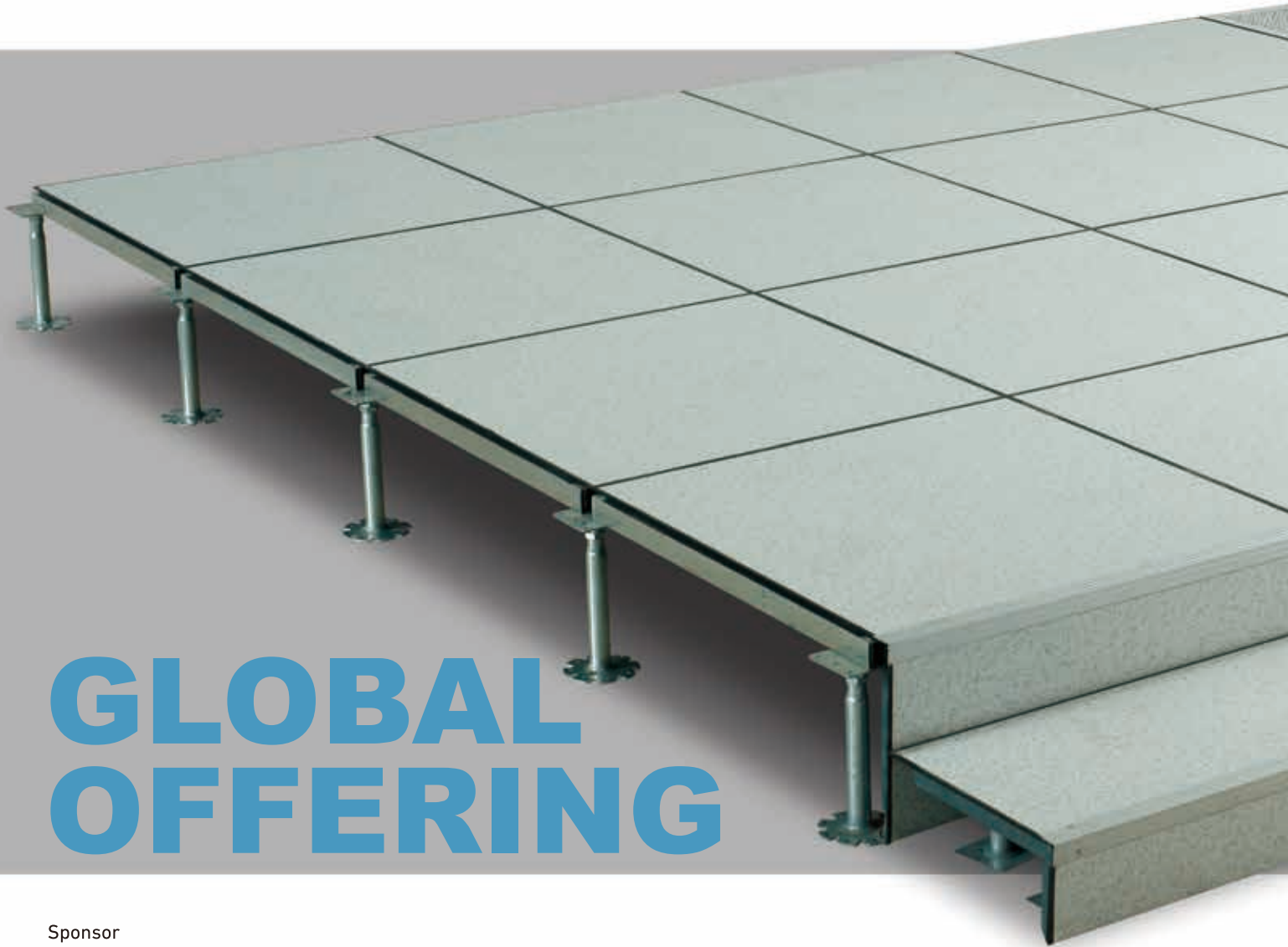


# JiaChen Holding Group Limited 佳辰控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1937



# GLOBAL OFFERING

Sponsor



Joint Bookrunners



## IMPORTANT

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

# JiaChen Holding Group Limited 佳辰控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

## GLOBAL OFFERING

Number of Offer Shares	: 250,000,000 Shares
Number of Hong Kong Offer Shares	: 25,000,000 Shares (subject to reallocation)
Number of International Placing Shares	: 225,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.53 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1937

### Sponsor



### Joint Bookrunners



### Joint Lead Managers



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 with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by an agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or about Friday, 10 January 2020 and, in any event, not later than Monday, 13 January 2020. The Offer Price will be not more than HK\$0.60 per Offer Share and is currently expected to be not less than HK\$0.53 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.60 per Offer Share, unless otherwise announced, together with brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is less than HK\$0.60 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters), with the consent of our Company, may extend or reduce the indicative Offer Price range stated in this prospectus and/or the number of the Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the extension or reduction of the indicative Offer Price range and/or the number of the Offer Shares will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.jiachencn.com.cn](http://www.jiachencn.com.cn) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Monday, 13 January 2020, the Global Offering will not proceed and will lapse.

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

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Bookrunners (for themselves and on behalf of the Underwriters) have the right in certain circumstances, in their sole and absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set forth in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Underwriting Agreement — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of any U.S. persons.

31 December 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Global Offering, our Company will issue a separate announcement to be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of our Company ([www.jiachencn.com.cn](http://www.jiachencn.com.cn)).*

Hong Kong Public Offering commences and **WHITE**  
and **YELLOW** Application Forms available from . . . . 9:00 a.m. on Tuesday, 31 December 2019

Latest time to complete **electronic applications** under  
**HK eIPO White Form** service through one of the  
below ways <sup>(2), (3)</sup>: . . . . . 11:30 a.m. on Thursday, 9 January 2020

(1) the designated website at [www.hkeipo.hk](http://www.hkeipo.hk)

(2) the IPO App, which can be downloaded by  
searching “**IPO App**” in App Store or  
Google Play or downloaded at  
[www.hkeipo.hk/IPOApp](http://www.hkeipo.hk/IPOApp) or  
[www.tricorglobal.com/IPOApp](http://www.tricorglobal.com/IPOApp)

Application lists of the Hong Kong Public  
Offering open<sup>(3)</sup> . . . . . 11:45 a.m. on Thursday, 9 January 2020

Latest time to lodge **WHITE** and **YELLOW**  
Application Forms and to give **electronic**  
**application instructions** to HKSCC<sup>(3), (4)</sup> . . . . . 12:00 noon on Thursday, 9 January 2020

Latest time to complete payment of **HK eIPO White**  
**Form** applications by effecting internet banking  
transfer(s) or PPS payment transfer(s)<sup>(2), (3)</sup> . . . . . 12:00 noon on Thursday, 9 January 2020

Application lists of the Hong Kong Public  
Offering close<sup>(3)</sup> . . . . . 12:00 noon on Thursday, 9 January 2020

Expected Price Determination Date<sup>(5)</sup> . . . . . Friday, 10 January 2020

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Announcement of (i) the final Offer Price; (ii) the level of the indications of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offering; (iv) the basis of allocations of Hong Kong Offer Shares under the Hong Kong Public Offering; and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offering and the International Placing to be published (a) on the website of our Company at [www.jiachencn.com.cn](http://www.jiachencn.com.cn)<sup>(6)</sup>; and (b) on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before . . . . . Thursday, 16 January 2020

Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification documents numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of results" in this prospectus from . . . . . Thursday, 16 January 2020

Results of allocations in the Hong Kong Public Offering will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) or the "Allotment Result" in the IPO App with a "search by ID Number/ Business Registration Number" function from . . . . . Thursday, 16 January 2020

Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or around<sup>(7), (8)</sup> . . . . . Thursday, 16 January 2020

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or around<sup>(7), (8)</sup> . . . . . Thursday, 16 January 2020

Dealings in the Shares on the Stock Exchange expected to commence at . . . . . 9:00 a.m. on Friday, 17 January 2020

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*The application for the Hong Kong Public Offering will commence on Tuesday, 31 December 2019 through Thursday, 9 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage fee, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on or around Thursday, 16 January 2020. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Friday, 17 January 2020.*

*Notes:*

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of our Company ([www.jiachencn.com.cn](http://www.jiachencn.com.cn)).
2. You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the IPO App after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website or the IPO App prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 9 January 2020, the application lists will not open and close on that day. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Thursday, 9 January 2020, the dates mentioned in this section may be affected. An announcement will be made by us in such event.
4. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Friday, 10 January 2020 and in any event, not later than Monday, 13 January 2020. If, for any reason, the Offer Price is not agreed by Monday, 13 January 2020 between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
6. None of the information contained on any website forms part of this prospectus.
7. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms and have provided all information required by their Application Forms may collect share certificates (if applicable) and refund cheques (if applicable) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 16 January 2020 or any other date as notified by us.

Applicants being individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Applicants being corporations which are eligible for personal collection must attend by sending their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Applicants who apply for

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## EXPECTED TIMETABLE<sup>(1)</sup>

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1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms and have provided all required information may collect their refund cheques, if any, in person but may not collect their share certificates personally, which will be deposited into CCASS for credit to their designated CCASS Participants' stock account or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected share certificates and refund cheques, if any, will be despatched by ordinary post to the addresses specified in the relevant Application Form at the applicants' own risk. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

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

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

Share certificates are expected to be issued on Thursday, 16 January 2020 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms at any time prior to 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus. Details relating to how to apply for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Global Offering 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 Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the 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 and the Application Forms 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 and the Application Forms. Any information or representation not contained nor made in this prospectus or the Application Forms must not be relied on by you as having been authorised by our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Global Offering.*

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## SUMMARY

*This summary aims to give 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 the Offer Shares.*

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

### BUSINESS OVERVIEW

We are principally engaged in the manufacturing and sales of access flooring products and provide related installation services with our headquarters based in Changzhou City, Jiangsu Province, the PRC. Our products mainly consist of: (i) steel access flooring products; and (ii) calcium sulfate access flooring products. Our access flooring products have been generally applied in office buildings in the PRC with characteristics of: (i) cable management (wires and cables are managed and organised underfloor with flexibility to accommodate any electronic devices); (ii) short installation time; (iii) high compressive strength and fire-resistance characteristic; and (iv) high bearing capacity.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our products were mainly sold and applied in the PRC and, to a lesser extent, exported to overseas markets, such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, the access flooring products sold and used for our provision of installation services were all self-manufactured by us. Our Company’s revenue is largely derived from contracts, which are non-recurring in nature. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, approximately 92.4%, 91.8%, 90.9% and 95.4% of our total revenue was derived from the PRC, respectively. According to the CIC Report, we were the third largest player in access flooring manufacturing industry with a market share of approximately 3.6% in terms of revenue in the PRC in 2018. The following table sets forth the breakdown of our revenue, gross profit and gross profit margin by the type of our major products during the Track Record Period:

	For the year ended 31 December									For the six months ended 30 June										
	2016			2017			2018			2018			2019							
	Revenue	Approximate % of total revenue	Gross profit margin	Revenue	Approximate % of total revenue	Gross profit margin	Revenue	Approximate % of total revenue	Gross profit margin	Revenue	Approximate % of total revenue	Gross profit margin	Revenue	Approximate % of total revenue	Gross profit margin					
	<i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>	% <i>RMB'000</i>					
										<i>(unaudited)</i>	<i>(unaudited)</i>									
Steel access flooring products	139,507	87.4	31,652	22.7	185,617	85.8	44,068	23.7	204,319	82.1	48,387	23.7	90,593	80.4	21,277	23.5	109,594	87.8	27,145	24.8
Calcium sulfate access flooring products	20,096	12.6	5,553	27.6	30,743	14.2	9,676	31.5	44,466	17.9	11,779	26.5	22,077	19.6	5,054	22.9	15,294	12.2	3,697	24.2
Total	159,603	100.0	37,205	23.3	216,360	100.0	53,744	24.8	248,785	100.0	60,166	24.2	112,670	100.0	26,331	23.4	124,888	100.0	30,842	24.7

*Note:* The revenue shown above includes the revenue derived from our provision of installation services of the respective products.

## SUMMARY

Our total revenue increased by approximately RMB56.8 million to approximately RMB216.4 million for the year ended 31 December 2017 from approximately RMB159.6 million for the year ended 31 December 2016, primarily driven by: (i) the increased sales volume of steel access flooring products and the increased average unit selling price, mainly resulting from the increase in our sales of steel access flooring products and provision of installation services; and (ii) the increased sales volume of calcium sulfate access flooring products and the increased average unit selling price mainly due to the increased penetration rate as a result of its high performance. Our total revenue further increased by approximately RMB32.4 million from approximately RMB216.4 million for the year ended 31 December 2017 to approximately RMB248.8 million for the year ended 31 December 2018, primarily driven by: (i) the increased sales volume of steel access flooring products; (ii) the increased sales volume of calcium sulfate access flooring products; and (iii) the increase in average unit selling price of our calcium sulfate access flooring products, resulting from the increased recognition by the market due to its high performance. Our total revenue increased by approximately RMB12.2 million from approximately RMB112.7 million for the six months ended 30 June 2018 to approximately RMB124.9 million for the six months ended 30 June 2019, primarily driven by: (i) the increased sales volume of steel access flooring products; and (ii) the increase in average unit selling price of the steel access flooring products.

Our revenue derived from Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province increased by approximately RMB25.4 million from approximately RMB85.0 million for the year ended 31 December 2016 to approximately RMB110.4 million for the year ended 31 December 2017 and further increased to approximately RMB157.9 million for the year ended 31 December 2018, which is generally in line with the increased total floor space for newly completed high-end office buildings in these four areas at a CAGR of approximately 46.7% between 2014 to 2018 as stated in the CIC Report.

The following table sets out a breakdown of the sales volume and average unit selling price of our access flooring products during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Average unit selling volume	Average unit selling price	Average unit selling volume	Average unit selling price	Average unit selling volume	Average unit selling price	Average unit selling volume	Average unit selling price	Average unit selling volume	Average unit selling price
	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>
Steel access flooring products	1.23	113.5	1.51	122.9	1.68	121.9	0.76	118.6	0.91	120.3
Calcium sulfate access flooring products	0.13	158.9	0.19	164.9	0.26	171.7	0.14	156.1	0.09	168.5
Total	1.36		1.70		1.94		0.90		1.00	

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## SUMMARY

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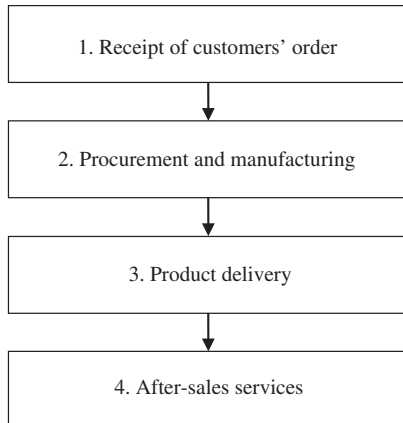
### OUR COMPETITIVE LANDSCAPE

According to the CIC Report, there are approximately 100 access flooring manufacturing companies in China, with most industry players located in Jiangsu Province. In 2018, the top five access flooring manufacturers took up approximately 29.1% of the total market share in the industry in China. As of 2018, our Company ranked the third in the access flooring manufacturing industry, with a domestic sales revenue of approximately RMB226.0 million and a market share of approximately 3.6% in terms of revenue in China in 2018. For further details, please refer to the section headed “Industry Overview — Competitive landscape of China’s access flooring manufacturing industry” in this prospectus.

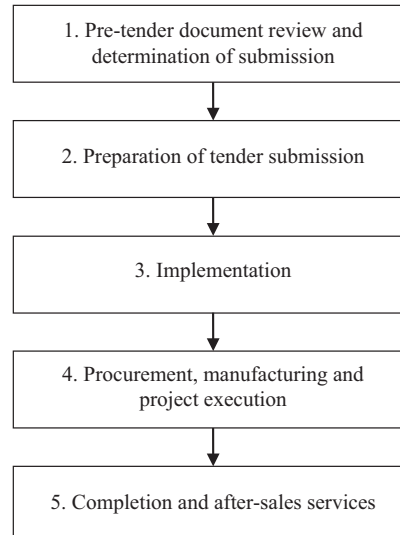
### BUSINESS MODEL AND OUR OPERATIONS

During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of our customers. We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. For easier reference, we present the business models and procedures as follows:

#### A. Sales of access flooring products



#### B. Sales of access flooring products with installation services



### MANUFACTURING FACILITIES

Our Group currently operates two manufacturing facilities in Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC. The first one has a gross floor area of 23,827 sq.m. and is owned by our Group. The second one has a gross floor area of 5,056 sq.m. and is leased by our Group from a third party. The two manufacturing facilities are situated in Henglin Town, with a distance of approximately one kilometre between each other.

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## SUMMARY

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### OUR CUSTOMERS

Our customers include property developers and main contractors of construction projects in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our top five largest customers contributed approximately RMB36.2 million, RMB40.3 million, RMB53.1 million and RMB56.7 million to our total revenue, respectively, representing approximately 22.7%, 18.6%, 21.4% and 45.4% of our total revenue for the same periods, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our largest customer contributed approximately RMB9.5 million, RMB13.7 million, RMB13.0 million and RMB36.7 million of our total revenue, respectively, representing approximately 5.9%, 6.3%, 5.2% and 29.4% of our total revenue for the same periods, respectively.

During the Track Record Period, our Group entered into cooperation agreements with some of our customers. For details of the cooperation agreements, please refer to the sections headed “Business — Customers — Cooperation arrangement with our customers” and “Business — Customer — Salient terms in the cooperation agreements” in this prospectus.

### OUR SUPPLIERS

We procure raw materials such as steel and cement for our access flooring products mainly from suppliers who are based in the PRC. We also engage suppliers to provide installation services.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our five largest suppliers amounted to approximately RMB50.2 million, RMB49.8 million, RMB60.7 million and RMB42.4 million, respectively, representing approximately 41.2%, 45.1%, 40.5% and 51.1% of our total purchase of raw materials and installation costs for the same periods, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our largest supplier amounted to approximately RMB15.9 million, RMB18.7 million, RMB22.2 million and RMB23.4 million, respectively, representing approximately 13.0%, 17.0%, 14.8% and 28.2% of our total purchase of raw materials and installation costs for the same periods, respectively.

During the Track Record Period, our total purchase of raw materials amounted to approximately RMB115.1 million, RMB101.2 million, RMB140.2 million and RMB77.5 million, respectively, representing approximately 94.4%, 91.6%, 93.7% and 93.3% of our total purchase of raw materials and installation costs for the same periods, respectively.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our Group’s installation costs incurred in the engagement with our suppliers of installation services amounted to approximately RMB6.9 million, RMB9.3 million, RMB9.5 million and RMB5.6 million, respectively, representing approximately 5.6%, 8.4%, 6.3% and 6.7% of our total purchase of raw materials and installation costs for the same periods, respectively.

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## SUMMARY

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### OUR PRICING STRATEGY AND TENDER STRATEGY

Our Directors considered that both product specifications and technical requirements are the major factors affecting our product and/or service price. Based on the market needs, we usually adopt a cost-plus pricing policy that takes various factors into consideration, such as the production cost, price of raw materials, installation cost and market competition. We formulate our tender strategy based on this cost-plus pricing policy. Our tender success rate with our cooperation partners was approximately 50.0%, 37.5%, 40.0% and 25.0% for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. Our tender success rate with our other customers was approximately 31.7%, 33.8%, 38.3% and 38.1% for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively.

### OUR BACKLOG MOVEMENT

The following table sets out the backlog movement in the value of our projects during the Track Record Period and up to the Latest Practicable Date:

<b>Sales of access flooring products with installation services</b>	<b>As at 31 December</b>			<b>As at</b>	<b>As at the Latest Practicable Date</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June 2019</b>	<b>RMB'000</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening value of backlog projects	70,691	77,744	90,518	97,124	78,652
Awarded contract amount of new projects <sup>(Note 1)</sup>	147,531	208,824	196,671	88,416	111,489
Revenue recognised <sup>(Note 2)</sup>	(134,901)	(188,931)	(186,546)	(103,515)	(104,080)
Value of subsequent rectifications, modifications or adjustments <sup>(Note 3)</sup>	<u>(5,577)</u>	<u>(7,119)</u>	<u>(3,519)</u>	<u>(3,373)</u>	<u>(2,550)</u>
Ending value of backlog projects <sup>(Note 4)</sup>	<u>77,744</u>	<u>90,518</u>	<u>97,124</u>	<u>78,652</u>	<u>83,511</u>

*Notes:*

- Awarded contract amount of new projects represents the total contract sum of new projects awarded to us and may not include subsequent rectifications, modifications or adjustments, as such final revenue recognised from a contract may differ from the awarded contract amount.
- The revenue recognised for each year/period of the Track Record Period represents the audited revenue recognised for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, and the revenue recognised from 30 June 2019 to the Latest Practicable Date represents the unaudited revenue recognised for the same period, in each case taking no account of any subsequent rectifications, modifications and adjustments.

