26/07/2016	25/07/2026
9	Jinjiang Haina	Diaper ear to the cutoff of the system and method	Invention	ZL 2015 1 0621293.X	25/09/2015	24/09/2035
10	Jinjiang Haina	Transposition variablespeed conveying device of flexible materials	Invention	ZL 2014 1 0205218.0	15/05/2014	14/05/2034
11	Jinjiang Haina	One kind of indexable cutting apparatus and method of the variable speed conveyor	Invention	ZL 2014 1 0205229.9	15/05/2014	14/05/2034
12	Jinjiang Haina	Variable-speed transposition device for flexible materials	Invention	ZL 2013 1 0331242.4	01/08/2013	31/07/2033
13	Jinjiang Haina	A soft slitting pumping means	Invention	ZL 2013 1 0331907.1	01/08/2013	31/07/2033
14	Jinjiang Haina	Speed variation and position transfer scraping and cutting device	Invention	ZL 2013 1 0108830.1	29/03/2013	28/03/2033
15	Jinjiang Haina	Roll paper splitting machine with paper length measurable	Invention	ZL 2016 1 0517568.X	02/07/2016	01/07/2036
16	Jinjiang Haina	A cutting device for diaper production line	Invention	ZL 2016 1 0514445.0	02/07/2016	01/07/2036
17	Hangzhou Haina	Paper roll slitter machine	Invention	ZL 2013 1 0002489.1	05/01/2013	04/01/2033
18	Hangzhou Haina	A type of welding equipment of the baby pull-up diaper	Utility model	ZL 2018 2 1415588.7	30/08/2018	29/08/2028
19	Hangzhou Haina	A type of hygiene product returning pulverizer capable of adjusting powder specification	Utility model	ZL 2018 2 1478741.0	10/09/2018	09/09/2028

- (ii) As at the Latest Practicable Date, we had applied for registration of the following patents in the PRC that are material to our business:

No	Patentee	Patent	Patent Category	Application Number	Application date (dd/mm/yyyy)
1	Jinjiang Haina	Continuous ultrasonic welding machine and continuous ultrasonic welding method	Invention	2018101946220	09/03/2018
2	Jinjiang Haina	Anti-adhesion conveying roller and anti-adhesion conveying method for glued base materials	Invention	2018101951375	09/03/2018
3	Jinjiang Haina	Knurling device and knurling concave roller	Invention	2017105323027	03/07/2018
4	Jinjiang Haina	Elastic waistline transfer device, diaper production system and production method	Invention	2017100259217	13/01/2017
5	Jinjiang Haina	Paper diaper breaking treatment device	Invention	2016105141236	02/07/2016
6	Jinjiang Haina	A type of cutting and reallocating device and method for velcro	Invention	2019108366288	05/09/2019

Save as disclosed above, there are no other trade or service marks, registered designs, patents or other intellectual or industrial property rights which are material to the business of our Group as at the Latest Practicable Date.

G. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of our Directors and chief executives of our Company in the shares, underlying shares or debentures of our Company and our associated corporations

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Hong Kong Stock Exchange, once the Shares are listed, are as follows:

		Shares held immediately following the completion of the Capitalisation Issue and the Share Offer	
	Nature of interest and capacity	Number of Shares held (Note 1)	Approximate percentage of shareholding
Mr. Hong (Note 2,3)	Interest in controlled corporation	156,600,000 (L)	33.8%
	Parties acting in concert	191,400,000 (L)	41.2%
Mr. Zhang (Note 2,3)	Interest in controlled corporation	87,000,000 (L)	18.8%
	Parties acting in concert	261,000,000 (L)	56.2%
Mr. Su (Note 2,3)	Interest in controlled corporation	62,640,000 (L)	13.5%
	Parties acting in concert	285,360,000 (L)	61.5%
Mr. He (Note 2,3)	Interest in controlled corporation	41,760,000 (L)	9.0%
	Parties acting in concert	306,240,000 (L)	66.0%

Notes:

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be issued pursuant to the Over-allotment Option or any option which may be granted under the Share Option Scheme), the Company will be directly owned as to 75.0% by Prestige Name. Prestige Name is beneficially and legally owned as to 45.0%, 25.0%, 18.0%, and 12.0% by Mr. Hong, Mr. Zhang, Mr. Su, and Mr. He, respectively.
- (3) Mr. Hong, Mr. Zhang, Mr. Su, Mr. He and Prestige Name are parties acting in concert pursuant to the Acting in Concert Confirmation. By virtue of the SFO, they are deemed to be interested in (i) the indirect attributable interest of the Shares of our Company held by their controlled corporation; and (ii) the respective numbers of shares held by other parties acting in concert. For further details, please refer to “Relationship with Controlling Shareholders — the Controlling Shareholders — Acting in Concert Confirmation” in this prospectus.

As at the Latest Practicable Date, so far as is known to our Directors, other than our Company and persons set out in “Substantial Shareholders” in this prospectus, no other persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any of our subsidiaries.

2. Directors’ Service Contracts

Each of the executive Directors has entered into a service contract with our Company. The terms and conditions of each of such service contracts are similar in all material aspects. Each service contract is for an initial term of three years with effect from the Listing Date and shall continue thereafter unless and until it is terminated by our Company or the Director giving to the other not less than three months’ prior notice in writing. Under the service contracts, the initial annual salaries payable to the executive Directors are as follows:

Name	Annual salary <i>HK’000</i> (approximately)
Mr. Hong	505
Mr. Zhang	287
Mr. Su	287
Mr. He	321

Each of the executive Directors is entitled to a discretionary bonus, the amount of which is determined with reference to the operating results of our Group and the performance of that executive Director. Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and discretionary bonus payable to himself.

Our non-executive Director and our independent non-executive Directors have signed appointment letters with our Company for a term of three years commencing from the Listing Date, which may be terminated by either party giving at least one month's notice in writing. Under their respective appointment letters, each of the non-executive Director and the independent non-executive Directors (except for Dr. Wang Fengxiang) is entitled to a fixed Directors fee of HK\$150,000 per annum (Dr. Wang Fengxiang: RMB80,000 per annum) with effect from the Listing Date. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles. Save for the annual director's fees mentioned above, none of our non-executive Director and our independent non-executive Directors is entitled to receive any other remuneration for holding his office as a non-executive Director or an independent non-executive Director.

Save as disclosed above, none of our Directors has entered into a service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including salaries, allowances and benefits in kind, and pension scheme contributions) paid to our Directors for the four financial years ended 31 December 2016, 2017, 2018 and 2019 were approximately RMB534,000, RMB609,000, RMB756,000 and RMB781,000, respectively.

There was no arrangement under which a Director waived or agreed to waive any remuneration for any of the four financial years ended 31 December 2016, 2017, 2018 and 2019.

Save as disclosed above, no other payments have been made or are payable in respect of the four financial years ended 31 December 2016, 2017, 2018 and 2019 by any member of our Group to any of our Directors.

Under the arrangements currently in force, our Company estimates the aggregate remuneration payable to, and benefits in kind receivable by (excluding any discretionary bonuses), our Directors in respect of the year ending 31 December 2020 to be approximately RMB1.6 million.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company. There is no arrangement under which any Director has waived or agreed to waive any emoluments for each of the four years ended 31 December 2016, 2017, 2018 and 2019.

4. Personal Guarantees

As at the Latest Practicable Date, our Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to our Group.

5. Agency Fees or Commission Received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms have been granted by our Group to any person (including our Directors and experts referred to “Statutory and General Information — I. Other Information — 6. Qualifications of experts” below in this Appendix) in connection with the issue or sale of any capital or security of our Company or any of member of our Group within the two years preceding the date of this prospectus.

6. Related Party Transactions

Details of the related party transactions are set out under Note 33 to the Accountants’ Report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives of our Company has any interest and/or short position in the shares, underlying shares and debentures of our Company or any of its associated corporations (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 in which they are taken or deemed to have under such provisions of the SFO) or which will be required pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (c) none of our Directors nor any of the persons listed in “I. Other Information — 6. Qualifications of experts” below in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue 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) none of our Directors is materially interested in any contract or arrangement subsisting with our Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group taken as a whole;
- (e) within the two years preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (f) so far as is known to our Directors, none of our Directors or their close associates or any Shareholder (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest suppliers or customers of our Group.