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## SUMMARY

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3. Our Directors confirmed that the value of subsequent rectifications, modifications or adjustments, which may result in addition or deduction of the original contract sum of our projects during the Track Record Period, is attributable to the design amendments of the original floor plan. We estimate our cost with reference to the floor plan provided by our customers, which is subject to the design amendments at the implementation stage. Our Directors confirmed that there was no material rectification, modification or adjustment to the work scope requested by our customers during the Track Record Period.
4. Ending value of backlog refers to the portion of the total estimated revenue that has not been recognised with respect to our contracts as at the end of the relevant year/period as indicated.

### OUR COMPETITIVE STRENGTHS

Our Directors believed that we possess the following competitive strengths, which have contributed to our success and distinguished us from our competitors:

- we are a well-established access flooring manufacturer with a proven track record in the PRC;
- our core values and distinctive products and services are recognised by our customers;
- we apply stringent quality control measures; and
- we have an experienced and stable management team.

For further details, please refer to the section headed “Business — Competitive strengths” in this prospectus.

### BUSINESS STRATEGIES

We intend to increase our market share and enhance our overall competitiveness by implementing the following strategies:

- increase our production capacity and efficiency by expansion of our production sites;
- upgrade our existing production lines by acquiring automated machinery and equipment; and
- upgrade our ERP system.

For further details, please refer to the section headed “Business — Business strategies” in this prospectus.

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## SUMMARY

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### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables summarise our selected financial information during the Track Record Period and should be read in conjunction with our financial information included in the Accountants' Report in Appendix I to this prospectus:

#### Selected information from the consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
<b>Revenue</b>	159,603	216,360	248,785	112,670	124,888
Cost of sales	<u>(122,398)</u>	<u>(162,616)</u>	<u>(188,619)</u>	<u>(86,339)</u>	<u>(94,046)</u>
<b>Gross profit</b>	37,205	53,744	60,166	26,331	30,842
Other revenue and other net income	1,539	410	876	295	734
Selling and distribution expenses	(3,008)	(5,149)	(5,217)	(2,943)	(2,605)
Impairment of contract assets and trade receivables	(386)	(3,312)	(2,722)	(2,369)	(3,192)
Impairment of other receivables	—	—	—	—	(323)
Administrative expenses	<u>(9,491)</u>	<u>(18,230)</u>	<u>(18,306)</u>	<u>(7,824)</u>	<u>(12,741)</u>
Profit from operations	25,859	27,463	34,797	13,490	12,715
Finance costs	<u>(3,031)</u>	<u>(3,680)</u>	<u>(4,814)</u>	<u>(2,408)</u>	<u>(3,757)</u>
<b>Profit before taxation</b>	22,828	23,783	29,983	11,082	8,958
Income tax	<u>(3,466)</u>	<u>(3,125)</u>	<u>(5,132)</u>	<u>(1,381)</u>	<u>(1,899)</u>
<b>Profit and total comprehensive income for the year/period</b>	<u><u>19,362</u></u>	<u><u>20,658</u></u>	<u><u>24,851</u></u>	<u><u>9,701</u></u>	<u><u>7,059</u></u>
<b>Attributable to:</b>					
Owners of the Company	19,168	20,451	24,605	9,605	6,989
Non-controlling interests	194	207	246	96	70

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Our net profits attributable to owners of our Company were approximately RMB19.2 million, RMB20.5 million, RMB24.6 million and RMB7.0 million for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively, representing a CAGR of approximately 13.3% from the year ended 31 December 2016 to the year ended 31 December 2018. For the reasons of such increase, please refer to the section headed “Financial Information” in this prospectus.

### Non-HKFRS measure

The following table sets out the reconciliation of the profit for the year/period to adjusted profit for the year/period, which, in the opinion of our Directors, eliminates the effect of major non-recurring expenses in comparing our performance without regard to items that do not affect our ongoing operating performance:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Profit for the year/period	19,362	20,658	24,851	9,701	7,059
Add: Listing expense	—	4,338	4,085	1,302	4,939
Adjusted profit for the year/period (excluding listing expenses)	<u>19,362</u>	<u>24,996</u>	<u>28,936</u>	<u>11,003</u>	<u>11,998</u>

Adjusted profit for the year/period excluding listing expenses is not a measure of performance under HKFRS which is not presented in the Accountants’ Report as set out in Appendix I to this prospectus, and is presented for illustration purpose only. We believe that this non-HKFRS measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.



## SUMMARY

### Cost of sales

The following table sets out a breakdown of our cost of sales by nature for the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Raw materials consumed	94,171	77.0	123,045	75.7	146,789	77.8	66,878	77.5	72,414	77.0
Transportation costs	8,617	7.1	11,714	7.2	12,278	6.5	5,797	6.7	6,244	6.6
Installation costs	6,856	5.6	9,266	5.7	9,463	5.0	4,582	5.3	5,551	5.9
Staff costs	3,310	2.7	5,647	3.5	6,609	3.5	3,265	3.8	3,355	3.6
Water, fuel and electricity	2,853	2.3	4,289	2.6	5,049	2.7	2,379	2.7	2,626	2.8
Depreciation of property, plant and equipment	3,582	2.9	3,643	2.2	3,699	2.0	1,843	2.1	1,904	2.0
Other factory overheads	2,465	2.0	4,365	2.7	4,085	2.2	1,271	1.5	1,628	1.7
Amortisation of right-of-use assets	544	0.4	647	0.4	647	0.3	324	0.4	324	0.4
<b>Total</b>	<b>122,398</b>	<b>100.0</b>	<b>162,616</b>	<b>100.0</b>	<b>188,619</b>	<b>100.0</b>	<b>86,339</b>	<b>100.0</b>	<b>94,046</b>	<b>100.0</b>

### Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB3.0 million for the year ended 31 December 2016 to approximately RMB5.1 million for the year ended 31 December 2017, primarily attributable to: (i) the increase in our staff costs, mainly resulting from the increase in the number of sales and marketing staff; and (ii) the increase in our travel and entertainment expenses, which was in line with the increase in our revenue for the same period. For further details of the change of our selling and distribution expenses during the Track Record Period, please refer to the section headed “Financial Information — Period to period comparison of results of operations — Selling and distribution expenses” in this prospectus.

### Administrative expenses

Our administrative expenses increased to approximately RMB18.2 million for the year ended 31 December 2017 from approximately RMB9.5 million for the year ended 31 December 2016, mainly attributable to: (i) the increase in Listing expenses by approximately RMB4.3 million for that our Group commenced its preparation of its listing application; (ii) the increase in our staff costs to approximately RMB2.0 million for the year ended 31 December 2017 from approximately RMB1.2 million for the year ended 31 December 2016 due to the increase in average headcount to cater the need from our increasing business activities; (iii) the increase in research and development costs to approximately RMB7.9 million for the year ended 31 December 2017 from approximately RMB6.2 million for the year ended 31 December 2016; and (iv) the increase in service expenses to approximately RMB1.1 million for the year ended 31 December 2017 from approximately RMB0.3 million for the year ended 31 December 2016, mainly resulting from the professional service fee increased by approximately RMB0.4 million and an one-off pipe network service fee of approximately RMB0.1 million.

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Our administrative expenses amounted to approximately RMB7.8 million for the six months ended 30 June 2018, and increased by approximately RMB4.9 million, or 62.8% to approximately RMB12.7 million for the six months ended 30 June 2019 mainly due to (i) the increase in Listing expenses from RMB1.3 million for the six months ended 30 June 2018 to approximately RMB4.9 million for the six months ended 30 June 2019; and (ii) the increase in research and development costs from approximately RMB3.3 million for the six months ended 30 June 2018 to approximately RMB4.7 million for the six months ended 30 June 2019.

For further details of the change of our administrative expenses during the Track Record Period, please refer to the section headed “Financial Information — Period to period comparison of results of operations — Administrative expenses” in this prospectus.

### **Selected information from the consolidated statements of financial position**

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	41,122	45,805	43,305	42,660
Current assets	185,349	243,632	276,536	286,264
Total assets	226,471	289,437	319,841	328,924
Current liabilities	121,050	155,882	166,609	169,007
Net current assets	64,299	87,750	109,927	117,257
Total assets less current liabilities	105,421	133,555	153,232	159,917
Non-current liabilities	3,675	9,943	2,818	2,444
Net assets	101,746	123,612	150,414	157,473
Total equity	101,746	123,612	150,414	157,473

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### Selected information from the consolidated statements of cash flows

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating cash flow before changes in working capital	30,854	36,476	42,828	18,489	18,789
Net cash generated from/(used in) operating activities	21,551	(40,668)	20,002	940	(13,533)
Net cash (used in)/generated from investing activities	(12,814)	1,759	(538)	943	(2,592)
Net cash (used in)/generated from financing activities	<u>(6,850)</u>	<u>49,731</u>	<u>(16,271)</u>	<u>(2,189)</u>	<u>14,091</u>
Increase/(decrease) in cash and cash equivalents	1,887	10,822	3,193	(306)	(2,034)
Cash and cash equivalents at beginning of year/period	<u>253</u>	<u>2,140</u>	<u>12,962</u>	<u>12,962</u>	<u>16,155</u>
Cash and cash equivalents at end of year/period	<u><u>2,140</u></u>	<u><u>12,962</u></u>	<u><u>16,155</u></u>	<u><u>12,656</u></u>	<u><u>14,121</u></u>

For the year ended 31 December 2017, our net cash used in operating activities was approximately RMB40.7 million, mainly comprising our operating profit before changes in working capital of approximately RMB36.5 million and net negative adjustments for changes in working capital of approximately RMB70.3 million. Our net negative adjustments for changes in working capital were primarily reflected by: (i) the increase in contract assets, trade and other receivables of approximately RMB90.9 million due to the increase in our revenue and some of our customers required a longer period for quality and quantity check and we allowed longer credit period to some of our customers which are large property developers or state-owned enterprises; (ii) the decrease in trade and bills payables of approximately RMB20.4 million due to our reduction in payment cycle in order to maintain a good relationship with our suppliers to get timely and sufficient supply of raw materials; partially offset by (iii) the decrease in inventories of approximately RMB29.9 million mainly due to the increase in revenue that utilise our access flooring products manufactured in 2016; (iv) the decrease in amount due from a shareholder and director of approximately RMB0.3 million; and (v) the increase in accruals and other payables and contract liabilities of approximately RMB10.8 million mainly due to the increase in accrued installation services and value-added-tax payable and the increase in the advance considerations received from our customers for the goods or services to be transferred by our Group.

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For the six months ended 30 June 2019, our net cash used in operating activities was approximately RMB13.5 million, mainly comprising our operating profit before changes in working capital of approximately RMB18.8 million and net negative adjustments for changes in working capital of approximately RMB27.4 million. Our net negative adjustments for changes in working capital were primarily reflected by: (i) the increase in contract assets, trade and other receivables of approximately RMB11.1 million; (ii) the decrease in trade and bills payables of approximately RMB16.8 million; (iii) the increase in inventories of approximately RMB0.9 million; and partially offset by (iv) the increase in other payables and contract liabilities of approximately RMB1.3 million. Our Group has adopted certain internal control policies to manage our cash flow regarding the collection of receivables and the settlement of payables. Our Group has been taking all necessary actions to improve and closely monitor our payment collection and settlement cycle with the advice of our internal control consultant. For further details of our cash flows during the Track Record Period, please refer to the section headed “Financial Information — Cash flows” in this prospectus.

### **Liquidity management policy**

To improve our cash flow position in view of its operating cash outflows, we (i) prepare cash flows budgets and perform variance analyses on a monthly basis; (ii) monitor our liquidity position to ensure we have sufficient funds to meet obligations when they become due; and (iii) implement a budgeting and forecasting process. Furthermore, our accounting manager is responsible for the monthly cash flow forecast report and our Directors are responsible for reviewing the actual and budget variance analysis on a monthly basis for monitoring the cash inflow and outflow. Our Directors have put a number of measures in place to further improve profitability, control operating costs and contain capital expenditures in order to improve our Group’s operating performance and alleviate its liquidity risk.

As confirmed by our Directors, when there is a potential shortfall in our cash position being identified, we will strive to negotiate for early settlement from our customers and/or request a longer credit period from our suppliers in order to mitigate the mismatches of trade receivable turnover days and trade payable turnover days. We also have an internal control system to monitor the ageing analysis of both trade receivables and payables at the end of each month. For the trade receivables past due, our Directors confirmed that material overdue payments are monitored and evaluated continuously on a case-by-case basis with appropriate follow-up actions to be implemented.

For further details of our liquidity management policy, please refer to the section headed “Financial Information — Liquidity management policy” in this prospectus.

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### KEY FINANCIAL RATIOS

The table below sets out our certain key financial ratios as at the dates/for the periods indicated:

	As at/For the year ended 31 December			As at/For the six months ended 30 June 2019
	2016	2017	2018	
	Return on equity <sup>(1)</sup>	19.0%	16.7%	16.5%
Return on assets <sup>(2)</sup>	8.5%	7.1%	7.8%	N/A <sup>(8)</sup>
Current ratio <sup>(3)</sup>	1.5	1.6	1.7	1.7
Quick ratio <sup>(4)</sup>	0.9	1.3	1.5	1.5
Gearing ratio <sup>(5)</sup>	40.3%	76.1%	55.0%	64.8%
Debt-to-equity ratio <sup>(6)</sup>	34.3%	63.5%	42.7%	53.3%
Interest coverage ratio <sup>(7)</sup>	8.5	7.5	7.2	3.4
Gross profit margin <sup>(9)</sup>	23.3%	24.8%	24.2%	24.7%
Net profit margin <sup>(10)</sup>	12.1%	9.5%	10.0%	5.7%
Adjusted net profit margin <sup>(11)</sup>	12.1%	11.6%	11.6%	9.6%

*Notes:*

1. Return on equity equals to our profit for the year divided by the closing balance of our total equity, multiplied by 100%, on a full-year basis.
2. Return on assets equals to our profit for the year divided by the closing balance of our total assets, multiplied by 100%, on a full-year basis.
3. Current ratio equals to our total current assets divided by our total current liabilities as at the year/period end date.
4. Quick ratio equals to our total current assets less our inventories divided by our total current liabilities as at the year/period end date.
5. Gearing ratio equals to our total loans and borrowings divided by our total equity as at the year/period end date, multiplied by 100%.
6. Debt-to-equity ratio equals to our net debts (being our total loans and borrowings net of our cash and cash equivalents) divided by our total equity as at the year/period end date, multiplied by 100%.
7. Interest coverage ratio equals to our profit for the year/period netting off our finance costs and income tax expense divided by our finance costs.
8. Calculation of return on equity and return on assets is on a full-year basis.
9. Gross profit margin is calculated by dividing the gross profit for the year/period by our total revenue for the year/period and multiplied by 100%.

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10. Net profit margin is calculated by dividing the net profit for the year/period by our total revenue for the year/period and multiplied by 100%.
11. Adjusted net profit margin is calculated by dividing the adjusted net profit for the year/period by our total revenue for the year/period and multiplied by 100%.

For the explanation of the fluctuation of the financial ratios, please refer to the section headed “Financial Information — Key financial ratios” in this prospectus.

### OUR SHAREHOLDING STRUCTURE

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any options that may be granted under the Share Option Scheme), Mr. Shen, through Jiachen Investment, will own 37.76% of Shares, Ms. Zhang, through Xinchun Investment, will own 23.14% of Shares and Mr. Shen MH, through Yilong Investment, will own 13.15% of Shares, respectively, in the enlarged issued share capital of our Company. As Mr. Shen and Ms. Zhang are spouses, Mr. Shen, Jiachen Investment, Ms. Zhang and Xinchun Investment will be our Controlling Shareholders under the Listing Rules holding in aggregate 60.90% of Shares.

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any options that may be granted under the Share Option Scheme), the Substantial Shareholders hold approximately 1% non-controlling interests in JiaChen Floor. Please refer to the section headed “History, Reorganisation and Corporate Structure — The Reorganisation — (5) Subscription of the increased registered capital in Changzhou Jintai” for further details.

### PRE-IPO INVESTMENT

Pursuant to the Pre-IPO Investment Agreement, Victor Best Investment, a company wholly owned by Ms. Yan indirectly, subscribed for the increased portion of the registered capital in JiaChen Floor. Upon completion of the Pre-IPO Investment, JiaChen Floor was converted to a sino-foreign joint venture company, and was 50.34% owned by Mr. Shen, 30.85% owned by Ms. Zhang, 17.54% owned by Mr. Shen MH and 1.27% owned by Victor Best Investment.

Ms. Yan, our pre-IPO investor, being the sole shareholder of Crystal Breeze Ventures and the director of Rui Xing Holdings and Victor Best Investment, will be indirectly interested in approximately 0.95% Shares upon Listing (without taking into account any options that may be granted under the Share Option Scheme) by virtue of her interest in Crystal Breeze Ventures, which will not be subject to any lock-up obligations upon and after Listing.

Ms. Yan principally engages in investment and electronics industry and first became acquainted with Mr. Shen when Ms. Yan met Mr. Shen and Mr. Shen MH in a business function. Ms. Yan has previous investment experience and has strong commercial network and connection with business association in Changzhou, which our Directors believed that our Company can leverage on Ms. Yan to assist us in terms of financing needs and new business opportunities. Ms. Yan became our pre-IPO investor because she was optimistic with the prospect of access flooring manufacturing industry in the PRC and foresaw good prospect on our Company.

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## SUMMARY

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For Ms. Yan's background and the Pre-IPO Investment, please refer to the section headed "History, Reorganisation and Corporate Structure — The Pre-IPO Investment" for further details.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering, after deducting the related underwriting fees and commissions and estimated total listing expenses payable by us in connection with the Global Offering, will be approximately HK\$94.6 million, assuming an Offer Price of HK\$0.565 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.53 to HK\$0.60 per Offer Share. Our Directors currently intend to apply such net proceeds in the following manner:

- (i) approximately HK\$79.3 million (equivalent to approximately RMB70.0 million or approximately 83.8% of our total estimated net proceeds) will be used for expansion of our production facilities by acquiring a parcel of land in the PRC and implementation of new production lines and supplemental equipment;
- (ii) approximately HK\$5.6 million (equivalent to approximately RMB4.9 million or approximately 5.9% of our total estimated net proceeds) will be used to optimise our manufacturing process and to increase productivity by acquiring automated machinery and equipment for upgrading our existing production lines;
- (iii) approximately HK\$5.5 million (equivalent to approximately RMB4.8 million or approximately 5.8% of our total estimated net proceeds) will be used for repaying outstanding indebtedness of our Group under the facility agreement drawn on 25 February 2019 for financing our Group's general working capital in procuring raw materials, bearing a fixed interest rate based on a one-year loan prime rate of +/- 1.11% on the previous business day before the drawdown date which will mature on 25 February 2020. For details of the outstanding indebtedness of our Group, please refer to the section headed "Financial Information — Indebtedness and contingent liabilities" in this prospectus;
- (iv) approximately HK\$2.5 million (equivalent to approximately RMB2.2 million or approximately 2.7% of our total estimated net proceeds) will be used for enhancing and optimising our information technology system, in particular upgrading our existing ERP system; and
- (v) approximately HK\$1.7 million (equivalent to approximately RMB1.3 million or approximately 1.8% of our total estimated net proceeds) will be used for our working capital and general corporate purposes.

For details of the time frame of our implementation plans of our future plans, please refer to the section headed "Future Plans and Use of Proceeds — Our implementation plans" in this prospectus.

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### RISK FACTORS

The key risks which we may face include, among others:

- (i) our revenue is largely derived from our contracts which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results;
- (ii) we determine the tender price based on our estimation of the time and costs to be involved, which may not be accurate. Any material deviation from our estimation due to unexpected circumstances may lead to losses in our projects;
- (iii) we are exposed to the credit risks of our customers and may experience increasing balance of contract assets and trade receivables, which could materially and adversely affect our financial conditions. Furthermore, our liquidity position and financial performance may be materially and adversely affected if project payment or retention monies is not paid or released to us on time or in full;
- (iv) we may not be able to bill and receive the full amount of contract assets and the aggregate amount of revenue that we are able to derive from a project may be different from the original contract sum specified in the relevant contract for the project due to rectifications, modifications or adjustments to the work scope by our customers;
- (v) we recorded negative operating cash flow for the year ended 31 December 2017 and the six months ended 30 June 2019 and may face financial difficulties in the future if we fail to maintain effective cash flow management;
- (vi) we are uncertain about the recoverability of our deferred tax assets, which may affect our financial positions in the future;
- (vii) we are exposed to risk of inventories obsolescence; and
- (viii) our business, financial conditions and growth prospects may be adversely affected by the potential increase in staff costs and depreciation expenses incurred from implementing our expansion plan.

A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” in this prospectus.

### DIVIDEND

No dividends have been paid or declared by our Company since its date of incorporation. Any future declaration and payment of dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operations and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders, as well as any applicable laws. We do not have any predetermined dividend payout ratio.



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## SUMMARY

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### OFFER STATISTICS

We have prepared the following offer statistics on the basis of the indicative Offer Price without taking into account the brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%:

	<b>Based on the low end of indicative Offer Price range of HK\$0.53 per Share</b>	<b>Based on the high end of the indicative Offer Price range of HK\$0.60 per Share</b>
Market capitalisation of our Shares <sup>(1)</sup>	HK\$530,000,000	HK\$600,000,000
Unaudited pro forma adjusted consolidated net tangible asset value per Share <sup>(2)</sup>	HK\$0.28	HK\$0.29

*Notes:*

- (1) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is based on 1,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.

### LEGAL COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph below, our Group had complied with the relevant laws and regulations in relation to our business in all material respects, and there were no material breaches or violations of the laws and regulations applicable to us that would have material adverse effect on our business or financial conditions taken as a whole. As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was engaged in any litigation or claim or arbitration of material importance, and to the best knowledge of our Directors, to be pending or threatened against our Group or our Directors.

During the Track Record Period, we failed to comply with certain applicable laws and regulations in the PRC, including: (i) we did not make social insurance fund contributions and housing provident fund contributions in full as required by the relevant PRC laws and regulations for our employees; (ii) we failed to file the environmental impact assessment documents prior to the commencement of the construction of calcium sulfate flooring products project and failed to file the application for environmental protection examination prior to the use of production facilities for commencement of production; (iii) we failed to obtain the construction works planning permit in respect of four buildings located in the PRC, and failed to obtain construction works commencement permit in respect of three buildings. We also failed to process the inspection of the completed construction works prior to the delivery and use of the three buildings; (iv) we used a supply contract to apply for bank acceptance bills with Changzhou Economic Development Zone Branch of the Agricultural Bank of China in 2016. The bills were endorsed by the supplier and were used to settle

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## SUMMARY

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the purchase payment with certain small-scale suppliers, which was not in compliance with the PRC Negotiable Instruments Law; (v) 15 individuals engaged by JiaChen Floor did not apply to Changzhou Wujin Taxation Bureau for issuance of invoices to us directly but applied through two other service providers who did not have transaction with us; and (vi) JiaChen Floor advanced certain interest-free loans to seven corporate entities for their temporary working capital needs, which was not in compliance with the General Lending Provisions.

For further details, please refer to the section headed “Business — Legal compliance — Non-compliance incidents” in this prospectus.

### LISTING EXPENSES

The estimated total expenses in relation to the Listing are approximately RMB41.1 million (equivalent to approximately HK\$46.7 million), calculated based on the Offer Price of HK\$0.565 per Share (being the mid-point of our indicative price range). Approximately RMB13.4 million (equivalent to approximately HK\$15.2 million) had already been recorded in the consolidated statements of profit or loss and other comprehensive income during the Track Record Period. Furthermore, approximately RMB6.4 million (equivalent to approximately HK\$7.3 million) and approximately RMB4.8 million (equivalent to approximately HK\$5.4 million) are expected to be charged to the consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2019 and 2020, respectively. The balance of the expenses of approximately RMB16.5 million (equivalent to approximately HK\$18.8 million) will be recorded as equity of our Company. Our Directors would like to emphasise that such amount of total expenses is a current estimation for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions.

Our Directors believed that the Listing is beneficial to our Company and its Shareholders as a whole, notwithstanding the dilution effect on the shareholdings of our Controlling Shareholders upon Listing and the expenses involved in the process of the Global Offering, taking into consideration of the following reasons: (i) imminent fund raising platform; (ii) long-term fund raising platform; (iii) strengthening the competitiveness of our Group; (iv) higher profile and visibility; and (v) maximise Shareholders’ interest.

### RECENT DEVELOPMENT

As at the Latest Practicable Date, we had 59 projects on hand with a total initial contract sum of approximately RMB191.5 million, approximately RMB31.6 million was recognised as revenue during the Track Record Period, and the revenue to be recognised for the six months ending 31 December 2019 and the year ending 31 December 2020 is estimated to be RMB58.5 million and RMB75.9 million, respectively. As at the Latest Practicable Date, all existing projects have continued to contribute revenue to our Group and none of them has had any material interruption.

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## SUMMARY

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The amount of revenue expected to be recognised is subject to change due to the actual progress and commencement and completion dates of our projects. Our Directors expect our revenue for the year ending 31 December 2019 to increase as compared to that recorded for the year ended 31 December 2018. Accordingly, our Directors currently expect an increase in our gross profit for the year ending 31 December 2019. Furthermore, our Directors believed that the net profit for the year ending 31 December 2019 is expected to decrease mainly due to the non-recurring listing expenses.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we submitted 46 tenders of which 20 projects were awarded. During the same period, our Group secured 67 contracts with an aggregate estimated contract sum (exclusive of tax) of approximately RMB111.5 million. For details of the contracts awarded, each with an aggregate contract sum (exclusive of tax) over RMB5.0 million, please refer to the section headed “Business — Business strategies — Increase our production capacity and efficiency by expansion of our production sites — Commercial rationale for expansion — 2. Addition of new projects and addition of new customers to our existing customer base” in this prospectus.

As far as our Directors are aware, there has been no other changes in the general economic or market conditions or in the access floor manufacturing industry in the PRC as a whole, which would have a material and adverse impact on our business operations or financial conditions since 30 June 2019 and up to the date of this prospectus.

Save and except for the listing expenses as disclosed above, our Group did not have any significant non-recurrent items in our consolidated statements of comprehensive income subsequent to the Track Record Period. Our results of operations for the year ending 31 December 2019 are expected to be significantly affected by the non-recurring listing expenses as disclosed in the section headed “Financial Information — Listing expenses” in this prospectus.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirmed that, save for the expenses in connection to the Listing, since 30 June 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirmed that there have been no events since 30 June 2019 which would materially affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

”6M2018”	the six months ended 30 June 2018
”6M2019”	the six months ended 30 June 2019
“Accountants’ Report”	the accountants’ report of our Group prepared by the Reporting Accountants as set out in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on 19 December 2019 which will become effective upon Listing and as amended, supplemented or modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Board”	our board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of our Company, details of which are referred to under the section headed “Statutory and General Information — A. Further information about 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
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

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## DEFINITIONS

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“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct 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 practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Changzhou Jingang”	常州市金港商務信息諮詢有限公司 (Changzhou Jingang Business Information Consulting Co., Ltd.*), a company established in the PRC with limited liability on 9 November 2017, which is an indirect wholly-owned subsidiary of our Company
“Changzhou Jintai”	常州市金台商務信息諮詢有限公司 (Changzhou Jintai Business Information Consulting Co., Ltd.*), a company established in the PRC with limited liability on 8 December 2017, which is an indirect non-wholly owned subsidiary of our Company
“China”, “PRC” or the “People’s Republic of China”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“CIC”	China Insights Consultancy Limited, the independent market research agency engaged by our Company to prepare the CIC Report
“CIC Report”	the market research report prepared by CIC
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“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
“Company” or “our Company”	JiaChen Holding Group Limited ( 佳辰控股集團有限公司), a company incorporated in the Cayman Islands on 7 July 2017 as an exempted company with limited liability
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refers to Mr. Shen, Jiachen Investment, Ms. Zhang and Xinchen Investment or any of them
“Crystal Breeze Ventures”	CRYSTAL BREEZE VENTURES LIMITED (顯風創投有限公司), a company incorporated in the BVI with limited liability on 23 January 2017, which is wholly owned by Ms. Yan
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Dakin Capital” or “Sponsor”	Dakin Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, acting as the sponsor of the Global Offering
“Deed of Indemnity”	the deed of indemnity dated 19 December 2019 executed by our Substantial Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), details of which are set out in the section headed “Statutory and General Information — F. Other information — 1. Tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-Competition”	a deed of non-competition dated 19 December 2019 executed by our Substantial Shareholders in favour of our Company (for itself and for the benefit of each of its subsidiaries), details of which as set out in the section headed “Relationship with Controlling and Substantial Shareholders — Deed of Non-Competition” in this prospectus
“Director(s)”	the director(s) of our Company
“Extreme Conditions”	extreme conditions including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong

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## DEFINITIONS

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“FY2016”	the year ended 31 December 2016
“FY2017”	the year ended 31 December 2017
“FY2018”	the year ended 31 December 2018
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider designated by our Company
“GDP”	gross domestic product
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “Hong Kong dollars” or “HKD”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“ <b>HK eIPO White Form</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting application online at the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the IPO App
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> Service Provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or the IPO App
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong Offer Shares”	the 25,000,000 Shares being initially offered by our Company for subscription pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus

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## DEFINITIONS

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“Hong Kong Public Offering”	the offer to the public in Hong Kong for subscription of the Hong Kong Offer Shares at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), payable in full on application, on and subject to the terms and conditions stated in this prospectus and in the Applications Forms, details of which are described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Underwriter(s)”	the underwriter(s) of the Hong Kong Public Offering whose name(s) are set out in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 30 December 2019 relating to the Hong Kong Public Offering entered into by our Company, our Substantial Shareholders, our executive Directors, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, details of which are described in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected person(s) (within the meaning ascribed thereto under Listing Rules)
“International Placing”	the placing of the International Placing Shares, at the Offer Price to selected professional, institutional and other investors as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Shares”	the 225,000,000 Shares initially being offered for subscription at the Offer Price under the International Placing, subject to reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriter(s)”	the underwriter(s) of the International Placing, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the international underwriting agreement to be entered into by, among others, our Company and the International Underwriters, details of which are described in the section headed “Underwriting” in this prospectus



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## DEFINITIONS

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“IPO App”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “ <b>IPO APP</b> ” in App Store or Google Play or downloaded at <a href="http://www.hkeipo.hk/IPOApp">www.hkeipo.hk/IPOApp</a> or <a href="http://www.tricorglobal.com/IPOApp">www.tricorglobal.com/IPOApp</a>
“JiaChen Floor”	佳辰地板常州有限公司 (JiaChen Floor Changzhou Co., Ltd.*) (formerly known as 常州佳辰地板集團有限公司 (Changzhou JiaChen Floor Group Co., Ltd.*), which was also known as 江蘇萊士特地板有限公司 (Jiangsu Laishide Flooring Co., Ltd.*) at the time of establishment), a company established in the PRC with limited liability on 18 September 2009, which is an indirect non-wholly owned subsidiary of our Company
“Jiachan Investment”	Jiachan Investment Limited (嘉辰投資有限公司), a company incorporated in the BVI with limited liability on 15 March 2017, which is solely and beneficially owned by Mr. Shen
“Jiachan Machinery Plant”	常州市佳辰機房設備有限公司 (Jiachan Machinery Plant Co., Ltd.*) (formerly known as 常州市佳辰機房設備廠 (Changzhou Jiachen Machinery Plant Factory*), which was also known as 武進縣崔橋計算機配件廠 (Wujin District Cui Qiao Computer Parts Factory*) at the time of establishment), a collectively-owned enterprise established in the PRC on 15 April 1991 which was converted to a joint-stock co-operative enterprise on 28 July 1997 and was later converted to a limited liability company on 31 December 2004, which was a non-wholly owned subsidiary of JiaChen Floor prior to the Reorganisation
“Jia Li Si”	常州市佳麗斯石塑地板有限公司 (Changzhou Jia Li Si Stone Sculpture Floor Co., Ltd.*), a company established in the PRC with limited liability on 19 September 2006, which was a non-wholly owned subsidiary of JiaChen Floor prior to the Reorganisation
“Jia Shen Le”	江蘇佳申樂商貿有限公司 (Jiangsu Jia Shen Le Trading Co., Ltd.*), a company established in the PRC with limited liability on 13 September 2011, which was a non-wholly owned subsidiary of JiaChen Floor prior to the Reorganisation
“Jinyueda Development”	Jinyueda Development Limited (金悅達發展有限公司), a company incorporated in Hong Kong with limited liability on 11 August 2017, which is an indirect wholly-owned subsidiary of our Company

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## DEFINITIONS

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“Joint Bookrunners”	Astrum Capital Management Limited and Wealth Link Securities Limited
“Joint Lead Managers”	Astrum Capital Management Limited, Wealth Link Securities Limited, Lead Securities (HK) Limited, Quasar Securities Co., Limited and Emperio Securities And Assets Management Limited
“Latest Practicable Date”	21 December 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to the printing of this prospectus
“LeiShuo Ventures”	LeiShuo Ventures Development Limited (磊碩投資發展有限公司), a company incorporated in the BVI with limited liability on 18 July 2017, which is a wholly-owned subsidiary of our Company
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	17 January 2020, being the date on which dealings in our Shares are expected to first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange, and which, for the avoidance of doubt, excludes GEM
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, conditionally adopted on 19 December 2019 which will become effective upon Listing, as amended, supplemented or modified from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部)
“Mr. Chen”	Mr. Chen Shiping (陳仕平), the chief executive officer of our Group and an executive Director
“Mr. Shen”	Mr. Shen Min (沈敏), whose former name was Shen Xiaodu (沈筱度), the chairman of our Board, an executive Director, a Controlling Shareholder, Ms. Zhang’s spouse and Mr. Shen MH’s father

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## DEFINITIONS

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“Mr. Shen MH”	Mr. Shen Minghui (沈明暉), an executive Director, a Substantial Shareholder and the son of Mr. Shen and Ms. Zhang
“Mr. Zhou”	Mr. Zhou Guoxiang (周國祥), the sole shareholder of Jia Li Si upon completion of the Reorganisation, an Independent Third Party
“Ms. Yan”	Ms. Yan Han Lin (顏翰琳), our pre-IPO investor and the sole shareholder of Crystal Breeze Ventures, and will be indirectly interested in approximately 0.95% Shares upon Listing (assuming the options granted under the Share Option Scheme are not exercised) by virtue of her interest in Crystal Breeze Ventures
“Ms. Zhang”	Ms. Zhang Yaying (章亞英), an executive Director, a Controlling Shareholder, Mr. Shen’s spouse and Mr. Shen MH’s mother
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be offered for subscription pursuant to the Global Offering
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Legal Advisers”	Beijing Dentons Law Offices, LLP, the legal advisers to our Company as to PRC laws
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Pre-IPO Investment”	the investment by Victor Best Investment in JiaChen Floor pursuant to the Pre-IPO Investment Agreement, details of which are set out in the section headed “History, Reorganisation and Corporate Structure — The Pre-IPO Investment” in this prospectus
“Pre-IPO Investment Agreement”	the capital subscription agreement dated 18 December 2017 entered into among Mr. Shen, Ms. Zhang, Mr. Shen MH and Victor Best Investment relating to the investment in JiaChen Floor by Victor Best Investment

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## DEFINITIONS

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“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or about the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, 10 January 2020 but not later than Monday, 13 January 2020, on which the Offer Price is fixed for the purpose of the Global Offering
“Regulation S”	regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisations undergone by our Group in preparation for the Listing as described in the section headed “History, Reorganisation and Corporate Structure — The Reorganisation” in this prospectus
“Reporting Accountants”	Crowe (HK) CPA Limited, Certified Public Accountant, Hong Kong, the reporting accountants of our Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rui Xing Holdings”	RUI XING HOLDINGS LIMITED (瑞興控股有限公司), a company incorporated in the BVI with limited liability on 5 July 2016, which is a wholly-owned subsidiary of our Company
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal or par value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the written resolutions of all our Shareholders passed on 19 December 2019, the principal terms of which are summarised in the section headed “Statutory and General Information — E. Share Option Scheme” in Appendix IV to this prospectus
“Share Swap Agreement”	the share swap agreement dated 15 March 2018 entered into between Crystal Breeze Ventures and our Company

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refer to Mr. Shen, Jiachen Investment, Ms. Zhang, Xinchen Investment, Mr. Shen MH and Yilong Investment, or any of them
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three financial years ended 31 December 2018 and the six months ended 30 June 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States”, “U.S.” or “US”	the United States of America, including its territories and possessions
“U.S. dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the US
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended from time to time and the rules and regulations promulgated thereunder
“Victor Best Investment”	Victor Best Investment Limited (佳億投資有限公司), a company incorporated in Hong Kong with limited liability on 30 June 2016, which is an indirect wholly-owned subsidiary of our Company
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s or the applicants’ own name(s)
“Xinchen Investment”	Xinchen Investment Limited (鑫辰投資有限公司), a company incorporated in the BVI with limited liability on 15 March 2017, which is solely and beneficially owned by Ms. Zhang
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

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## DEFINITIONS

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“Yilong Investment”	Yilong Investment Limited (亿龙投资有限公司), a company incorporated in the BVI with limited liability on 15 March 2017, which is solely and beneficially owned by Mr. Shen MH
“%”	per cent.

*The terms “associate”, “close associate”, “connected person”, “connected transaction”, “controlling shareholder”, “core connected person”, “significant shareholder”, “subsidiary” and “substantial shareholder” have the meanings ascribed to such terms under the Listing Rules, unless the context otherwise requires.*

*This prospectus contains explanations and definitions of certain terms used in connection with our Group’s business. The terms and their meanings used in this prospectus may not correspond to standard industry meaning or usage of these terms. As there is no official industry classification, the classification of our products is determined based on our Directors’ knowledge and experience. Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.*

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

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

*Amounts denominated in RMB and USD have been translated, for the purpose of illustration only, into HK\$, and vice versa, in this prospectus at the rates of RMB0.88 to HK\$1.00 and USD1.00 to HK\$7.80, respectively. No representation is made that any amounts in HK\$ or RMB can be or could have been at the relevant date converted at the above rates or any other rates or at all.*

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

*All times refer to Hong Kong time. Unless otherwise specified, reference to years in this prospectus are to calendar years.*

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## GLOSSARY OF TECHNICAL TERMS

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

“CAGR”	compound annual growth rate
“contract sum”	the original contract sum, without taking into account any rectifications, modifications or adjustments
“ERP system”	enterprise resource planning system
“FOB”	“free on board”, a trade term meaning that the seller includes all charges at a designated port of departure for the delivery of goods to the buyer at which the risk of loss is transferred from the seller to the buyer
“GDP”	gross domestic product
“ISO”	International Organisation for Standardisation, a worldwide federation of national standards bodies
“ISO 9001”	quality management system requirements published by ISO
“ISO 14001”	environmental management system requirements published by ISO
“main contractor”	in respect of a construction project, a contractor appointed by the project employer who generally oversees the progress of the entire construction project and delegates different work tasks of the construction to other contractors
“method statement”	a document detailing how a particular task or activity will be carried out
“mu”	the traditional Chinese unit of area (亩), one mu is equivalent to approximately 666.67 sq.m.
“OHSAS 18001”	occupational health and safety management requirements system published by ISO
“sq.m.”	square metre(s)
“total contract amount”	the total of the contract sum and the amount from rectifications, modifications or adjustments, if any, or the total revenue recognised from the relevant contract

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## FORWARD-LOOKING STATEMENTS

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

These forward-looking statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus.

You are strongly cautioned that reliance on any forward-looking statement involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to the following:

- our Group’s operation and business prospects, including development plans for existing and new businesses;
- future developments, trends and conditions in the industry and markets in which we operate;
- our Group’s business objectives, business, strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which our Group operates;
- the regulatory environment and general outlook in the industry and markets in which our Group operates;
- the effects of the global financial markets and economic crisis;
- our Group’s financial position;
- our Group’s ability to reduce costs;
- our Group’s dividend policy;
- the amount and nature of, and potential for, future development of our Group’s business;
- various business opportunities that our Group may pursue;
- fluctuation in the prices of raw materials and our Group’s ability to pass-through any increase in price to customers;



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## FORWARD-LOOKING STATEMENTS

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- our Group’s ability to hire and retain talented employees;
- the actions and developments of our competitors and our Group’s ability to compete under these actions and developments;
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends;
- the other factors that are described in the section headed “Risk Factors” in this prospectus; and
- other factors beyond our Group’s control.