8. Miscellaneous

Mr. Hong and Mr. Zhang were the directors of Haina Investment Group Limited (海納投資集團有限公司), a company incorporated in Hong Kong and dissolved by striking off on 8 December 2017 pursuant to Section 746 of the Companies Ordinance. Under Section 746 of the Companies Ordinance, where the Registrar of Companies in Hong Kong has reasonable cause to believe that a company is not carrying on business or in operation, unless cause is shown to contrary, the Registrar of Companies may strike the company's name off the Companies Register after the expiration of a specified period. As Mr. Hong and Mr. Zhang confirmed, the said company has not commenced business and it was solvent with no outstanding liabilities at the time of it being struck off and to the best of their knowledge and understanding, the dissolution of the said company has not resulted in any liability or obligation to be imposed against any of them. Mr. Hong and Mr. Zhang further confirmed that there was no wrongful act on their parts leading to the dissolution and struck off of Haina Investment Group Limited and none of them is aware of any actual or potential claim that has been or will be made against each of them as a result of the striking off of the said company.

Mr. Chang was the local resident director of Jing Li Business Advisory Pte Ltd ("JLBA"), which was incorporated in Singapore in 2011 and dissolved by struck-off on 4 March 2016. Mr. Chang has confirmed that JLBA had remained dormant since its incorporation up until to its dissolution, JLBA was solvent and dormant with no outstanding liabilities at the time of its being struck-off and to the best of his knowledge and understanding, the dissolution of the said company has not resulted in any liability or obligation to be imposed against him. Mr. Chang has further confirmed that there was no wrongful act on his part leading to the dissolution of the said company and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of JLBA.

H. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by written resolutions of our Shareholders passed on 8 May 2020. The terms of our Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. The following summary does not form, nor is intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme. For the purpose of this paragraph, references to “**Board**” shall mean the board of Directors or a committee thereof appointed for the purpose of administering the Share Option Scheme; references to “**Participant**” shall mean any Director (including executive Directors, non-executive Directors and independent non-executive Directors), the directors of our subsidiaries and employees of any member of our Group and any other persons (including consultants or advisers); references to “**Grantee**” shall mean any Participants who accepts an offer of the grant of an option in accordance with the terms of the Share Option Scheme or (where the context so permits) any person who is entitled to any such option in consequence of the death of the original Grantee, or the legal representative of such person.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide Participants with the opportunity to acquire proprietary interests in our Company and to encourage Participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and its Shareholders as a whole. The Share Option Scheme will provide our Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Participants.

2. Participants of the Share Option Scheme and Basis for Determining the Eligibility of the Participants

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, our Board may offer to grant an option to any Participants who our Board considers, in its absolute discretion, have contributed or will contribute to our Group.

3. Administration

The Share Option Scheme shall be subject to the administration of our Board. Our Board shall have the right to:

- (a) interpret and construe the provisions of the Share Option Scheme;
- (b) determine the persons who will be offered options under the Share Option Scheme, the number of Shares and the subscription price, subject to paragraph (6) below, in relation to such options;
- (c) subject to paragraphs (14) and (15) below, make such appropriate and equitable adjustments to the terms of the options granted under the Share Option Scheme as it deems necessary; and
- (d) make such other decisions or determinations as it shall deem appropriate in the administration of the Share Option Scheme.

4. Grant of options

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules (in particular as to grant of options to Directors, chief executives and Substantial Shareholders of our Company or their respective associates), our Board shall be entitled at any time within ten years after the date of adoption of the Share Option Scheme to make an offer for the grant of an option to any Participant as our Board may in its absolute discretion select. The offer shall specify the terms on which the option is granted. Such terms may include any minimum periods for which an option must be held and/or any minimum performance targets that must be reached, before the options can be exercised in whole or in part, and may include at the discretion of our Board other terms impose (or not imposed) either on a case by case basis or generally.