We do not intend to update these forward-looking statements in addition to on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement set out in this section.

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

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## RISK FACTORS

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*Prospective investors should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment decision in relation to the Offer Shares. The business, financial conditions, results of operations and future prospects of our Group could be materially adversely affected by any of these risks.*

*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 decline 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, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the Global Offering; and (v) risks relating to statements made in this prospectus.

### **RISKS RELATING TO OUR BUSINESS**

**Our revenue is largely derived from our contracts which are non-recurrent in nature and any failure of our Group to secure tender contracts would affect our operations and financial results.**

During the Track Record Period, our revenue is largely derived from our sales of access flooring products with installation services through competitive tendering on a contract-by-contract basis, which is non-recurrent in nature. Our future growth and success will depend on our ability to continue to secure tender and contract awards and there is no guarantee that we will be able to secure new contracts in the future. In addition, we do not enter into any long-term agreement with our customers and we have to undergo the entire tender process for every new contract. There is a risk that we may not succeed in tendering for the same customer's services upon the expiry of our existing contracts. Our customers may also choose to engage our competitors for their future contracts. We are unable to guarantee that we can achieve the same or higher tender success rate in the future as we did in the past.

In the competitive tendering process, as terms and conditions of our tenders vary from case to case, together with the size of the contracts we tender, we may have to lower our costs or offer more favourable terms to our customers in order to increase the competitiveness of our tenders. However, even if we are able to meet the pre-requisite requirements for tendering, there is no assurance that: (i) we will be invited to or are made aware of the tendering opportunity; (ii) the terms and conditions of the new contracts will be comparable to our existing contracts; or (iii) our tenders will be selected by the customers. As a result, we may not secure any new contracts or maintain our engagements with our existing customers, and our business, financial conditions and results of operations may be materially and adversely affected. Our historical revenue and profit margin may not be indicative of our future revenue and profit margin.

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## RISK FACTORS

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During the Track Record Period, our revenue amounted to approximately RMB159.6 million, RMB216.4 million, RMB248.8 million and RMB124.9 million, respectively. For the same periods, our gross profit amounted to approximately RMB37.2 million, RMB53.7 million, RMB60.2 million and RMB30.8 million, respectively, whereas our gross profit margin amounted to approximately 23.3%, 24.8%, 24.2% and 24.7%, respectively. For detailed analysis of our Group's gross profit and gross profit margin, please refer to the section headed "Financial Information — Gross profit and gross profit margin" in this prospectus.

Given that our revenue is largely derived from our sales of access flooring products with installation services, which are mainly on a project-by-project basis, and that our fees and profit margins in respect of the relevant projects are dependent on the price of our tender or quotation, which may be affected by several factors, including technical requirements, feasibility of project timetable, logistics, payment method, our capability and compliance that are beyond our control, there is no assurance that we will always be able to maintain similar levels of profitability as those achieved during the Track Record Period.

**We determine the tender price based on our estimation of the time and costs to be involved, which may not be accurate. Any material deviation from our estimation due to unexpected circumstances may lead to losses in our projects.**

We determine the tender price based on our estimated project costs plus a mark-up margin. We have to maintain the competitiveness of our pricing while maximising our profit margin. If we perceive the competition on a particular project, we may submit a more competitive tender price with a lower mark-up margin, thereby reducing our profitability. If the mark-up margin set by us is too low, we may not be able to cover the financial impact of any unfavourable circumstances during project implementation. On the other hand, if we try to cater for the unfavourable circumstances and set a significant mark-up margin, our tender may become uncompetitive. There is no assurance that we will always be able to price our tenders competitively, and failing to do so may cause us to lose the tenders, thereby resulting in a decrease in the number of projects awarded to us, which in turn may adversely affect our business and results of operations.

Most of our contracts with customers have a fixed and pre-determined contract sum throughout the contract period without any price adjustment mechanisms to accommodate any fluctuations in costs. As there is no assurance that the costs estimated for our tenders are accurate, we have to bear the risk of cost fluctuations accordingly. Cost overrun may result from inaccurate estimation of costs, disputes with parties involved in the project, changes in the regulatory requirements and government policies, inflation and other unforeseen circumstances. Any of these may also give rise to delays in completion of works or even unilateral termination of contracts by our customers due to unsatisfactory performance. If we are unable to control our costs within our estimates or recover the extra costs, our profit margin and results of operations may be adversely affected.

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## RISK FACTORS

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**We are exposed to the credit risks of our customers and may experience increasing balance of contract assets and trade receivables, which could materially and adversely affect our financial conditions. Furthermore, our liquidity position and financial performance may be materially and adversely affected if project payment or retention monies is not paid or released to us on time or in full.**

We are subject to the credit risks of our customers. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our contract assets, before deduction for allowance for expected credit losses, amounted to approximately RMB41.8 million, RMB70.2 million, RMB90.6 million and RMB86.7 million, respectively, and our trade receivables, before deduction for allowance for expected credit losses, amounted to approximately RMB47.7 million, RMB111.4 million, RMB132.1 million and RMB151.2 million as at the same date, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our impairment of contract assets and trade receivables amounted to approximately RMB0.4 million, RMB3.3 million, RMB2.7 million and RMB3.2 million, respectively. As our business continues to scale, our trade receivable balance may continue to grow, which may increase our risks for uncollectible receivables. Actual losses on receivable balance may differ from our estimation and reserve in our allowance account, as a result a necessary adjustment on our allowance may be required, and our financial conditions may be materially and adversely affected.

Furthermore, in line with the industry norm that as (i) there is a time gap between installation of access flooring products and the completion of the building, our customers, being the large-scale property developers and government entities may require longer period for quality and quantity checks; and (ii) our customers may require to make payment after conducting acceptance check of the entire building, we had a longer period of time between the completion of access flooring installation and the actual time of issuing the invoice to our customers, and a longer trade receivable turnover period. Therefore, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our average contract assets, trade and bills receivable turnover days were approximately 170.9 days, 218.3 days, 283.4 days and 316.2 days. We cannot assure you that our customers will meet their payments obligations on time, in full or at all.

Our financial liquidity is dependent on our customers making prompt progress payments and/or release of retention monies due to us for our sales of access flooring products with installation services. As a result, we have to incur various costs and expenses following commencement of our projects. Progress payment is generally made by our customers based on progress of work which our Directors will make reference to: (i) the progress status reports acknowledged either by our customers or the agents appointed by our customers; and (ii) the installation reports issued by suppliers of installation services, to determine the quantities of our products having been delivered and installed. A portion of contract value (which generally takes around 3% to 10% of contract sum of our projects) is usually withheld by our customers as retention monies. For further details, please refer to the section headed “Business — Customers — Salient terms with our customers” in this prospectus. For the three years ended 31 December 2018 and the six months ended 30 June 2019, our retention monies receivable amounted to approximately RMB4.0 million, RMB17.2 million, RMB21.2 million and RMB18.3 million, respectively, were retained by our customers. Any default in payments of receivables and progress payments or delays in payments of retention monies owed to us or any unilateral demands on performance and quality guarantees by our clients may lead to a decrease of working capital available for our other operations. While we may file claims against our customers

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## RISK FACTORS

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for uncompensated costs we have incurred pursuant to our contracts, any disputes between us and our customers as to the value of work properly done in a particular period, or failure by our customers to make progress payment or release retention monies on time or in full would have an adverse effect on our liquidity position and financial performance.

**We may not be able to bill and receive the full amount of contract assets and the aggregate amount of revenue that we are able to derive from a project may be different from the original contract sum specified in the relevant contract for the project due to rectifications, modifications or adjustments to the work scope by our customers.**

Contract assets are recognised when our Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. There is no assurance that we will be able to bill and receive the full amount of contract assets as we may not be able to reach an agreement with our customers on the value of our work done. If we are not able to do so, our results of operation, liquidity and financial position may be adversely affected. During the Track Record Period, the value of subsequent rectifications, modifications or adjustments amounted to approximately RMB5.6 million, RMB7.1 million, RMB3.5 million and RMB3.4 million, respectively.

Furthermore, the aggregate amount of revenue that we are able to derive from a project may be different from the original contract sum specified in the relevant contract for the project due to rectifications, modifications or adjustments to the work scope requested by our customers from time to time in the course of project execution. Please refer to the section headed “Business — Customers — Salient terms with our customers” in this prospectus for further details of the rectifications, modifications or adjustments to our work scope. As such, there is no assurance that the amount of revenue derived from our projects will not be substantially different from the original contract sum as specified in the relevant contracts, and our financial conditions may be adversely affected by any decrease in our revenue as a result of the rectifications, modifications or adjustments to our work scope.

**We recorded negative operating cash flow for the year ended 31 December 2017 and the six months ended 30 June 2019 and may face financial difficulties in the future if we fail to maintain effective cash flow management.**

We recorded negative cash flows from our operating activities of approximately RMB40.7 million and RMB13.5 million for the year ended 31 December 2017 and the six months ended 30 June 2019, respectively. For the reasons of the negative operating cash flow for the year ended 31 December 2017 and the six months ended 30 June 2019, please refer to the section headed “Financial Information — Cash flows” in this prospectus.

Our Directors believed that in the long term, our operation will be funded by cash generated from our operations as well as other external equity or debt financing. In the event that we are unable to generate positive operating cash flow, we may be required to obtain sufficient external financing to meet our financial needs and obligations and such financing activities may increase our finance costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all. As a result, our business, financial conditions and results of operations may be materially adversely affected. We cannot assure that we will not experience another period of negative cash flow from our operating activities in the future.

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## RISK FACTORS

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**We are uncertain about the recoverability of our deferred tax assets, which may affect our financial positions in the future.**

We have deferred tax assets that are subject to the uncertainties of accounting estimates. As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had deferred tax assets of approximately RMB1.0 million, RMB1.5 million, RMB3.1 million and RMB3.9 million, respectively. For details of the movements of our deferred tax assets during the Track Record Period, please refer to Note 31(b) of the Accountants' Report set out in Appendix I to this prospectus. Based on our accounting policies, deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also an assessment on the probability, timing and adequacy of future taxable profits available for the deferred tax to be recovered. These estimations of future taxable profits depend on numerous factors beyond the control of our management, and if such judgments turn out to be incorrect or imprecise, we may need to adjust our tax provisions accordingly. We cannot guarantee recoverability and predict the movement of our deferred tax assets. If we fail to recover our deferred tax assets, this may have a material adverse effect on our financial conditions in the future.

**Any change or discontinuation of preferential tax treatment that may be available to us in the future could materially and adversely affect our financial conditions and results of operations.**

During the Track Record Period, our operating subsidiary, JiaChen Floor, had been recognised as a "New and High Technology Enterprise" and was entitled to a preferential tax rate of 15% for each of the years ended 31 December 2016 and 2017. During the process of renewing the status of "New and High Technology Enterprise" for the year ended 31 December 2018, due to the inadvertent input error made by the responsible staff, the description of technical field in the application document was inaccurate which did not meet the criteria of "New and High Technology Enterprise", and as a result, our Group ceased to be recognised as a "New and High Technology Enterprise" for the year ended 31 December 2018 and the six months ended 30 June 2019 and was subject to an enterprise income tax at the rate of 25%. In June 2019, we re-applied for the status of "New and High Technology Enterprise" for JiaChen Floor. In December 2019, Jiangsu Changzhou Economic Development District Science and Technology Bureau\* (江蘇常州經濟開發區科學技術局) issued a confirmation that we are recognised as a "New and High Technology Enterprise" and we are subject to the enterprise income tax rate at the rate of 15% for the years ending 31 December 2019, 2020 and 2021. However, we cannot assure you that our application will be approved by the relevant authority, or that the PRC policies on preferential tax treatments will not be changed as the relevant authority has the discretion to reduce, eliminate or terminate such policy at any time. If JiaChen Floor fails to successfully apply for the status of "New and High Technology Enterprise", it may have a material adverse effect on our financial conditions and results of operations.

According to the then applicable notice "Cai Shui [2015] No. 119" and the new notice "Cai Shui [2018] No. 99", 50%, 50%, 75% and 75% of our qualifying research and development expenses were allowed as additional deductions on our corporate income tax for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Pursuant to the "Cai Shui [2018] No. 99", the preferential tax treatment will no longer be in force after 31 December 2020. Therefore, we cannot assure you that we will still be able to qualify for such preferential tax treatment after it expires or that such preferential treatment will not be revoked prior to its expiration. For further

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## RISK FACTORS

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details on the government grants and preferential tax treatment, see Note 11 of the Accountants' Report set out in Appendix I to this prospectus. Should we fail to extend such preferential tax treatment or if such preferential tax treatment is revoked retroactively, we may be subject to higher tax liabilities, which may adversely affect our results of operations.

**We are exposed to risk of inventories obsolescence.**

We had inventories of approximately RMB73.5 million, RMB43.6 million, RMB31.0 million and RMB31.9 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our average inventory turnover days were recorded at approximately 187.1 days, 131.4 days, 72.2 days and 60.2 days for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. The demand for our products is dependent on our customers' preferences and the economic condition of the markets where they operate, which are beyond our control. During the Track Record Period, we had not identified any material events requiring impairment provision. Any increase in inventory may adversely affect our working capital. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected. Furthermore, if we fail to design and produce products which suit customers' preference and standard in the future, the volume of obsolete inventory may increase and we may need to either sell off such inventory at a lower price or write off such inventory, in the event of which our financial position and results of operations may be materially affected.

**Our business, financial conditions and growth prospects may be adversely affected by the potential increase in staff costs and depreciation expenses incurred from implementing our expansion plan.**

It is one of our business strategies to acquire one parcel of land and construct two new factory buildings thereon to accommodate five additional production lines by utilising a portion of net proceeds from the Global Offering. Please refer to the sections headed "Future Plans and Use of Proceeds — Our implementation plans" and "Business — Business strategies — Increase our production capacity and efficiency by expansion of our production sites" in this prospectus for details of our expansion plan.

As a result of the installation of five additional production lines, our Directors also intend to purchase and install ancillary environmental-friendly and energy-saving facilities and equipment in the new factories as part of our expansion plan. It is expected that additional depreciation expenses arising from the additional production lines and ancillary facilities and equipment will be charged to our profit and loss account, which may affect our financial performance and operating results. Based on the accounting policies adopted by us, depreciation expenses on plant and machinery is calculated using the straight-line method. Upon the completion of the installation of five additional production lines in June 2021, we estimate that the total depreciation expenses on machinery, land and factory will be approximately RMB2.2 million and RMB4.3 million for the years ending 31 December 2021 and 2022, respectively.

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## RISK FACTORS

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As part of our expansion plan, we plan to recruit approximately 100 employees to work in the new factories with our internal resources, which will increase our overall staff costs. Furthermore, an increase in the labour costs in the PRC will raise our staff costs and become difficult for us to maintain the profit margins achieved in the previous years as a result of an increase in production costs. If there is a significant increase in staff costs, the cost of our business operation may increase and our profitability may be adversely affected.

Our Directors are of the view that our expansion plan will increase our staff costs and depreciation expenses, and if we are unable to obtain more projects and increase our profitability after adopting such plan, our business, financial position and growth prospects may be adversely affected.

**We rely on suppliers of installation services to undertake installation works for our products. Any delay or defect in their works may adversely affect our business, financial conditions and results of operations.**

During the Track Record Period, our Group offered installation services for our products to our customers upon request, and we would in turn engage suppliers of installation services. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our installation costs accounted for approximately 5.6%, 8.4%, 6.3% and 6.7% of our total purchase of raw materials and installation costs, respectively. Engaging suppliers of installation services exposes our Group to risks associated with non-performance, delayed performance or unsatisfactory performance. As a result, we may experience deterioration in quality or delayed progress of works, incur additional costs or if there is any accident causing personal injuries or death to employees of suppliers of installation services. These events may adversely affect our profitability, financial performance and reputation, as well as result in litigation or damages claims.

In the event that substantive rectifications are required in relation to works of suppliers of installation services, we may have to incur additional costs at our expense. If we fail to rectify the defects as required, our customers may not only deduct or forfeit the retention monies withheld from us but also claim damages from us or cease their business relationships with us. Furthermore, there is no assurance that we may be able to be timely and fully compensated by suppliers of installation services for their defective services provided or works done. The occurrence of these events may adversely affect our business, results of operations and reputation. Moreover, suppliers of installation services are subject to various laws, rules and regulations in relation to the site safety. There is no assurance that there will not be any violation by suppliers of installation services, whether substantial or minor in nature, of any laws, rules or regulations. If such violation occurred and results in fines, claims or lawsuits, either associated with personal injuries, death or damages to properties against us or otherwise, our reputation and operations, and hence our financial position may be adversely affected.



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## RISK FACTORS

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**Our success is dependent on the retention of key management personnel.**

Our success and growth have been largely attributable to the contributions and experiences of our key management personnel, especially their extensive experience in the access flooring manufacturing industry in the PRC. Our industry knowledge and experience enable us to respond promptly to customers' queries and make recommendations to our customers regarding their intended use of our products.

In particular, Mr. Shen, the founder of our Group, chairman of our Board and executive Director and Mr. Chen, our chief executive officer and executive Director, have had a long history of working experience with our customers and suppliers. For details of our executive Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus. If we are unable to retain our key management personnel in their present positions due to illness, accident or resignation without adequate prior notice, we may not be able to replace them easily, or at all.

**We are subject to certain risks associated with the transportation and warehousing of our finished products.**

During the Track Record Period, we generally engaged third-party logistics service providers to deliver our products to our customers' designated locations. Our transportation costs amounted to approximately RMB8.6 million, RMB11.7 million, RMB12.3 million and RMB6.2 million for the three years ended 31 December 2018 and the six months ended 30 June 2019, respectively. In the event that the third-party logistics service providers fail to deliver our products in accordance with the agreed delivery schedule, the construction progress of our customers' projects may be interrupted. Due to such interruption, we may be subject to claims requested by our customers and our business relationships with our customers may be adversely affected. Consequently, our business, financial conditions and results of operations may be materially and adversely affected.

In addition, as we do not purchase any insurance in relation to the local transportation services of our products provided by third-party logistics service providers, and we cannot assure that our logistics service providers have sufficient insurance coverage for loss or damage to our products, we may not be able to claim for any loss or damage to our building materials during the transportation process, which could materially and adversely affect our business, financial conditions and results of operations.

In addition, we typically store our raw materials and products in our warehouses pending for use in the manufacturing process or delivery. If the raw materials and products are damaged due to any fire or other accidents, we may not be able to procure sufficient materials to replace the damaged goods and thereby may be unable to supply products to our customers on time. The foregoing may adversely affect our reputation and results of operations.

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## RISK FACTORS

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**Our operations rely on a continuous power supply and any shortages or interruptions may disrupt our operations and increase our expenses.**

The manufacturing of our products relies on a continuous and uninterrupted supply of electrical power and water, as well as discharge facilities for water, waste and emissions. Any shortage, interruption or curtailment of discharge may significantly disrupt our operations and increase our expenses. Causes of such shortage, interruption or curtailment of discharge may include extreme weather conditions, fire, natural catastrophes, disruptions in raw material supply, equipment and system failures, labour force shortages, workforce actions or environmental issues. We do not have backup generators or alternate sources of power to support our production in the event of a blackout. In addition, our insurance coverage does not extend to any damages resulting from interruption in our power supply. Any interruption in our ability to continue operations at our facilities may damage our reputation and harm our ability to retain existing customers or obtain new customers, any of which may have a material and adverse effect on our business, financial conditions and results of operations.

**Our customers may request us for rectifications or modifications, and the additional fees may not be negotiated until the work is performed.**

For the supply of our products together with the relevant installation services, our customers may require additional services or changes in the design or specifications from time to time. As the fees may not be covered in the original contract sum, such additional fees involved will need to be assessed by or negotiated with our customers. Given the tight schedule of projects, we may instruct suppliers of installation services to commence works before we are able to negotiate the relevant fees with our customers. Meanwhile, as long as we have instructed suppliers of installation services to commence works, we will generally incur additional costs. In the event that our customers disagree with us on fees relating to the adjusted fees, or where fees eventually agreed are less than the related additional costs, our results of operations, liquidity and financial position may be adversely affected.

**Our failure to adequately protect our intellectual property rights or any infringement claims against us brought by third parties may have a material and adverse effect on our business, financial conditions and/or results of operations.**

We rely on registered trademarks to protect our brands, as well as patents to protect our proprietary technology used to manufacture and produce a number of our products. In addition, we have developed a range of technical know-how relating to the design and production process of our products, which has been derived from the past experience of our key employees and management team as well as the results of our research and development efforts. There may be counterfeit and imitation versions of our products on the market, and we may have to initiate legal or administrative proceedings to protect our intellectual property rights.

In addition, unlike trademarks and patents, our technical know-how cannot be protected under the PRC legal system by way of registration with competent authorities, and as a result, we have to rely on non-disclosure and confidentiality agreements with our employees, which are less effective means of protection. Any unauthorised or inappropriate use of our trademarks, copyrights, patents, know-how and other intellectual property may harm our market image and reputation and materially and adversely affect our financial conditions and results of operations. In addition, some of our intellectual property rights may be invalid or be challenged as being invalid or unenforceable, and we

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## RISK FACTORS

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may incur significant costs defending against such challenges, which may harm our business, financial conditions and/or results of operations. Furthermore, third parties may claim that our production procedures or processes have infringed upon their proprietary rights. Defending against infringement claims pursued by third parties, whether with or without merit, or asserting claims against third parties may be time consuming, and may divert management attention and resources, result in costly litigation or damages, undermine our brand value, reduce sales, and/or require us to enter into royalty or licensing agreements that may not be on favourable terms.

**We may not be able to obtain external financing in time or on favourable terms for our capital expenditure and other corporate needs, which may limit our ability to grow our business.**

Our ability to increase our revenues, net income and cash flows depends in part upon continued capital spending. We may also need further funding for debt service, working capital, capital expenditure, potential acquisitions and other corporate requirements. Our ability to obtain external financing in the future and the cost of such financing are subject to a variety of uncertainties, including our reputation, financial conditions, applicable regulatory approvals, interest rates and general global and domestic economic conditions. If, for any of these or other reasons, we are unable to obtain external financing in time or on favorable terms, or at all, our operations may be materially and adversely affected.

**We were previously involved in bill financing transactions that were not fully complied with the PRC Negotiable Instruments Law and we may be subject to penalties.**

In 2016, we used a supply contract entered into with a supplier in the amount of RMB6,000,000 to apply for bank acceptance bills (the “**Bills**”) with Changzhou Economic Development Zone Branch of the Agricultural Bank of China (中國農業銀行股份有限公司常州經濟開發區支行) (the “**Endorsing Bank**”). The supplier subsequently endorsed the Bills to us. The endorsed Bills were used to settle the purchase payment with certain small-scale suppliers. As the Bills issued were not supported by the underlying transactions with the supplier, such arrangement was not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法). For further details, please refer to the section headed “Business — Non-compliance incidents” in this prospectus. Our PRC Legal Advisers advised us that such bill financing arrangements did not comply with the credit agreements and Article 10 of the PRC Negotiable Instruments Law. Although we have obtained the written confirmation from the Endorsing Bank and the relevant regulatory authorities, there is no assurance that the relevant regulatory authorities will not penalise us for these bill financing arrangements in the future. Any such penalties may materially and adversely affect our business, financial conditions and operations.

**Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.**

We believe that the insurance policies currently adopted by us are in line with the industry practice. For further details about our insurance policy, please refer to the section headed “Business — Insurance” in this prospectus. We maintain different types of insurance policies, including property casualty insurance, transport accident insurance and vehicle insurance. Our insurance policies may not be adequate to cover all the risks relating to our business. For example, our Directors considered that as a customary practice in the access flooring manufacturing industry in China generally do not

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purchase any business interruption insurance or third-party liability insurance for losses or damages arising from accidents on our properties or relating to our operations other than those relating to our vehicles. In addition, as a result of market conditions, premiums and deductibles for our existing insurance policies may increase substantially, and in some instances, our existing insurance may become unavailable or available only for reduced amounts of coverage. Any losses or liabilities which are not covered by our current insurance policies may have a material adverse effect on our business, financial conditions, results of operations and prospects.

In addition, contractors' all risks insurance generally covers only the construction period, we may therefore face claims arising from latent defects (i.e. defects that are existing but not yet discovered, developed or visible) found in the building materials supplied or installed by us or our suppliers of installation services. In the event that an uninsured liability arises, we may suffer losses which may adversely affect our financial positions. In addition, we cannot guarantee that our insurers or those of the developers or decorative main contractors will fully compensate us for potential damages or liabilities relating to our liabilities under employee compensation and personal injury claims in relation to accidents occurred during our installation works. Furthermore, we may be subject to reduction or limitation of insurance coverage or increase of insurance premiums by insurers upon the expiry of the current policies, or required by laws or customers to obtain additional insurance coverage in the future. Any further increase in insurance costs or reduction in coverage may materially and adversely affect our business, financial conditions and results of operations.

**We may not be able to derive the desired benefits from our product development efforts.**

Our competitiveness is dependent in part on our ability to develop new products and more efficient production capabilities. We place significant emphasis on product development, in particular, to improve the quality of our branded products and expand our new product offerings, which we believe are crucial for our future growth and prospects. Please refer to the section headed "Business — Research and product development" in this prospectus. We cannot assure you that our future projects will be successful or be completed within the anticipated time frame or budget, or that our newly developed products will achieve commercial success or be accepted by the market. In addition, we cannot assure you that our existing or potential competitors will not be able to develop products which are similar or superior to our branded products. If our product development efforts are not as effective as we expect, our competitiveness, financial results and growth prospects may be materially and adversely affected.

### **RISKS RELATING TO OUR INDUSTRY**

**Changes in the market demand for access flooring products could materially and adversely affect our business, financial conditions and results of operations.**

Our business, financial conditions and results of operations depend on the market demand for the access flooring products. Market demand for the access flooring products is subject to changes due to a number of factors, including:

- changes in domestic and international general economic conditions, such as changes in consumer confidence and disposal income, process of urbanisation, corporate and government spending, interest rate levels, availability of credit, inflation and unemployment;

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## RISK FACTORS

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- changes in commercial rental building demand and relevant renovation and decoration activities;
- regulatory changes, including changes in government support and policies; and
- developments in real estate market.

A decrease in the demand for the access flooring products may have a material and adverse effect on our business, financial conditions and results of operations.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

**China's economic, political and legal conditions, as well as government policies, may affect our business, financial conditions and results of operations.**

Most of our businesses, assets and operations are located in China. Accordingly, our financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC government has the power to implement macroeconomic control measures affecting China's economy. In particular, the government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries.

Certain PRC government's macroeconomic measures may materially and adversely affect our financial conditions, results of operations and asset quality. For example, the PRC government's measures which aim at tempering the real estate market may cause a slowdown in the number of real estate development projects generally and demand for new real estate projects, and in turn the market demand for access flooring products.

China has been one of the world's fastest-growing economies in terms of GDP growth in recent years. However, China may not be able to sustain such growth. If China's economy experiences a decrease in growth rate or a significant downturn, the unfavorable business environment and economic conditions for our customers may materially and adversely affect our financial conditions, results of operations and business prospects.

**Fluctuations in the value of the Renminbi may have a material and adverse effect on your investment.**

A substantial portion of the revenues and costs of our PRC operating subsidiaries are denominated in Renminbi. The net proceeds from this offering will be denominated in Hong Kong dollars. Fluctuations in exchange rates, primarily those involving the Hong Kong dollar and U.S. dollar, may affect the relative purchasing power of these proceeds. Fluctuations in the exchange rate may also affect the relative value of earnings from and the value of any foreign currency-denominated investments we make in the future.

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## RISK FACTORS

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Any appreciation of the Renminbi against the Hong Kong dollar, U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. It may also adversely affect our business as the appreciation of the Renminbi may drive up the price in foreign currencies at which we sell our products to overseas clients. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms.

**We may not continue to enjoy certain favorable PRC government policies.**

We currently enjoy certain favorable PRC government policies, any of which may be discontinued in the future. Some of the policies from which we currently benefit from are subject to periodic eligibility review. For example, our PRC operating subsidiary, JiaChen Floor, enjoys a deduction of tax rate on research and development. For further details, please refer to the section headed “Financial Information — Other revenue and other net income” in this prospectus. If we are unable to continue to benefit from some or all of the government policies under which we currently receive favorable treatment, our business, results of operations and financial conditions may be adversely affected.

### RISKS RELATING TO THE GLOBAL OFFERING

**There has not been prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile.**

There has been no public market for our Shares prior to this Global Offering. We have applied for the listing of and permission to deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or that our Shares will always be listed and traded on the Stock Exchange. We cannot assure you that an active public trading market for our Shares will develop or be sustained.

The Offer Price for our Offer Shares will be determined by us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) and may differ significantly from the market price for our Shares following the Global Offering. We cannot assure you that the market price of our Shares will not decline below the final Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows, and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies may cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, the Stock Exchange has experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

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## RISK FACTORS

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### **Potential conflict of interests between our Substantial Shareholders and other minority Shareholders.**

Immediately following the Global Offering and the Capitalisation Issue, our Substantial Shareholders will beneficially own 74.05% of our Shares (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme). The interests of our Substantial Shareholders may differ from the interests of other Shareholders.

Our Substantial Shareholders may have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets, election of Directors and other significant corporate actions. In cases where their interests are aligned and that they vote together, our Substantial Shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of our Substantial Shareholders, we may be prevented from entering into transactions that may be beneficial to us. We cannot assure that our Substantial Shareholders will act entirely in our interest or that conflicts of interest will be resolved in our favour. The interests of our Substantial Shareholders may differ from the interests of our minority Shareholders and our Substantial Shareholders are free to vote according to their interests.

### **Investors for our Shares may face difficulties in protecting their interests under Cayman Islands law, which may provide different remedies to minority shareholders when compared with the laws of Hong Kong or other jurisdictions.**

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For detailed information, please refer to the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

### **Any future issuance of new Shares or equity linked securities may dilute the investor’s shareholding in our Company.**

Any future capital issuance to expand our business or otherwise may lead to the dilution of investors’ shareholding in our Company. We may also issue additional Shares pursuant to our Share Option Scheme. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company

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## RISK FACTORS

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may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares. Purchasers of our Shares may experience dilution in the net tangible asset book value per share of their Shares if we issue additional Shares or securities convertible into Shares in the future at a price which is lower than the net tangible asset book value per Share.

**Any future offerings or sale of our Shares may materially and adversely affect their prevailing market price.**

Any future offerings or sale of our Shares by us or other Shareholders in the public market, or the perception that such offerings or sale may occur, may negatively impact the market price of our Shares. For details of restrictions that may apply to future sale of our Shares, please refer to the section headed “Underwriting” in this prospectus. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sale of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sale or issuance may occur. We cannot predict what effect, if any, any perception or actual occurrence of such significant future sale will have on the market price of our Shares.

### **RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

**Statistics and industry information contained in this prospectus may come from various sources which may not be accurate and should not be unduly relied upon.**

Certain facts, statistics and data presented in the section headed “Industry Overview” and elsewhere in this prospectus in relation to the PRC access flooring manufacturing industry have been derived, in part, from various publications and industry-related sources prepared by government departments or Independent Third Parties. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein that are derived from the publications of government departments or Independent Third Parties may be inaccurate, incomplete or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Furthermore, there is no assurance that the facts and statistics derived from the publications of the government departments or Independent Third Parties contained in this prospectus are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. We believe that the sources of the information are appropriate sources for such information and we have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. Neither our Group, our Directors, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters nor any of the parties involved in the Global Offering has independently verified, or make any representation as to, the accuracy of such information and statistics. As such, these statistics and data should not be unduly relied upon. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.



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## RISK FACTORS

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**Investors should read this entire document carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Global Offering including, in particular, any financial projections, valuations or other forward-looking statements.**

There may be press or other media, which contains certain information referring to us and the Global Offering that is not set out in this prospectus prior to its publication. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the Global Offering has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibilities for any such press or media coverage or the accuracy or completeness of any such information. 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 not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibilities and liabilities whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to subscribe the Offer Shares. You should rely only on the information contained in this prospectus and the Application Forms.

**There are risks associated with the forward-looking statements contained in this prospectus.**

The information in this prospectus contains certain forward-looking statements and information relating to our Group that are based on the belief of our Directors as well as assumptions based on the information currently available to them. In this prospectus, the words “believe”, “consider”, “expect”, and similar expressions, as they relate to our Company, our Group or our Directors, are intended to, among others, identify forward-looking statements. Such statements reflect the current views of our Directors with respect to, among others, future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this section. Should one or more of these risks or uncertainties materialise, or should underlying assumptions be proved to be incorrect, our financial conditions may be adversely affected and may vary materially from those described herein as believed, considered, estimated or expected.

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## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the Global Offering, our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our Group's core business and operations are primarily located, managed and operated in the PRC through JiaChen Floor, our principal operating subsidiary. A substantial part of revenue of our Company is generated from the PRC, and none of our executive Directors is a Hong Kong permanent resident or is ordinarily based in Hong Kong and they will continue to be based in the PRC after Listing. As a result, our Company does not, and will not, in the foreseeable future, have a sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules. Furthermore, it would be impractical and commercially unnecessary for our Company to appoint additional executive Directors who are ordinarily resident in Hong Kong or to relocate its existing PRC based executive Directors to Hong Kong.

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

- (i) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives of our Company are Mr. Shen MH, our executive Director and Mr. Li Wen Tao, our company secretary. Mr. Li is an ordinarily resident in Hong Kong;
- (ii) any meeting between the Stock Exchange and our Directors will be arranged through the authorised representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorised representatives and our compliance adviser;
- (iii) each of the authorised representatives of our Company will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;

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## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (iv) each of the authorised representatives of our Company has means to contact all members of our Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, we have implemented a policy that (a) each Director will provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorised representatives; and (b) all our Directors and authorised representatives will provide, if available, their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange. In the event that a Director expects to travel or is out of office, he/she will provide the phone number of the place of his/her accommodation to our authorised representatives;
- (v) our Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Stock Exchange within a reasonable period of time;
- (vi) we have, in compliance with Rule 3A.19 of the Listing Rules, appointed the Sponsor as our compliance adviser who will, among other things, in addition to the two authorised representatives of our Company, act as the additional channel of communication with the Stock Exchange for the period commencing from the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. The Sponsor will have full access at all times to the authorised representatives of our Company and our Directors; and
- (vii) we will also retain legal advisers to advise on on-going compliance requirements as well as other issues arising under the Listing Rules and other applicable laws and regulations of Hong Kong after Listing.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **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 (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **UNDERWRITING**

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

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

### **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around Friday, 10 January 2020 (Hong Kong time) or such later time as may be agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, but in any event not later than Monday, 13 January 2020 (Hong Kong time). If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Global Offering will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the United States of America, except in compliance with the relevant laws and regulations of such jurisdiction.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other person involved in the Global Offering.

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

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

### **APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE**

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

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

### **HONG KONG BRANCH REGISTER OF MEMBERS AND STAMP DUTY**

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

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

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

### **PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARES**

The procedure for application for the Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including conditions of the Global Offering, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

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

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

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

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

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **COMMENCEMENT OF DEALINGS IN OUR SHARES**

Dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Friday, 17 January 2020.

Our Shares will be traded in board lots of 5,000 Shares each.

### **ROUNDING**

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

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese and regulations, government authorities, departments, entities, institutions, natural persons, facilities, certificates, titles and the like included in this prospectus are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

### **EXCHANGE RATES CONVERSION**

For exchange rates translations throughout this prospectus (if any), we make no representation and none should be construed as being made, that any of the RMB, HK\$, or USD amounts contained in this prospectus could have been or could be converted into amounts of any other currency at any particular rate or at all on such date or any other date.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Executive Directors</b>		
Mr. Shen Min (沈敏), whose former name was Shen Xiaodu (沈筱度) (Chairman)	No. 23 Xu Jia Wan Wei Xing Village Henglin Town Wujin District Changzhou City Jiangsu Province PRC	Chinese
Ms. Zhang Yaying (章亞英)	No. 23 Xu Jia Wan Wei Xing Village Henglin Town Wujin District Changzhou City Jiangsu Province PRC	Chinese
Mr. Shen Minghui (沈明暉)	No. 23 Xu Jia Wan Wei Xing Village Henglin Town Wujin District Changzhou City Jiangsu Province PRC	Chinese
Mr. Chen Shiping (陳仕平)	Unit 801, Block 3B Taihu Mingzhu Yuan Sanjing Street Xinbei District Changzhou City Jiangsu Province PRC	Chinese



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Independent non-executive Directors</b>		
Mr. Ma Ving Lung (馬詠龍)	9/F, Royal Court 52-52A Tai Hang Road Tai Hang Hong Kong	Chinese
Ms. Shi Dongying (施冬英)	Room 401, Block 1 No. 31 Li Yuan Road Haimen Town, Hai Men City Jiangsu Province PRC	Chinese
Mr. Yu Chun Kau (余振球)	Flat E, 43/F, Tower 4 L'Hiver - Les Saisons 28 Tai On Street Hong Kong	Chinese

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

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Sponsor

##### **Dakin Capital Limited**

Suites 4505-06, 45/F  
Tower 1, Lippo Centre  
89 Queensway  
Hong Kong  
*(a licensed corporation under SFO to carry out type 6  
(advising on corporate finance) regulated activity under  
the SFO)*

#### Joint Bookrunners

##### **Astrum Capital Management Limited**

Room 2704, 27/F, Tower 1  
Admiralty Centre, 18 Harcourt Road, Admiralty  
Hong Kong

##### **Wealth Link Securities Limited**

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

#### Joint Lead Managers

##### **Astrum Capital Management Limited**

Room 2704, 27/F, Tower 1  
Admiralty Centre, 18 Harcourt Road, Admiralty  
Hong Kong

##### **Wealth Link Securities Limited**

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

##### **Lead Securities (HK) Limited**

Unit A, 23/F, The Wellington  
198 Wellington Street, Sheung Wan  
Hong Kong

##### **Quasar Securities Co., Limited**

Unit A, 12/F, Harbour Commercial Building  
122-124 Connaught Road Central, Sheung Wan  
Hong Kong

##### **Emperio Securities And Assets Management Limited**

20/F, Siu On Centre  
188 Lockhart Road, Wanchai  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Legal advisers to our Company

*As to Hong Kong law:*

**Kwok Yih & Chan**  
Suites 2103-05, 21/F  
9 Queen's Road Central  
Hong Kong

*As to PRC law:*

**Beijing Dentons Law Offices, LLP**  
7/F., Building D  
Parkview Green FangCaoDi  
9 Dongdaqiao Road  
Chaoyang District  
Beijing  
China

*As to Cayman Islands law:*

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

### Legal advisers to the Sponsor and Underwriters

*As to Hong Kong law:*

**Addleshaw Goddard (Hong Kong) LLP**  
802-804 Champion Tower  
3 Garden Road  
Central  
Hong Kong

*As to PRC law:*

**Zhong Lun Law Firm, Shanghai Office**  
10-11/F, Two IFC  
8 Century Avenue  
Pudong New Area  
Shanghai  
China

### Auditor and reporting accountant

**Crowe (HK) CPA Limited**  
*Certified Public Accountants*  
9/F, Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Industry Consultant**

**China Insights Consultancy Limited**

10/F  
Tomorrow Square  
399 West Nanjing Road  
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**Internal Control Consultant**

**PKF Business Advisory Limited**

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**Compliance Adviser**

**Dakin Capital Limited**

Suites 4505-06, 45/F  
Tower 1, Lippo Centre  
89 Queensway  
Hong Kong  
*(a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO)*

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## CORPORATE INFORMATION

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<b>Principal Place of Business and Head Office in the PRC</b>	No.18 Changhong East Road Henglin Town Wujin District Changzhou Jiangsu China
<b>Registered Office in the Cayman Islands</b>	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Company's Website</b>	<b><u><a href="http://www.jiachencn.com.cn">www.jiachencn.com.cn</a></u></b> <i>(The information contained in this website does not form part of this prospectus)</i>
<b>Place of Business in Hong Kong registered under Part 16 of the Companies Ordinance</b>	22/F, 3 Lockhart Road Wanchai Hong Kong
<b>Company Secretary</b>	<b>Mr. Li Wen Tao, CA, CPA</b> House F8 No. 222 Tai Mei Tuk, Tai Po New Territories Hong Kong
<b>Authorised Representatives</b> <i>(for the purpose of the Listing Rules)</i>	<b>Mr. Shen Minghui</b> No. 23 Xu Jia Wan Wei Xing Village Henglin Town Wujin District Changzhou City Jiangsu Province PRC  <b>Mr. Li Wen Tao</b> House F8 No. 222 Tai Mei Tuk, Tai Po New Territories Hong Kong
<b>Audit Committee</b>	Mr. Ma Ving Lung (Chairman) Ms. Shi Dongying Mr. Yu Chun Kau
<b>Remuneration Committee</b>	Mr. Yu Chun Kau (Chairman) Mr. Shen Min Ms. Shi Dongying

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## CORPORATE INFORMATION

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<b>Nomination Committee</b>	Ms. Shi Dongying (Chairlady) Mr. Ma Ving Lung Mr. Chen Shiping
<b>Cayman Islands Principal Share Registrar and Transfer Office</b>	<b>Estera Trust (Cayman) Limited</b> PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Hong Kong branch share registrar</b>	<b>Tricor Investor Services Limited</b> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal Bank</b>	<b>Agricultural Bank of China</b> Sub-Branch, Changzhou Economic Development Zone 157-159, Yanlingdong Road Changzhou City Jiangsu Province China
<b>Receiving Bank</b>	<b>DBS Bank (Hong Kong) Limited</b> 11/F, The Center 99 Queen's Road Central Central Hong Kong

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## INDUSTRY OVERVIEW

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*The information presented in this section is, including certain facts, statistics and data, derived from the CIC Report, which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we 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. The information has not been independently verified by our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved, excluding CIC, in the Global Offering and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of China. As a result, excessive reliance on the information contained in this section shall be avoided.*

### SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an Independent Third Party, to conduct an analysis of, and to report on China's access flooring manufacturing industry for the period from 2014 to 2023. The CIC Report has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is RMB595,000, which we believe reflects the market rate for similar services. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting services across multiple industries. CIC's services include industry consulting services, commercial due diligence and strategic consulting.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent market research company with extensive experience in their profession. The information and data collected by CIC have been analysed, assessed and validated using CIC's in-house analysis models and techniques. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysis of market data obtained from several publicly available data sources, such as releases from the PRC Government, company reports, independent research reports and CIC's own internal database. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for accuracy. On the basis of the aforementioned, we consider the data and statistics to be reliable.