No offer shall be made and no option shall be granted to any Participant after inside information has come to our Company's knowledge until the trading day after it has announced the information. In particular, our Company shall not grant any option during the period commencing one month immediately preceding the earlier of:

- (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the requirements of the Listing Rules) for the approval of our Company's results for any year, half year, quarter or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of, its results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. For the avoidance of doubt, the period during which no options shall be granted mentioned above shall include any period of delay in the publication of a results announcement.

5. Payment on acceptance of option offer

An offer shall remain open for acceptance by the Participant concerned for a period of 21 days from the date of the offer. HK\$1.00 is payable by the Grantee to our Company on acceptance of the offer of the option.

6. Subscription price

The subscription price in respect of any particular option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall 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; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share on the date of grant, provided that in the event that any option is proposed to be granted within a period of less than five trading days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Share Offer shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange.

7. Option period

The period within which the Shares must be taken up under an option shall be the period of time to be notified by our Board to each Grantee at the time of making an offer, which shall be determined by our Board in its absolute discretion at the time of grant, but such period must not exceed ten years from the date of grant of the relevant option. The current Share Option Scheme shall be valid and effective for a period of ten years commencing on the date on which the following conditions are established:

- (a) the passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme prior to the Listing;
- (b) the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and the granting of options thereunder;
- (c) the Listing Committee of the Stock Exchange granting approval of the listing of, and the permission to deal in, our Shares to be allotted and issued pursuant to the exercise of the subscription rights attaching to the Share Option Scheme;
- (d) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waivers of any conditions by the Joint Global Coordinators (acting for and on behalf of the Underwriters) and not being terminated in accordance with the respective terms); and
- (e) the commencement of dealings in our Shares on the Stock Exchange.

8. Rights are personal to grantee

An option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

9. Rights attaching to Shares allotted

The Shares to be allotted and issued upon the exercise of an option will be fully paid, and shall be subject to all the provisions of the Memorandum and Articles of Association as amended from time to time and will rank *pari passu* with the fully paid Shares in issue on the date the name of the Grantee is registered on the register of members of our Company. Prior to the Grantee being registered on the register of members of our Company, the Grantee shall not have any voting rights, or rights to participate in any dividend or distributions (including those arising on a liquidation of our Company), in respect of the Shares to be issued upon the exercise of the option.

10. Exercise of option

Subject to the terms and conditions upon which an option is granted, an option may be exercised by the Grantee at any time during the option period, provided that:

- (a) in the event the Grantee (being an employee or a director of any member of our Group) ceases to be a Participant for any reason other than (1) his or her death or (2) on one or more of the grounds of termination of employment or engagement specified in paragraph (11)(f) below, the option shall lapse on the date of cessation of such employment or engagement and not be exercisable unless our Board otherwise determines in which event the option shall be exercisable to the extent and within such period as our Board may determine. The date of cessation of employment of a Grantee (being an employee and who may or may not be a director of any member of our Group) shall be the last actual working day on which the Grantee was physically at work with our Company or the relevant subsidiary, whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine;
- (b) in the event the Grantee dies before exercising the option in full and none of the events for termination of employment or engagement under paragraph (11)(f) below then exists with respect to such Grantee, the legal personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death to exercise the option up to the entitlement of such Grantee as at the date of death;
- (c) in the event the Grantee ceasing to be a supplier, customer, adviser, consultant, shareholder or holder of any securities of any member of the Group or any entity in which the Group holds any equity interest for any reason other than his or her death, the Grantee may exercise his or her option up to his or her entitlement at the date he or she ceases to be a supplier, customer, adviser, consultant, shareholder or holder of any securities of any member of the Group or any entity in which the Group holds any equity interest within the period of one month following the date of cessation in whole or in part (to the extent not already exercised);
- (d) if a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph (10)(e) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company at any time within 14 days after the date on which such general offer becomes or is declared unconditional;