### ASSUMPTIONS

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) China's economy is likely to maintain a steady growth trajectory during the forecast period, accompanied with continuing urbanisation; (iii) related key industry drivers are likely to propel continued growth in China's access flooring manufacturing industry throughout the forecast period, including growing demand from newly completed office and industrial office buildings, increasing proportion of office buildings adopts access flooring products, supportive government policies and the increasing demand on new building material; and (iv) there

## INDUSTRY OVERVIEW

is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

The CIC Report mainly focuses on the market for China’s access flooring manufacturing industry, the main jurisdiction in which our businesses are located. Our Directors confirmed that after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report. Parameters used in the CIC Report include: (i) gross output of construction industry; (ii) gross output of building decoration materials market; and (iii) revenue in the access flooring manufacturing industry.

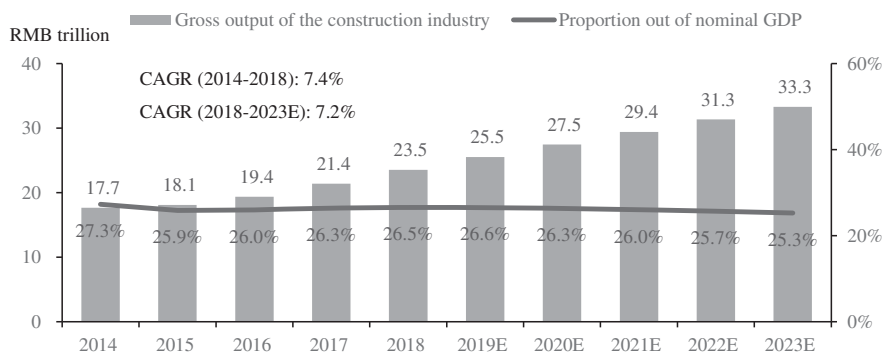
### MACROECONOMICS DEVELOPMENT AFFECTING THE ACCESS FLOORING MANUFACTURING INDUSTRY IN CHINA

#### *China’s gross output of construction industry and its proportion of nominal GDP*

The gross output of China’s construction industry experienced a strong growth in the past few years due to the government’s development of fixed assets and the infrastructure industry.

In recent years, the PRC Central government actively facilitated the development of Public-Private Partnership (PPP) and Asset-Backed Securities (ABS) business models. As a result, the total contract value of newly signed PPP contracts of mega state-owned construction enterprises reached around RMB1.2 trillion in 2016, which is considered to be a key factor for the gross output of China’s construction industry. Additionally, mega construction projects such as the Central Business District (CBD) project in Jiangbei District, Nanjing, and the China International Silk Road Center project in Xi’an all started construction in 2016, and they are expected to further stimulate the gross output of the construction industry in China in the future.

#### **Gross output of the construction industry and its proportion of nominal GDP, China, 2014-2023E**



Source: National Bureau of Statistics of China, CIC



## INDUSTRY OVERVIEW

### CONSTRUCTION DEVELOPMENT AFFECTING THE ACCESS FLOORING MANUFACTURING INDUSTRY IN CHINA

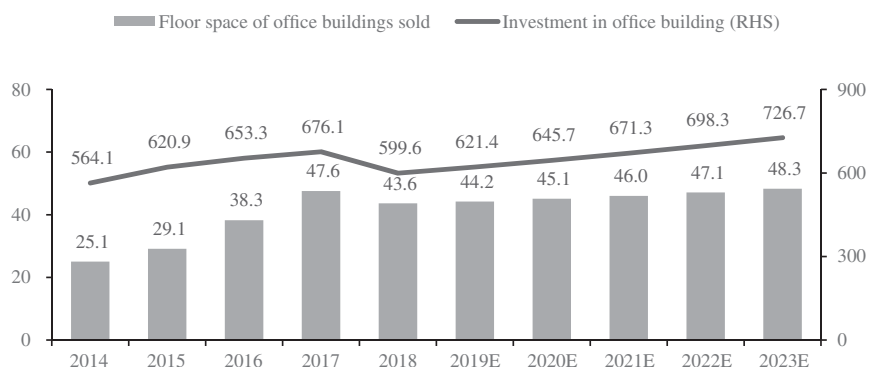
#### *Development of office buildings and industrial office buildings*

Access flooring products have been widely applied for use in office buildings in China. Between 2014 and 2018, the floor space of office buildings sold in China increased at a CAGR of approximately 14.9%, having increased from approximately 25.1 million sq.m. in 2014 to approximately 43.6 million sq.m. in 2018. Moreover, investments in office buildings increased from approximately RMB564.1 billion in 2014 to approximately RMB599.6 billion in 2018, rising at a CAGR of approximately 1.5%. Construction projects usually take three to five years from commencement to final sale, thus the floor space of office buildings sold is expected to continue expanding at a stable rate looking forward to the future.

In addition, with the continuously improvement of economic structure, industrial land represented by high-tech industrial parks has seen a significant growth over the past few years. Between 2014 and 2018, the planned construction area of industrial land in 100 big and medium sized cities in China has increased from approximately 433.0 million sq.m. to approximately 499.3 million sq.m., with a CAGR of approximately 3.6%. Besides, an increasing number of industrial office buildings and workshops adopted access flooring products as building material due to safety and environmental protection considerations especially in second-tier and above cities in China. As a result, the expanding construction area of industrial land, along with the continuously growing penetration rate of access flooring products is expected to drive up the demand for access flooring products in China in the next five years.

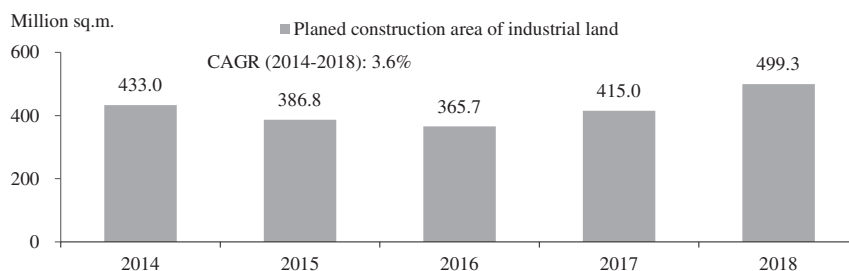
The PRC property development industry is entering a new round of adjustment, while the PRC government has continuously introduced macro control policies on property market and strengthened supervision over property development loans, aiming to curb leverage and real estate bubbles and promote the positive development of the industry. As a result, the newly completed floor space sold off and investment in office buildings in 2018 experienced a decrease from 2017. However, as higher standards requested by property owners that more office buildings chose to adopt access flooring products, such decrease would have limited impact on the access flooring manufacturing industry. The demand of access flooring products from newly completed office building is expected to continue its sustainable growth in the forecast period.

#### **Floor space of office buildings sold and investments in new office buildings, China, 2014-2023E**



## INDUSTRY OVERVIEW

### Planned construction area of industrial land, 100 big and medium sized cities, 2014-2018



Source: National Bureau of Statistics of China, CIC

### REGULATIONS AND SAFETY CODES AFFECTING THE ACCESS FLOORING MANUFACTURING INDUSTRY IN CHINA

Issuance time	Policies and regulations	Issuance institute	Main content
December 2016	“13th Five-year” Comprehensive Energy-saving, Emission Reductions Program 《“十三五”節能減排綜合工作方案》	State Council of the People’s Republic of China	<p>Implements advanced standards supporting leaders to develop building energy action plans, implements an ultra-low energy consumption and “near zero energy” building construction pilot, promotes rooftop construction of distributed photovoltaic power generation installations.</p> <p>Outlines green building construction standards, puts forward plans for a green eco-city construction demo, and sets a 2020 target to increase the proportion of green built-up urban areas to encompass 50% of all newly commissioned construction areas; implements a green building industry chain development plan, supports the adoption of green construction methods, and promotes the use of green energy-saving building materials, assemblies, and steel structures.</p>
October 2016	Building Industry Development Plan (2016-2020) 《建材工業發展規劃(2016-2020年)》	Ministry of Industry and Information Technology	<p>Speeds up the development of advanced inorganic non-metallic materials in support of the industrialization of key materials, and enhances the supply of key base materials; focuses on the development of glass-based materials, industrial ceramics, artificial crystals, functional mineral materials, high-performance inorganic fibers, and composite materials, while encouraging the development of graphene and other cutting-edge materials.</p> <p>Promotes the construction of a unified national green building materials market, and facilitates the consumption of green building materials so as to encourage the use of these materials in higher proportions during construction.</p>

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## INDUSTRY OVERVIEW

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Issuance time	Policies and regulations	Issuance institute	Main content
January 2013	Green Building Action Program 《綠色建築行動方案》	National Development and Reform Commission	Aims to thoroughly implement the scientific concept of development, effectively enhances urban and rural construction methods, aims to further develop the construction industry so as to improve the efficiency of consumed resources, sets targets to achieve energy-saving emission reductions while actively responding to the challenge posed by global climate change, plans for a highly-efficient and environmentally-friendly society, and strives to raise society's "civilized" level and improve people's quality of life.
October 2000	Several Opinions on Developing New Building Materials 《關於發展新型建材的若干意見》	National Development and Reform Commission	Actively adopts a new building system, promotes the use of high-performance, low-energy consumption building materials, and the recycling of renewable building materials with a focus on local conditions and local materials; aims to improve building quality, extend building lifetimes, and strives to reduce the consumption of building materials.

*Source: Government Websites, CIC*

### OVERVIEW OF BUILDING DECORATION MATERIALS MARKET AFFECTING THE ACCESS FLOORING MANUFACTURING INDUSTRY IN CHINA

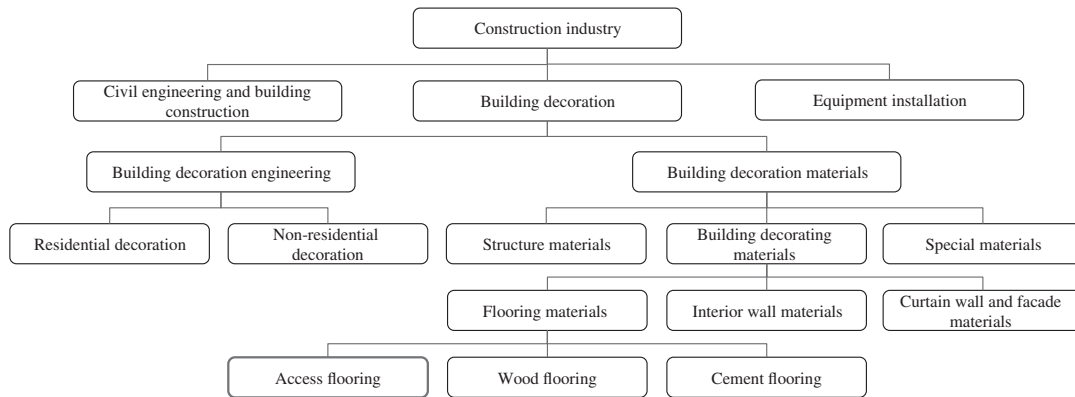
#### *Definition of building decoration materials market*

**Construction materials:** the general term for all materials used in civil engineering and construction projects. Construction materials are primarily used for protecting the stability and durability of the main body structure of buildings.

**Building decorating materials:** used for improving the function and appearance of various types of structures.

## INDUSTRY OVERVIEW

### Major categorisation of the construction industry



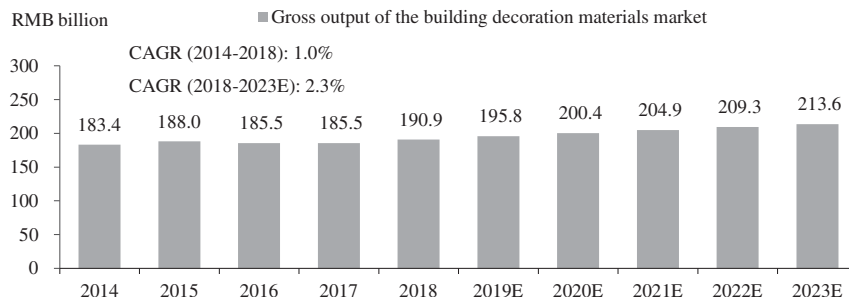
Source: CIC

### Gross output of building decoration materials market

China's building decoration industry can be further divided into the building decoration engineering market and building decoration materials market. Between 2014 and 2018, the gross output of China's building decoration materials market increased from approximately RMB183.4 billion to approximately RMB190.9 billion, representing a CAGR of approximately 1.0%. Apart from the China's fast growing real estate industry, the improvement of people's income level and higher standards for furnishing have also boosted the gross output of the building decoration materials industry.

Over the next five years, China's building decoration materials market will benefit from its fast growing office building industry, and the massive residential building renovation plan. Since 2019, the growth rate of the market size is expected to slow down. The major reason is that China's fixed asset investment in the construction industry decreased in 2016 and 2017, and it is predicted to be reflected in the output of construction and building decoration materials in approximately three years. Between 2018 and 2023, the gross output of the building decoration materials industry is expected to further reach approximately RMB213.6 billion, representing a CAGR of approximately 2.3%.

### Gross output of building decoration materials market, China, 2014-2023E



Source: National Bureau of Statistics of China, CIC

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## INDUSTRY OVERVIEW

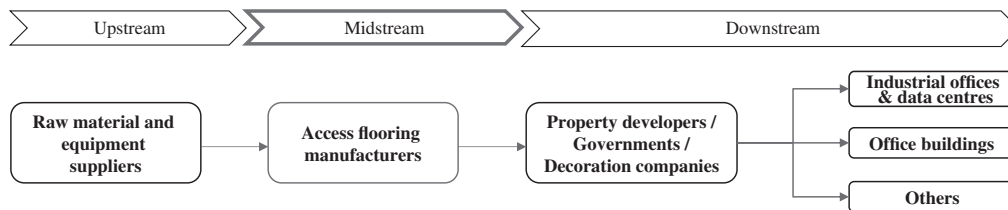
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### OVERVIEW OF ACCESS FLOORING MANUFACTURING INDUSTRY IN CHINA

#### *Definition of access flooring*

Access flooring refer to an elevated structural flooring above a solid substrate, creating an unseen gap allowing for the passage of installed mechanical and electrical systems. Access flooring products have been widely applied for use in office buildings, industrial offices, data centers, classrooms, libraries, etc. Access flooring products provide an optimal design capable of accommodating mechanical installations and cables, wiring, and electrical systems. Access flooring products generally have a minimum loading capacity of 300 kilograms and meet National A-level fireproof requirements. There are various kinds of cover materials that can be applied on the surface of the access flooring products, such as HPL, PVC, ceramic, rubber, etc., giving the flooring its anti-static properties. Steel access flooring products have been widely installed in many new office buildings in China. They are filled in with high quality cement, and have a 100% steel structure. Calcium sulfate access flooring products are made of plant fibers and solidified calcium sulfate crystals. These flooring products are environmental-friendly and have a higher loading capacity than steel access flooring products.

#### *Value chain analysis of China's access flooring manufacturing industry*



There are two major types of access flooring products: steel access flooring products and calcium sulfate access flooring products. Steel access flooring products are more cost effective by comparing to calcium sulfate access flooring products; however, calcium sulfate access flooring products have a higher loading capacity than steel access flooring products. Calcium sulfate access flooring products are more favorable in data centres, while steel access flooring products are more favorable in office buildings. The upstream segment of the access flooring manufacturing industry includes suppliers of raw materials and equipment. These suppliers provide a variety of raw materials and equipment to access flooring manufacturers, including cold-rolled sheets, gypsum powder, cement etc., all in support of carrying out access flooring manufacturing.

The midstream segment of China's access flooring manufacturing industry includes all kinds of access flooring manufacturers. In general, access flooring manufacturers are responsible for product design and development, sample testing, and assembly during the manufacturing process. Only leading scale companies in China's access flooring manufacturing industry offer installation services while most of companies only involve in sales of products to its users. Besides, engaging suppliers for our sales of access flooring products with installation services aligns with the market practice, which allows a lower fixed cost overhead, as well as optimises the quality of flooring products with the suppliers of installation services expertise.

## INDUSTRY OVERVIEW

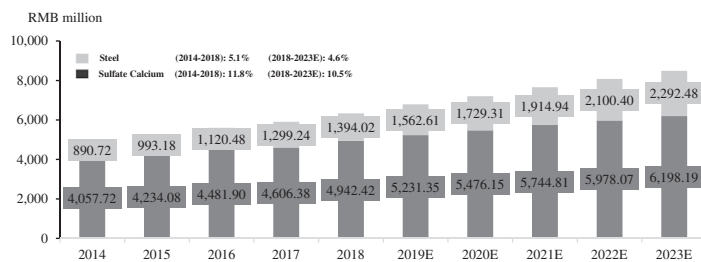
The downstream segment of the access flooring manufacturing industry includes property developers, decoration companies, and the local government. Property developers are responsible for private sector projects, while the government spearheads public sector projects. Data centres, office and industrial office buildings, classrooms, libraries, etc., all represent major downstream customers in this segment. Since these kinds of buildings often include a considerable number of electronic devices, access flooring products can help in accommodating cables, wiring, and electrical systems, all while providing life-long access for servicing.

### *Market size and forecast for China's access flooring manufacturing industry*

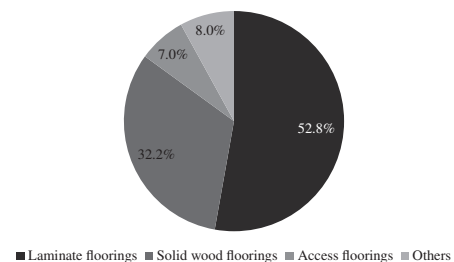
Access flooring products have been widely applied for use in office buildings, industrial office buildings, data centres, classrooms, libraries, etc. Driven by a stable economic environment, continuous investments in new office buildings as well as growing construction area of industrial land, the market share of access flooring products has reached approximately 7.0% as of 2018 in China. Between 2014 and 2018, revenue in the access flooring manufacturing industry increased from approximately RMB4,948.4 million to approximately RMB6,336.4 million, representing a CAGR of approximately 6.4%.

Between 2018 and 2023, revenue in the access flooring manufacturing industry is expected to continue increasing at a CAGR of approximately 6.0%, increasing from approximately RMB6,336.4 million to approximately RMB8,490.7 million. This fast growth trend can mainly be attributed to the following primary factors: (i) a rising demand from construction of industrial office buildings in second-tier and above cities in China; (ii) an increase in the number of aging office buildings in China with the retirement of more and more obsolete access flooring products units; (iii) increasing more stringent policies adopted by the PRC Government, stimulating an expected increase in the demand for access flooring products; (iv) a growth in price of access flooring products as a result of increasing raw materials prices; and (v) increasing penetration rate of calcium sulfate access flooring products due to its high performance.

**Revenue in the access flooring manufacturing industry, China, 2014-2023E**



**Market share of floorings by category, China, 2018**



Source: CIC

### *Drivers of China's access flooring manufacturing industry*

- (i) **Growing demand from newly completed office buildings and industrial office buildings:** Access flooring products have been widely applied in office buildings in China. During the period from 2014 to 2018, the floor space of office building sold has experienced a significant growth from approximately 25.1 million sq.m. to approximately 43.6 million sq.m., representing

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## INDUSTRY OVERVIEW

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a CAGR of approximately 14.8%. Meanwhile, investments in office buildings increased from approximately RMB564.1 billion in 2014 to approximately RMB599.6 billion in 2018, representing a CAGR of approximately 1.5%. Construction projects usually take three to five years from commencement to final completion, thus the floor space for office buildings is expected to continue expanding at a sustainable rate looking ahead to the future. Meanwhile, with the continuously improvement of economic structure, high-tech industries has experienced significant growth and a number of high-tech industrial parks has been established. The fact is that an increasing number of newly completed industrial offices choose access flooring products as building material, especially in top-tier cities, greatly propelling the access flooring manufacturing industry in China.

- (ii) ***Increasing proportion of office buildings adopting access flooring:*** There is an increasing proportion of office buildings adopting access flooring products and the installation of access flooring products is mandatory in 5A office buildings in China. 5A means the building contains five automatic functions: office automation, communication automation, fire automation, security automation and building automation. As more high-end office buildings try to get 5A rating, the penetration rate for access flooring products is expected to increase and further stimulate the demand for access flooring products. In China, access flooring is mainly used in office buildings in top-tier cities. In 2018, over 50% of office building space has adopted access flooring in top-tier cities and in general, the proportion of office building space occupied by access flooring in China has reached approximately 16.0%. Besides, the total floor space for newly completed high-end office buildings in Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province increased at a CAGR of approximately 46.7% between 2014 and 2018, expanding from approximately 1.1 million sq.m. in 2014 to approximately 5.1 million sq.m. in 2018. Given the China's strong GDP growth performance, combined with a strong demand for high-end office buildings, the penetration rate for access flooring products is expected to expand at a sustainable rate which drive up the demand for access flooring products.
- (iii) ***Supportive government policies:*** A number of government policies have helped stimulate growth in the access flooring manufacturing industry, including the Green Building Action Program, the Building Materials Industry "13th Five" Development Plan, the Energy Conservation Law of the People's Republic of China, and Several Opinions on Developing New Building Materials. The implementation of these new stringent government policies, in combination with new environmental protection plans, are expected to help further drive up the demand for access flooring products.
- (iv) ***Increased overall demand for new building materials:*** Access flooring products have been increasingly adopted for use in office buildings in China due to a greater demand for new building materials, although this is mostly true of buildings in top-tier cities. Data centres, industrial office buildings, classrooms, libraries, education and government buildings are also considered the prime users of access flooring products, since these kinds of buildings use more electronic equipment for networking purposes as well as furniture requiring an electricity input. These building designs also often aim to save money on heating, cooling, and even general construction.

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## INDUSTRY OVERVIEW

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### *Future trends of China's access flooring manufacturing industry*

- (i) ***Increasing demand for calcium sulfate access flooring products:*** Calcium sulfate access flooring products is considered a premium access flooring choice within the China's access flooring manufacturing industry. Given its high price, it nevertheless only amounted for a small market share of the access flooring market in 2018. However, due to its high intensity and high loading capacity, a growing number of enterprises choose calcium sulfate access flooring products as building material. In addition, its long lasting durability significantly increases its service life, improving repeated utilisation rate while reducing cost. Moreover, the implementation of increasingly stringent environmental protection plans also stimulates the demand for calcium sulfate access flooring products with its environmental-friendly design. As a result, the penetration rate of calcium sulfate access flooring products is expected to be growing continuously in the future.
- (ii) ***Trend towards increased market consolidation:*** Although the China's access flooring manufacturing industry has continued to develop rapidly, competition within this market has also intensified in recent years, driven by the emergence of innovative new technologies, shifts in the labour force, and higher requirements from downstream clients. Since some manufacturers are unable to keep up with fast-paced developments in the market, an increasing number of manufacturers have started to exit the market or have simply been absorbed by more capable manufacturers. In the near future, this trend is expected to accelerate at a quickened pace, with most manufacturers having put in a great deal of effort at consolidating their market position. Although this trend is expected to exert more pressure on access flooring manufacturers, it is beneficial for the industry as a whole since relatively more successful manufacturers with specialised competitive advantages are expected to experience faster development as a result of these market conditions.
- (iii) ***Increasing applications of automated manufacturing solutions:*** Compared with manual production procedures, automated manufacturing solutions are more cost effective, productive, and able to save more resources. As a result of increased demand from downstream clients, manufacturers of access flooring products are increasingly motivated to adopt more advanced manufacturing techniques in order to enhance their productivity. By applying more advanced manufacturing solutions in the access flooring manufacturing industry, manufacturers will benefit from a smaller labour force, resulting in fewer safety issues as well as increased cost savings.
- (iv) ***Growing demand for environmental-friendly products:*** Development of the China's access flooring manufacturing industry has benefited from a shift towards a "greening" of consumption behavior. China has been encouraging the use of green building materials in recent years, driving an increase in the demand for environmental-friendly materials. Replacing certain materials, such as plastic and glass, with calcium sulfate materials can help effectively reduce the impact on the environment during manufacturing and recycling processes. Since Chinese customers have become increasingly sensitive to environmental issues, the demand for environmental-friendly products is expected to continue to increase in the years ahead.



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## INDUSTRY OVERVIEW

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### *Major challenges of China's access flooring manufacturing industry*

- (i) ***Lack of differentiated products:*** Since the manufacturing process for access flooring products is relatively simple, and raw materials, such as steel and cement, are easily accessible, most manufacturers are capable of producing a variety of access flooring products as well as anti-static flooring products. Thus, the access flooring manufacturing industry in China currently has a high degree of homogenization, with a lack of product differentiation considered a major challenge in terms of increasing efficient market competition and promoting improvements in the industry.
- (ii) ***Increasing wages for workers:*** Workers employed in China's access flooring manufacturing industry have seen an increase in their average wages in recent years. The average annual wage for these workers in Jiangsu Province increased from approximately RMB39,975.0 per capita in 2014 to approximately RMB54,193.4 per capita in 2018, having risen at a CAGR of approximately 7.9%. This upward trend in the average annual wage of workers is being driven by several key factors, including an ongoing labour shortage, increasing living expenditures, and overall economic growth. Increasing wage levels have become an issue for many China's access flooring manufacturers.
- (iii) ***Stringent regulations and safety standards:*** Access flooring manufacturers need to comply with several regulations and safety standards relevant to their business operations. For instance, labour safety requirements have become more stringent in recent years. To address the public's increasing concerns over work safety in China, the access flooring manufacturing industry has enhanced work safety standards, which in turn has increased the costs incurred by access flooring manufacturers, ultimately affecting their profitability.

### *Export analysis of access flooring products in the PRC*

The export of access flooring products in PRC accounted for approximately 12.0% of the total domestic production in 2018, and access flooring products are mainly exported to Asian countries, such as Singapore, Malaysia and Thailand.

The export sales of access flooring products in PRC has achieved a strong growth momentum in recent years, increasing from approximately RMB549.8 million in 2014 to approximately RMB864.1 million in 2018 with a CAGR of approximately 12.0%. This increase is primarily attributed to the growing number of office buildings in Asia countries, and increasing demand from industrial office buildings in Southeast Asian countries brought by the "Belt and Road Initiative". The "Belt and Road Initiative" proposed to strengthen the construction of overseas economic and trade cooperation zones, cross-border economic cooperation zones, and many other industrial parks, facilitating the access flooring demand from industrial office buildings in Southeast Asian countries.

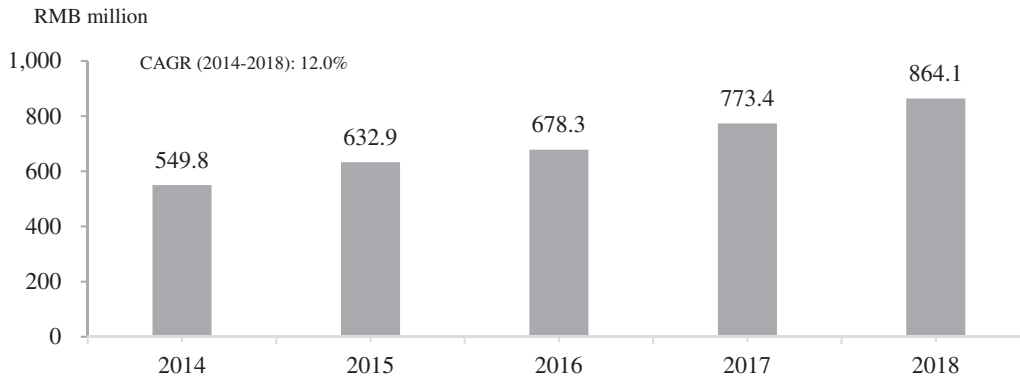
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## INDUSTRY OVERVIEW

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In the future, considering the expected growing industrial office buildings in Southeast Asian countries, as well as the limited production of high-tech building materials in such countries, the total export sales of access flooring products in PRC is forecasted to increase continuously in the next five years.

### Export sales of access flooring products, PRC, 2014-2018



Source: CIC

### *Historical price of cold-rolled sheets, cement and labour cost*

#### **Cold-rolled sheets**

Cold-rolled sheets are the most essential raw materials used in manufacturing steel access flooring products. Between 2014 and 2015, the price of cold-rolled sheets dropped from approximately RMB4,171.1 per tonne in 2014 to approximately RMB3,034.0 per tonne in 2015. The price then experienced an upward trend from 2015 to 2018, which can be attributed to tightening supply side as a result of increasingly stringent environmental supervision, and growing demand from downstream automobile manufacturing industry.

#### **Cement**

Due to the declining profit margin of the cement manufacturers, the average price for cement in Changzhou decreased from approximately RMB316.3 per tonne in 2014 to approximately RMB226.4 per tonne in 2016. As an increasing number of cement manufacturers started to fade away from the market as a result of the implementation of environmental protection policies, the average price increase to approximately RMB467.2 per tonne in 2018.

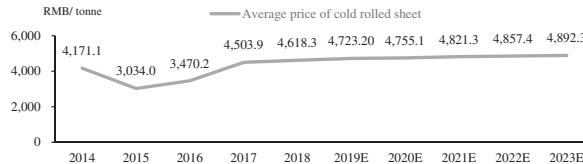
#### **Labour cost analysis**

In line with increasing living expenditures and overall economic growth, labour costs in Jiangsu's manufacturing industry continued to increase rapidly during the past few years. According to the National Bureau of Statistics of China, the average annual wage in Jiangsu's private urban manufacturing industry increased from approximately RMB39,975.0 per capita in 2014 to approximately RMB54,193.4 per capita in 2018, representing a CAGR of approximately 7.9%. With the government's continued emphasis on improving people's livelihoods, it is expected that average

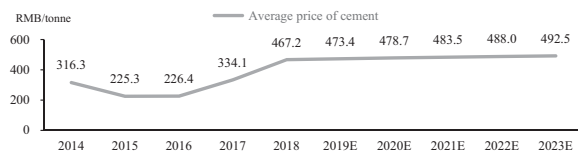
## INDUSTRY OVERVIEW

annual wages in China’s manufacturing industry will continue increasing. However, as the economy in China becomes more mature over time, this growth rate is likely to slow down. Although the manufacturing industry has been influenced by rising labour costs to some extent, increasing demand for new building materials is expected to help access flooring manufacturers buffer the impact from labour costs in the near term.

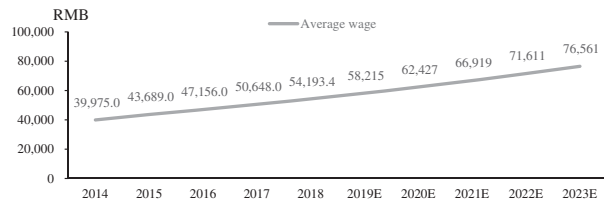
**Average price of cold-rolled sheets,  
China, 2014-2023E**



**Average price of cement, Changzhou,  
2014-2023E**



**Average wage for employed individuals in  
private manufacturing units,  
Jiangsu, 2014-2023E**



Source: China Iron and Steel Industry Association, National Bureau of Statistics of China, CIC

## COMPETITIVE LANDSCAPE OF CHINA’S ACCESS FLOORING MANUFACTURING INDUSTRY

### *Overview of the competitive landscape of China’s access flooring manufacturing industry*

There are approximately 100 access flooring manufacturing companies in China. China’s access flooring manufacturers remain relatively concentrated in the country, with most industry players located in Jiangsu Province. In 2018, the top five access flooring manufacturers took up approximately 29.1% of the total market share in the industry in China. As of 2018, the Company ranked the third in the access flooring manufacturing industry, with a domestic sale revenue of approximately RMB226.0 million and a market share of approximately 3.6% in terms of revenue in China in 2018.

As clients are most large-scale real estate enterprises or government entities who usually make payment after conducting acceptance check of the entire building, it is an industry norm to have longer receivable collection period in China’s access flooring manufacturing industry. The average receivable collection period in China’s access flooring manufacturing industry is approximately two years, which in some cases will be even longer.

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## INDUSTRY OVERVIEW

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### *Ranking of China's access flooring manufacturing industry in 2018*

Ranking	Company name	Headquarters location	Major services	Revenue (domestic sale only) in 2018 (RMB million)	Market share in 2018
1	Company A	Changzhou	A professional access flooring manufacturer and supplier. Over 30 years of innovation has made them one of the leading manufacturers of access flooring products in China.	999.7	15.8%
2	Company B	Changzhou	Their major products include steel access flooring products, anti-static steel access flooring products, calcium sulfate access flooring products and anti-static calcium sulfate access flooring products, etc.	357.3	5.6%
3	The Company	Changzhou	The Company is a well established access flooring manufacturer with a strong focus on manufacturing quality access flooring products in China	226.0	3.6%
4	Company C	Changzhou	They mainly produces steel access flooring products, calcium sulfate access flooring products, access flooring accessories, etc.	133.1	2.1%
5	Company D	Changzhou	A professional access flooring manufacturer in China. Their major products include steel access flooring products, composite access flooring products, access flooring accessories, etc.	125.8	2.0%
Sub- total				1,841.9	29.1%
Others				4,494.5	70.9%
Total				6,336.4	100.0%

Source: CIC

### *Entry barriers of China's access flooring manufacturing industry*

- (i) **Proven track record:** There are approximately 100 access flooring manufacturing companies in China. Given intense market competition, a proven track record has become crucial for access flooring manufacturers. In order to finish projects on time, property developers and land owners focus on guarantees in terms of on-time delivery and product quality. Thus, these customers are more likely to select access flooring manufacturers that have a proven track record. New entrants who lack a proven track record therefore face a tremendous challenge when seeking orders from new clients.

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## INDUSTRY OVERVIEW

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- (ii) ***Substantial capital requirements:*** Relatively high capital requirements constitute a major entry barrier for new competitors looking to enter into the China's access flooring manufacturing industry. In order to deliver products and services in a timely manner, companies must first take several things into consideration, including raw material procurements, hiring skilled workers, etc. However, since all of these steps require a significant amount of capital investment, it remains a major challenge for companies lacking sufficient capital to make the investment required to get their business started. Hence, it remains a challenge for new market players to start and sustain their business without strong financial support.
- (iii) ***Experienced personnel:*** Since access flooring manufacturing requires experienced personnel, it is important for companies to gain access to a sufficient number of professional personnel. Experienced personnel are well trained, and able to assist in the complete installation of high-quality products, doing so under pressure while ensuring high standards in terms of safety. However, given the fact that experienced access flooring personnel are in short supply in China, new entrants without an established reputation are likely to experience a greater challenge in terms of recruiting and maintaining an experienced and professional team of staff members.
- (iv) ***Established reputation and brand image:*** The access flooring manufacturing industry is a specialised segment in China's building material industry. It is important for access flooring manufacturers to have a well established reputation and brand image if they hope to succeed in the industry. Having a well-established reputation in the industry and an outstanding brand image are important factors for potential clients in the industry when selecting an access flooring supplier. However, a well-established reputation and an outstanding brand image take a considerable amount of time to develop. New entrants without an established reputation and an outstanding brand image may therefore find it difficult to successfully enter into the industry.

### ***Success factors of China's access flooring manufacturing industry***

- (i) ***Strong capital support:*** Access to sufficient capital remains a key success factor in China's access flooring manufacturing industry. The payment collection period for access flooring projects is relatively long in comparison with other sectors in the manufacturing industry. Thus, solid capital support and a healthy cash flow remain critical for access flooring manufacturers if they are to carry out their work smoothly. As well, rising salary expenses and high costs for advanced automated machinery require a significant amount of capital.
- (ii) ***Consistent improvements in product quality and services:*** It will become increasingly important for access flooring manufacturers to guarantee consistency in terms of product quality and service. In order to continue expanding and developing their business, consistent improvements will need to be made in these two areas. Strong quality control capabilities and advanced technology are crucial for access flooring manufacturers if they are to provide high quality products and services. Thus, manufacturers need to give extra attention to the production process so as to raise the quality of their products. Thus, manufacturers must constantly upgrade their manufacturing techniques and services in order to deliver satisfactory products and services to their clients.

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## INDUSTRY OVERVIEW

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- (iii) ***Proven track record with a strong reputation:*** It is important for access flooring manufacturers to establish a strong proven track record within the domestic market. Market players that have operated in the market for a long period of time will have a stronger reputation within the industry, a strong reputation which helps to attract customers and boost sales.

### ***Competitive strengths of the Company***

- (i) ***Well-established reputation:*** The Company has forged a strong brand image within the industry and its products and services have successfully met customers' needs. As a result, there is a considerable amount of repeat business from existing customers, and a large number of new customers are usually referred by existing customers. As well, large developers are more inclined to invite the Company to join their bidding process. With significant exposure in terms of office buildings and data centers, the Company's access flooring products have gained the trust of clients, which has helped spur on sales accordingly.
- (ii) ***Effective supply chain and convenient geographic location:*** Due to its effective supply chain management, the Company is able to better facilitate the access flooring manufacturing process and build a stronger relationship with its upstream and downstream customers. The Company's established supply chain makes it easier to launch new designs and conduct promotional campaigns, with the Company facing fewer restrictions in view of certain issues like insufficient raw materials or manufacturing capabilities. A convenient geographic location enables the Company to access raw materials with greater ease. Since raw material manufacturers, packaging companies, and logistics companies are also conveniently located nearby, the Company can access raw materials and other related services in a shortened period of time. An effective supply chain also ensures the quality of the Company's products and provides clients with a better user experience.
- (iii) ***Superior production capacity:*** The Company's manufacturing team has a well-established reputation, with the entire manufacturing process from design to production capable of being completed without outsourcing. The Company is able to manufacture approximately 1.7 million sq.m. of steel access flooring products at its maximum capacity as at 31 December 2018. This capacity makes it possible for the Company to accept large orders and deliver them on time.
- (iv) ***High level of automated production:*** The Company has already acquired a high level of automation in its production lines. Automation has allowed the Company to mass produce access flooring products at rapid speeds, while safeguarding the consistency and quality of its products. Automation has thus become a determining factor in terms of whether or not a company will be able to remain competitive within the access flooring manufacturing industry. By adding automated machines to a production line, less manpower is needed in order to get the job done. Increased automation also means fewer safety issues, which also entails additional financial savings. Thus, advanced automated equipment enables the Company to enjoy larger production volumes, which in turn, increases profitability.

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## REGULATORY OVERVIEW

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This chapter summarizes the principal PRC laws and regulations relating to the current business operation of our PRC domestic companies.

### **1. The PRC laws and regulations relating to foreign investment**

#### ***1. The establishment, operation and management of Chinese-foreign equity joint ventures***

Pursuant to the “Company Law of the People’s Republic of China” (《中華人民共和國公司法》) (hereinafter referred to as the “PRC Company Law”), which became effective from 1 July 1994 and was last amended on 26 October 2018, the PRC Company Law is applicable to foreign-invested limited liability companies and limited companies by shares. Where there are other laws governing foreign investment, such laws shall prevail.