- (e) if a general offer for Shares by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, our Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company at any time within 14 days after the date on which such general offer becomes or is declared unconditional;
- (f) in the event a notice is given by our Company to our Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or in the case of the death of the Grantee, his or her personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than five Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than three Business Days immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Grantee credited as fully paid;
- (g) in the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 10(e) above, between our Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same date as it despatches to each member or creditor of our Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each Grantee (or where permitted under paragraph 10(b) his/her legal personal representative(s)) shall be entitled to exercise all or any of his or her options in whole or in part at any time prior to 12:00 noon on the day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement. 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 terminate. The Directors shall endeavour to procure that the Shares issued as a result of the exercise of options under this paragraph shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such relevant court) the rights of Grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such

compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension. Subject to the above, an option will lapse automatically on the date the proposed compromise or arrangement becomes effective; and

- (h) in the event the Grantee ceasing to be a non-executive Director or an independent non-executive Director of any member of the Group or any entity in which the Group holds any equity interest for any reason other than his or her death, such Grantee may exercise his or her option up to his or her entitlement at the date he or she ceases to be a non-executive Director or an independent non-executive Director of any member of the Group or any entity in which the Group holds any equity interest within the period of one month following the date of cessation in whole or in part (to the extent not already exercised).

11. Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the date or the expiry of the periods for exercising the option as referred to in paragraph (10) above;
- (c) subject to the scheme of arrangement (referred to in paragraph (10)(e) above) becoming effective, the expiry of the period for exercising the option as referred to in paragraph (10)(e) above;
- (d) subject to paragraph (10)(f) above, the date of the commencement of the winding-up of our Company;
- (e) the date on which the Grantee commits a breach of paragraph (8) above;
- (f) the date on which the Grantee (being an employee or a director of any member of our Group) ceases to be a Participant by reason of the termination of his or her employment on any one or more of the grounds that he or she has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary or the relevant entity in which our Group holds any equity interest or the holding company of our Company;

- (g) if the Directors at their absolute discretion determine that the Grantee or his or her associate has committed any breach of any contract entered into between the Grantee or his or her associate on the one part and the Group or any entity in which the Group holds any equity interest on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her creditors generally, the Directors shall determine that the outstanding options granted to the Grantee shall lapse. In such event, his or her options will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined;
- (h) the date on which the Board in its absolute discretion determines that the Grantee has committed a breach or failed to comply with any obligation or provisions (other than paragraph (8) or perform and observe any of the terms, conditions, restrictions and/or limitations attached to the grant of the option or set out herein;
- (i) the date on which the Grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally;
- (j) where the Grantee is an employee, a director or an officer of a member of our Group (other than our Company), the date on which such member cease to be a subsidiary; and
- (k) unless our Board otherwise determines, and other than in the circumstances referred to in paragraph (10)(a) or (b) above, the date the Grantee ceases to be a Participant (as determined by a Board resolution) for any reason.

Transfer of employment or engagement or relationship from one member of our Group to another member of our Group shall not be considered as a cessation of employment, engagement or relationship.

12. Cancellation of option

Any options granted but not exercised may be cancelled if the Board and the Shareholders by way of an ordinary resolution in general meeting so approve and new options may be granted to the Grantee provided such new options are granted within the limits prescribed by paragraph (13) below and otherwise comply with the terms of the Share Option Scheme.

13. Maximum number of Shares subject to options

- (a) The overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the total number of Shares in issue from time to time (the “**Scheme Limit**”);

- (b) the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the “**Scheme Mandate Limit**”), being 46,400,000 Shares. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit;
- (c) our Company may refresh the Scheme Mandate Limit at any time subject to prior Shareholders’ approval. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the aforesaid Shareholders’ approval. Options previously granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, cancelled, lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the limit as refreshed. A circular must be sent to Shareholders in connection with the meeting at which their approval will be sought;
- (d) our Company may also seek separate Shareholders’ approval for granting options beyond the Scheme Mandate Limit to the Participants specifically identified by our Company before the aforesaid Shareholders’ meeting where such approval is sought. A circular shall be sent to our Shareholders containing a generic description of the identified Participants, the number and terms of the options to be granted, the purpose of granting options to the identified Participants, and how those options serve such purpose;
- (e) the total number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding Options) in any twelve-month period shall not exceed 1% of the Shares in issue (the “**Individual Limit**”). Any further grant of options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of grant of such further options exceeding the Individual Limit shall be subject to Shareholders’ approval in advance with such Participant and his close associates (or his associates if such participant is a connected person) abstaining from voting. A circular must be sent to our Shareholders disclosing the identity of such Participant and the number and terms of the options granted and to be granted. The number and terms of Options to be granted to such Participants shall be fixed before Shareholders’ approval is sought and the date of our Board meeting for proposing such further grant shall for all purposes be the date of grant for the purpose of calculating the subscription price;

- (f) the maximum number of Shares referred to in this paragraph (13) shall be adjusted, in such manner as the auditors or the financial adviser of our Company retained for such purpose 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 (14) below by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares, reduction of the share capital of our Company; and
- (g) the exercise of any option shall be subject to our Shareholders in general meeting approving any increase in the authorised share capital of our Company. Subject thereto, our Board shall make available sufficient authorised but unissued share capital of our Company for purpose of allotment of Shares upon exercise of options.

14. Reorganisation of capital structure and special dividend

In the event of an alteration in the capital structure of our Company whilst any option remains exercisable by way of capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares, or reduction of the share capital of our Company (other than an issue of Shares as consideration in a transaction), such corresponding alterations (if any) shall be made to: (i) the number or nominal amount of Shares subject to the option so far as unexercised; and/or (ii) the subscription price; and/or (iii) the method of exercise of the option; and/or (iv) the maximum number of Shares referred to in paragraph (13) above; and/or (v) any combination thereof, as the auditors or a financial advisor engaged by our Company for such purpose shall, at the request of our Company, certify in writing, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any such adjustments give a Grantee the same proportion of the equity capital of our Company as that to which that Grantee was previously entitled, but so that no such adjustments be made to the extent that a Share would be issued at less than its nominal value.

15. Alteration of the Share Option Scheme

- (a) Subject to paragraph (15)(b) below, our Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date);
- (b) those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and no changes to the authority of our Directors or administrator of the Share Option Scheme in relation to any alteration of the terms of the Share Option Scheme shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of options granted, must also, to be effective, be approved by

our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules; and

- (c) notwithstanding any approval obtained pursuant to paragraph (15)(a) above, no amendment shall operate to adversely affect the terms of issue of any option granted or agreed to be granted prior to such amendment except with the consent or sanction in writing of such number of Grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to the options granted under the Share Option Scheme, except where such amendment takes effect automatically under the existing terms of the Share Option Scheme.

16. Termination of the Share Option Scheme

Our Company, by ordinary resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Options which are unexercised and unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

17. Offers made to a director, chief executive or employee who is also Substantial Shareholder of our Company or any of their respective associates

Each grant of options to any director, chief executive or Substantial Shareholder of our Company (or any of their respective associates)(as the aforesaid terms are defined in rule 17.06(2) of the Listing Rules) shall be subject to the prior approval of the independent non-executive Directors of our Company (excluding any independent non-executive Director who is a proposed recipient of the grant of options). Where any grant of options to a Substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period (or such other period as may from time to time be specified by the Stock Exchange) up to and including the date of grant:

- (a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the relevant class of Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million (or such other amount as may from time to time be specified by the Stock Exchange),

such grant of options shall be subject to prior approval by our Shareholders (voting by way of poll). The Grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting at such general meeting, except that any such person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to our Shareholders in connection therewith.

18. Conditions of Share Option Scheme

The Share Option Scheme shall take effect subject to:

- (a) the passing of the necessary resolutions by the Shareholders to approve and adopt the rules of the Share Option Scheme;
- (b) the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and the granting of options thereunder;
- (c) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options under the Share Option Scheme;
- (d) the obligation of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waivers of any conditions by the Joint Global Coordinators (acting for and on behalf of the Underwriters) and not being terminated in accordance with the respective terms); and
- (e) the commencement of dealings in the Shares on the Stock Exchange.

19. Present status of the Share Option Scheme

As at the Latest Practicable Date, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, being 46,400,000 Shares in total.

I. OTHER INFORMATION

1. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to our Directors to be pending or threatened against our Group, that would have a material adverse effect on its business, financial condition or results of operations.

2. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor's fees payable or paid by us in respect of the Sole Sponsor's services as sponsor for the Listing is HK\$5.5 million.

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme). All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

3. No Material Adverse Change

Save for (i) the expenses incurred in relation to the Listing, and (ii) the increase in administrative and other operating expenses mainly due to the increase in research development expense incurred by our technical engineering team and technical design team for innovation, introduction and improvements of the Group's products as well as staff salaries of these departments, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2019 (being the date to which the latest audited combined financial statements of our Group were prepared).

4. Tax and other indemnities**(a) Tax on Dividend**

No tax is payable in Hong Kong in respect of dividend paid by us.

(b) Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profit tax, which is currently imposed at the rate of 16.5% on corporations and at a rate of 15.0% on unincorporated businesses. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(c) Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

(d) *Estate Duty*

There is no estate duty in Hong Kong.

(e) *Deed of Indemnity*

Pursuant to the Deed of Indemnity given by each of our Controlling Shareholders in favor of our Company (and its subsidiaries) and conditional on the fulfilment of the conditions stated in “Structure and Conditions of the Share Offer — Conditions of the Public Offer” in this prospectus, each of our Controlling Shareholder has unconditionally and irrevocably, jointly and severally covenanted, agreed and undertaken to indemnify and keep each of the members of our Group indemnified at all times on demand from and against any taxation falling on any members of our Group resulting from or by reference to any revenue (including any form of government financial assistance, subsidy or rebate), income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on or before the Listing Date or any event, transaction, act or omission occurring or deemed to occur on or before the Listing Date whether alone or in conjunction with any other event, act or omission occurring or deemed to occur on or before the Listing Date and whether or not such taxation is chargeable against or attributable to any other person, firm or company. For the avoidance of doubt, the aforesaid provision shall require each of our Controlling Shareholders to indemnify and at all times keep each of the members of our Group indemnified, in each case, in respect of any additional taxation which may fall on our Company or any other members of our Group in respect of a taxation claim resulting from a reassessment or similar action by a taxation authority against any member of our Group of taxation due and whether or not such reassessment is effected in respect of taxation which our Company or any other members of our Group had previously reached agreement with a taxation authority.

Under the Deed of Indemnity, our Controlling Shareholders have also unconditionally and irrevocably, jointly and severally agreed and undertaken to indemnify and keep each of members of our Group indemnified at all times on demand from and against all sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties, orders and expenses incurred or suffered or loss of profits, benefits or other commercial advantages suffered by our Company and/or any members of our Group resulting from (i) the Reorganisation; (ii) any litigation, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise nature instituted by or against our Company and/or any members of our Group in relation to events occurred on or before the Listing Date; and (iii) any and all of the non-compliances with the applicable laws, rules or regulations, by our Company and/or any members of our Group in their respective place of incorporations or operation which has occurred at any time on or before the Listing Date.

However, the indemnities given by our Controlling Shareholders under the Deed of Indemnity do not cover, and our Controlling Shareholders shall be under no liability in respect of, any liability on taxation and taxation claim:

- (i) to the extent that provision has been made for such taxation or taxation claim in the audited combined accounts of our Group or the audited accounts of any of the members of our Group for an accounting period ended on or before 31 December 2019;
- (ii) to the extent that such liability arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by any statutory or governmental authority (in Hong Kong, the PRC or elsewhere), including without limitation the Inland Revenue Department and the tax bureau of the PRC, having retrospective effect coming into force after the Listing Date or to the extent that such liability arises or is increased by an increase in rates of taxation or other penalties after the Listing Date with retrospective effect;
- (iii) falling on any members of our Group in respect of any accounting period commencing on or after 31 December 2019 unless such liability would not have arisen but for some act or omission of, or transaction entered into by, any of our Controlling Shareholders or any members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than:
 - (1) in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets, on or before the Listing Date; or
 - (2) pursuant to a legally binding commitment created on or before the date of the Deed of Indemnity or pursuant to any statement of intention made in this prospectus;
- (iv) to the extent that such liability is discharged by another person who is not a member of our Group and that none of the member of our Group is required to reimburse such person in respect of the discharge of such liability; or
- (v) to the extent of any provision or reserve made for such liability in the audited accounts referred to in paragraph (i) above which is finally established to be an overprovision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce our Controlling Shareholders' liability in respect of such liability shall not be available in respect of any such liability arising thereafter.

(f) *Consultation with professional advisers*

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the tax implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, the Sole Sponsor, the Underwriters, any of their respective directors, or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, or dealing in, the Shares.

5. Miscellaneous

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) 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;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (d) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of any member of our Group; and
- (e) no founders, management or deferred shares of our Company or any of its subsidiaries has been issued or agreed to be issued;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) our Company has no outstanding convertible debt securities or debentures;
- (h) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (i) as of the Latest Practicable Date, none of our property interests had a carrying amount more than 15% of our combined total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and

Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all our Group's interests in land or buildings;

- (j) there is no arrangement under which future dividend are waived or agreed to be waived;
- (k) no company within our Group is presently listed on any stock exchange or traded on any trading system and no such listing or permission to list is being or is proposed to be sought;
- (l) our Cayman Islands principal share register will be maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited in the Cayman Islands and our Hong Kong branch share register will be maintained by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands; and
- (m) none of the persons whose names are set out in the section headed "Statutory and General Information — I. Other information — 6. Qualifications of Experts" in this Appendix: (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; or (iii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole save in connection with the Public Offer Underwriting Agreement.

6. Qualifications of experts

The following are the qualification of experts who have opined or advised on information contained in this prospectus:

Name	Qualification
VBG Capital Limited	A licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Tian Yuan Law Firm	Legal advisers of our Company as to the laws of the PRC
Mazars CPA Limited	Certified Public Accountants, Hong Kong
Appleby	Legal advisers of our Company as to the laws of the Cayman Islands
Frost & Sullivan Limited	Industry consultant

7. Consent of Experts

Each of the experts whose names are set out in the section headed “Statutory and General Information — I. Other information — 6. Qualifications of Experts” in this appendix has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion and/or legal memorandum (as the case may be) and references to its name included in the form and context in which it respectively appears. None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

8. Promoters

Our Company has no promoter for purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, 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.

9. Preliminary Expenses

The estimated preliminary expenses of our Company are approximately US\$4,200 and are payable or were paid by our Company.

10. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of binding all persons concerned by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version of this prospectus shall prevail.

1. 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) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — F. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information — I. Other Information — 6. Qualifications of experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Fangda Partners at 26/F, One Exchange Square, 8 Connaught Place, 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 of Association and the Articles of Association;
- (b) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Mazars CPA Limited, the texts of which are set out in the section headed “Accountants’ Report” in Appendix I and the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus, respectively;
- (c) the audited combined financial statements of our Group for the financial years ended 31 December 2016, 2017, 2018 and 2019;
- (d) the letter of advice prepared by Appleby, our legal adviser as to the laws of the Cayman Islands, summarising certain aspects of the Cayman Islands company law referred to in the section headed “Summary of the constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (e) the PRC legal opinions issued by Tian Yuan Law Firm, our PRC Legal Advisers, in respect of certain aspects of our Group;
- (f) the industry report prepared by Frost & Sullivan Limited, the summary of which is set forth in the section headed “Industry Overview”;
- (g) the rules of the Share Option Scheme;

- (h) the material contracts referred to in the section headed “Statutory and General Information — F. Further Information about our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in the section headed “Statutory and General Information — I. Other Information — 7. Consent of Experts” in Appendix IV to this prospectus;
- (j) the service contracts and appointment letters referred to in the section headed “Statutory and General Information — G. Further Information about Directors and Substantial Shareholders — 2. Directors’ Service Contracts” in Appendix IV to this prospectus; and
- (k) the Cayman Companies Law.

Haina Intelligent Equipment International Holdings Limited