Pursuant to the “Chinese-foreign Equity Joint Ventures Law of the People’s Republic of China” (《中華人民共和國中外合資經營企業法》), which became effective from 8 July 1979 and was last amended on 3 September 2016, and the “Regulation on the Implementation of the Chinese-foreign Equity Joint Ventures Law of the People’s Republic of China” (《中華人民共和國中外合資經營企業法實施條例》), which became effective from 20 September 1983 and was last amended on 2 March 2019, matters related to the establishment and registration, forms of organization and registered capital, ways of capital contributions, board and operation and management structure, finance and accounting, taxation and foreign exchange management of Chinese-foreign equity joint ventures (hereinafter referred to as the “Joint Ventures”) shall comply with the requirements of the aforesaid laws and regulations.

According to the “Wholly Foreign-owned Enterprise Law of the People’s Republic of China” (《中華人民共和國外資企業法》), which became effective from 12 April 1986 and was last amended on 3 September 2016, and the “By-law on the Implementation of the Wholly Foreign-owned Enterprise Law of the People’s Republic of China” (《中華人民共和國外資企業法實施細則》), which became effective from 12 December 1990 and was last amended on 19 February 2014, matters related to the procedure of establishment, forms of organization and registered capital, ways of capital contributions and deadline, taxation, foreign exchange management, finance and accounting of wholly foreign-owned enterprises shall comply with the requirements of the aforesaid laws and regulations.

Pursuant to the “Interim Administrative Measures on Registration of Establishment and Changes for Foreign-Invested Enterprises” (《外商投資企業設立及變更備案管理暫行辦法》), which became effective from 8 October 2016 and was last amended on 29 June 2018, the registration administrative measures are applicable to the establishment and changes of foreign-invested enterprises and the conversion of a non-foreign invested enterprise to a foreign-invested enterprise through merger, acquisition and absorption which are not under the state regulated special access management measures. The requirements of such measures are applicable to the procedure of registration.

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### *2. The direction of foreign investment*

Pursuant to the “Regulation on Guiding the direction of Foreign Investment” (《指導外商投資方向規定》), which became effective from 1 April 2002, foreign investment projects are divided into four categories, namely encouraged, permitted, restricted and prohibited. The provision is applicable to the investment and establishment of Chinese-foreign equity joint ventures, Chinese-foreign cooperative joint ventures and wholly foreign-owned enterprises in China and other forms of foreign investment projects. Investment projects carried out by investors from the Hong Kong Special Administrative Region are also subject to this provision.

Pursuant to the “Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019)” (《外商投資准入特別管理措施(負面清單)(2019年版)》) (“**Negative List for the Access Foreign Investment**”), which became effective from 30 July 2019, the documents uniformly set forth the ownership requirements, requirements for senior executives, and other special administrative measures for the access of foreign investment. Fields not on the Negative List for the Access of Foreign Investment shall be administered under the principle of equal treatment to both domestic and foreign investment. Fields related to culture and finance, as well as relevant measures on administrative approvals, qualifications, national security not being on the Negative List for the Access of Foreign Investment shall be implemented in accordance with existing requirements.

### *3. Merger and acquisition of domestic enterprise by foreign investors and overseas listing*

Pursuant to the requirements of the “Provisions Relating to Merger and Acquisition of Domestic Enterprise by Foreign Investors” (《關於外國投資者併購境內企業的規定》), which became effective from 8 September 2006 and was last amended on 22 June 2009, where a domestic company, enterprise or natural person merges with or acquires its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls or a foreign investor merges with or acquires a domestic company by way of shareholdings, the merger or acquisition shall be subject to examination and approval by the Ministry of Commerce of the People’s Republic of China and shall proceed with the registration of change or registration of establishment with the State Administration for Industry and Commerce or local administration of industry and commerce. Overseas listing and trading of special purpose vehicle shall be subject to the approval by the securities regulatory and management authority of the State Council. The merger and acquisition of domestic enterprises by foreign investors means that (1) the foreign investor purchases the equity of the shareholders of a domestic non-foreign invested enterprise or subscribes to the increased capital of a domestic company, and thus changes the domestic company into a foreign-invested enterprise (equity acquisition); and (2) a foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets, or, a foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise and operates the assets (Asset Merger and Acquisition).



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### 2. The PRC laws and regulations relating to taxation of an enterprise

#### 1. Value-added Tax (VAT)

Pursuant to the “Provisional Regulations on Value-added Tax of the People’s Republic of China” (《中華人民共和國增值稅暫行條例》), which became effective from 1 January 1994 and was last amended on 19 November 2017, and the “By-law on the Implementation of the Provisional Regulations on Value-added Tax of the People’s Republic of China” (《中華人民共和國增值稅暫行條例實施細則》), which became effective from 25 December 1993 and was last amended on 28 October 2011, the units or individuals engaging in the sale of goods or provision of processing, repairs and replacement services, and the importation of goods in the PRC are the taxpayers of the value-added tax and thus shall pay the value-added tax according to such requirements. Unless otherwise required, the value-added tax rate shall be 17%.

Pursuant to the “Circular of the Ministry of Finance and the State Administration of Taxation regarding the Pilot Program on Comprehensive Implementation of the Reform from Business Tax to Value Added Tax” (《財政部國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》), which became effective from 1 May 2016 and certain terms of which were abolished since 1 July 2017, 1 January 2018 and 1 April 2019, the units or individuals engaging in the sale of services, intangible assets or real estates in the PRC are the taxpayers of the value-added tax and thus shall pay the value-added tax, instead of the business tax as required by the circular. According to the “Administrative Measures of Tax Refund (Exemption) of Exported Goods (Trial)” (《出口貨物退(免)稅管理辦法(試行)》), which became effective from 1 May 2005 and was last amended on 15 June 2018, unless otherwise prescribed, upon declaration of export and financial accounting for sale, the value-added tax in relation to the goods exported by export agents can be refunded or exempted upon approval by the competent tax authority.

Pursuant to the “Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates” (《財政部、稅務總局關於調整增值稅稅率的通知》), which became effective from 1 May 2018, the tax rates of 17% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16%. Pursuant to the “Announcement on Relevant Policies for Deepening the Value-Added Tax Reform” (《關於深化增值稅改革有關政策的公告》), which became effective from 1 April 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%.

#### 2. Enterprise Income Tax

According to the “Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》), which became effective from 1 January 2008 and was last amended on 29 December 2018, and the “Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法實施條例》), which became effective from 1 January 2008 and was last amended on 23 April 2019, enterprises and other organizations that derive incomes in the PRC are the taxpayers of the enterprise income tax and are required to pay the enterprise income tax according to such laws and regulations. An enterprise that is established inside the PRC under the PRC law, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC is a resident enterprise. An enterprise established under the law of a foreign country (region) and the actual institution of management of

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which is not inside the PRC but has institutions or establishments inside the PRC or which does not have any institutions or establishments inside the PRC but has income sources in the PRC is a non-resident enterprise. A resident enterprise shall pay the enterprise income tax at the rate of 25%. A non-resident enterprise having institutions or establishments inside the PRC shall pay enterprise income tax on its incomes sourced from the PRC derived from the said institutions or establishments as well as on incomes derived from outside the PRC but which has real connection with the said institutions, establishments at the rate of 25%. A non-resident enterprise having no institutions or establishments inside the PRC, or having institutions or establishments inside the PRC but the incomes of which have no actual connection to its institutions or establishments shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

Pursuant to the “Measures for the Implementation of Special Tax Adjustments (Trial)” (《特別納稅調整實施辦法(試行)》), which became effective from 1 January 2008 and certain terms of which were repealed since 16 July 2015, 29 June 2016, 1 December 2016, 1 May 2017 and 15 June 2018, a company shall adopt reasonable transfer pricing methods when conducting transactions with its related companies (hereinafter referred to as “related party transactions”). The tax authority has the power to assess whether the related party transactions conform to the arm’s length principle upon investigation and to make adjustments accordingly. The invested enterprise shall therefore faithfully report on the relevant information about its related party transactions. According to the announcement on the “Administrative Measures for Special Tax Investigation and Adjustments and Mutual Agreement Procedures” (《特別納稅調查調整及相互協商程序管理辦法》), which became effective from 1 May 2017 and certain terms of which were repealed since 15 June 2018, if an enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation and adjustment procedures according to the relevant provisions. Besides, pursuant to the tax treaties signed by the PRC, the State Administration of Taxation may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the contracting counter-party of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.

Pursuant to the “Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) and the “Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法實施條例》), those high-tech enterprises which are necessary to be supported by the state are entitled to a reduced tax rate of 15% for enterprise income tax. Pursuant to the “Measures for the Administration of the Certification of High-Tech Enterprises” (《高新技術企業認定管理辦法》), which became effective from 1 January 2008 and was last amended on 1 January 2016, those high-tech enterprises which are certified in accordance with the “Measures for the Administration of the Certification of High-Tech Enterprises” (《高新技術企業認定管理辦法》) may enjoy the preferential tax policies pursuant to the laws and regulations in the “Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) and the “Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法實施條例》). For a high-tech enterprise that has been accredited, its qualification shall be valid for a period of three years from the date of issuance of the certificate. An eligible high-tech enterprise is entitled to the tax preferences from the year when the high-tech enterprise certificate is issued.

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### 3. *Withholding tax on dividend distributions*

According to the “Enterprise Income Tax Law of the People’s Republic of China” (《中華人民共和國企業所得稅法》) and the “Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China”(《中華人民共和國企業所得稅法實施條例》), a withholding tax rate of 10% will generally be imposed on dividends paid to non-PRC resident investors. The enterprise income tax rate on the dividends may be reduced pursuant to a tax treaty between the Mainland and the tax jurisdictions in which non-PRC investors reside. According to the “Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income” (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which became effective from 8 December 2006 and was last amended by the “Fourth Protocol to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income” (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第四議定書》), which became effective from 29 December 2015, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% in case the Hong Kong enterprise is the beneficial owner and holds at least 25% of equity interests of the PRC enterprise directly. According to the “Notice of the State Administration of Taxation on Issues Concerning the Implementation of the Dividend Clauses of Tax Agreement” (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which became effective from 20 February 2009, the proportion of capital of the PRC resident enterprise owned by the tax resident of the other side shall, at any time within the successive 12 months before obtaining dividends, comply with the specific proportion required by the tax agreement.

### 3. **The PRC laws and regulations relating to management of invoices in enterprises**

Pursuant to the “Invoice Management Measures of the People’s Republic of China” (《中華人民共和國發票管理辦法》), which became effective from 23 December 1993 and was last amended on 2 March 2019, and pursuant to the “Rules for the Implementation of the Invoice Management Measures of the People’s Republic of China” (《中華人民共和國發票管理辦法實施細則》), which became effective from 23 December 1993 and was last amended on 24 July 2019, entities and individuals issuing and acquiring invoices within the PRC shall abide by these laws and regulations. For entities and individuals engaged in sales of commodity, provision of services and other operation activities, a payee shall issue an invoice to a payer for any receipts of payments occurred externally in operation business. All entities and those individuals who engaged in production and operation activities shall acquire invoices from payees for payments on any purchase of commodity, acceptance of services and undertaking of other operation activities.

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### 4. The PRC laws and regulations relating to acceptance bills

Pursuant to the “Negotiable Instruments Law of the People’s Republic of China” (《中華人民共和國票據法》), which became effective from 1 January 1996 and was last amended on 28 August 2004, all transaction activities in negotiable instruments within the PRC are subject to the requirements of the law; negotiable instruments include cheques, cashier orders and drafts. Activities of transacting negotiable instruments shall abide by laws, administrative regulations and decrees and shall not in any way impinge upon the public interests. The draft, acquisition and transfer of a negotiable instrument shall follow the principle of authenticity and creditability and be treated as a real act of trading or debt payment. A negotiable instrument shall be acquired against a corresponding price, that is, the price acknowledged by both parties to a negotiable instrument.

### 5. The PRC laws and regulations relating to intellectual property rights

#### 1. Patent

Pursuant to the “Patent Law of the People’s Republic of China” (中華人民共和國專利法), which became effective from 1 April 1985 and was last amended on 27 December 2008, and the “By-law on the Implementation of the Patent Law of the People’s Republic of China” (《中華人民共和國專利法實施細則》), which became effective from 1 July 2001 and was last amended on 9 January 2010, three types of inventions and creations could apply for patents, which are invention patents, utility model patents and outlook design patents. Invention patents are valid for 20 years, while utility model patents and outlook design patents are valid for 10 years, in each case commencing on their respective application dates. The administrative department of patent under the State Council is responsible for patent application by making the decision of granting patent right, issuing patent certificate as well as making registration and announcement. The patent right became effective since the date of the announcement. The patentee shall pay annual fees commencing from the year when the patent right is granted. Upon the granting of an invention and a utility model patent, unless otherwise specified by the “Patent Law of the People’s Republic of China”, no organization or individual may engage in activities protected by the patent without obtaining a licence from the patentee, i.e. it may not, for the purposes of production and business operation, produce, use, offer to sell, sell, import the patented products, nor use the patented method and use, offer to sell, sell, import products that are acquired directly through the patented method. Otherwise, it shall be held liable to the patentee for compensation or may be subject to the administrative penalty imposed by the relevant administrative authority and even be prosecuted for criminal liability (as the case may be).

#### 2. Trademark

Pursuant to the “Trademark Law of the People’s Republic of China” (《中華人民共和國商標法》), which became effective from 1 March 1983 and was last amended on 23 April 2019, and the “Regulation on the Implementation of the Trademark Law of the People’s Republic of China”(《中華人民共和國商標法實施條例》), which became effective from 15 September 2002 and was last amended on 29 April 2014, the Trademark Office of the administrative department for industry and commerce under the State Council is in charge of the trademark registration and administration throughout the country. The Trademark Office of the State Administration for Industry and Commerce of the People’s Republic of China (hereinafter referred to as the “PRC Trademark Office”) is responsible for the application of trademark registration by approving registration, issuing trademark

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registration certificate and making announcement. The trademark registrants shall be entitled to the right to the exclusive use of their trademarks and shall be protected by law. A registered trademark is valid for ten years commencing on the date of registration approval. If a trademark registrant wishes to use a trademark after the expiration of the term of the registered trademark, he could conduct the renewal procedure in accordance with laws. Each registration renewal is valid for ten years. Any person or entity committing behavior that offends the right to the exclusive use of a registered trademark specified in the “Trademark Law of the People’s Republic of China” shall be held liable to the owner of the right to the exclusive use of a registered trademark for compensation or may be subject to administrative penalty imposed by the relevant administrative authority and even be prosecuted for criminal liability (as the case may be).

### **3. Domain names**

Pursuant to the “Measures for the Administration of Internet Domain Names” (《互聯網域名管理辦法》), which became effective from 1 November 2017, domain name shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the Internet and corresponds to the Internet protocol (IP) address of that computer. Registration services of domain names shall follow the principle of “first-apply-first-register”. Domain name registrar shall require the applicant for domain name registration to provide such information for domain name registration as true, accurate and complete identification of the domain name holder. Any registration and use of domain names by organisations and individuals shall abide by the requirements of the “Measures for the Administration of Internet Domain Names” (《互聯網域名管理辦法》), and any registrations and uses of domain names in breach of the “Measures for the Administration of Internet Domain Names” (《互聯網域名管理辦法》) shall be guilty of an offence and subject to criminal liability; on those who are not guilty of an offence, punishments shall be imposed by the relevant authority in accordance with laws.

## **6. The PRC laws and regulations relating to labor protection and social insurance and housing provident funds**

### **1. Labour protection**

Pursuant to the “Labour Law of the People’s Republic of China” (《中華人民共和國勞動法》), which became effective from 1 January 1995 and was last amended on 29 December 2018, the “Labour Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》), which became effective from 1 January 2008 and was last amended on 28 December 2012, and the “Regulation on the Implementation of the Labour Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法實施條例》), which became effective from 18 September 2008, employers shall establish and perfect regulations and systems in accordance with laws and ensure that the workers shall have the labour rights and perform their labour obligation. An employment relationship is established between an employer and a worker when the worker starts to work for the employer and a written labour contract shall be concluded when establishing the employment relationship. A labour contract shall include essential terms, such as the duration of the labour contract, work content and workplace, working hours and holiday, work remuneration, social insurance, labour protection and labour terms as well as prevention of occupational hazards. Employers and the workers shall follow the agreement of the labour contract and fulfill their respective obligation comprehensively.

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### **2. Social insurance**

Pursuant to the “Social Security Law of the People’s Republic of China” (《中華人民共和國社會保險法》), which became effective from 1 July 2011 and was last amended on 29 December 2018, the “Interim Regulations on the Collection and Payment of Social Insurance Fees” (《社會保險費徵繳暫行條例》), which became effective from 22 January 1999 and was last amended on 24 March 2019, the “Trial Measures concerning the Maternity Insurance for Enterprise Employees” (《企業職工生育保險試行辦法》), which commenced trialing since 1 January 1995, the “Regulations on Unemployment Insurance” (《失業保險條例》), which became effective from 22 January 1999, and the “Work-related Injury Insurance Regulations” (《工傷保險條例》), which became effective from 1 January 2004 and was last amended on 20 December 2010, the state established social insurance systems, such as the basic endowment insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, to guarantee the rights of citizens to legally obtain material assistance from the state and society when they become old, ill, suffer from work-related injuries, become unemployed and give birth to a child. Employers shall pay various types of social insurance fund for its employees, including basic endowment insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. Where the employer fails to pay social insurance premiums on time or in full, it shall be ordered by the social insurance premium collection agencies to pay or make up the premiums within the specified time limit, and shall be subject to a late payment fee of 0.05% of the outstanding amount from the maturity date calculated on a daily basis. Where the employer still fails to do so, relevant administrative department may impose a fine of more than one time but less than three times of the outstanding amount.

### **3. Housing provident funds**

According to the “Regulations on Management of Housing Provident Fund” (《住房公積金管理條例》), which became effective from 3 April 1999 and was last amended on 24 March 2019, employers shall proceed with the registration of deposit with the administrative department of the housing provident fund. Upon review by the housing provident fund administrative centre, employers shall proceed with the procedures of creating or transferring the housing provident fund accounts for its employees with the entrusted banks and deposit the housing provident fund for its employees. Employers shall deposit the housing provident fund on time and in full without any overdue in the payment or underpays. If the employer is overdue in the payment or underpays, the housing provident fund administration centre shall order the employer to pay up within the prescribed time limit; if the employer still fails to pay up as scheduled, the fund administration centre may apply to the court for enforcement of the unpaid amount.

### **4. Prevention and treatment of occupational diseases**

Pursuant to the “Prevention and Treatment of Occupational Diseases Law of the People’s Republic of China” (《中華人民共和國職業病防治法》), which became effective from 1 May 2002 and was last amended on 29 December 2018, for construction projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the construction unit shall (1) conduct preliminary assessment of such hazards during the period of feasibility study; (2) assess the effect of the control on occupational disease hazards

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before the construction project is completed and ready for inspection and acceptance; and (3) conduct inspection and acceptance for protective facilities against occupational disease. The protective facilities against occupational disease may be put into formal operation and use only after passing the acceptance inspection.

According to the “Prevention and Treatment of Occupational Diseases Law of the People’s Republic of China”, an employer shall: (1) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases it caused; (2) take out work-related injury insurance in accordance with the laws; (3) adopt effective protective facilities against occupational diseases, and provide protective gears against occupational diseases to the employees for their personal use; (4) set up alarm equipment, install on-spot emergency treatment device, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (5) inform the employees truthfully of the potential harm of occupational disease during the working process as well as its consequences, protective measures against occupational diseases and treatment when signing a labour contract with employees.

### **7. The PRC laws and regulations relating to production safety and product quality**

#### ***1. Production safety***

Pursuant to the “Production Safety Law of the People’s Republic of China”(《中華人民共和國安全生產法》), which became effective from 1 November 2002 and was last amended on 31 August 2014, a production and operation unit must comply with the relevant laws and regulations on production safety, strengthen the management of production safety, establish and improve the responsibility system of production safety and production safety rules, regulations and systems, improve the condition of production safety, promote the standardization of production safety, enhance the level of and ensure production safety. Production and operation units failing to meet the condition of production safety required by the “Production Safety Law of the People’s Republic of China” and the relevant laws, administrative regulations and national standard or industry standard are not allowed to carry out production and operation activities. Besides, an enterprise is responsible for teaching its staff about issues relating to production safety. A production and operation unit that has more than 100 employees shall establish production safety management institution to enhance the safety of production facilities or appoint specific personnel responsible for production safety management. Enterprises failing to comply with the relevant work safety requirements may be subject to fines and be ordered to discontinue production. Where a criminal offence is committed, the enterprise shall bear the criminal responsibility.

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### 2. *Product quality*

Pursuant to the “Product Quality Law of the People’s Republic of China” (《中華人民共和國產品質量法》), which became effective from 1 September 1993 and was last amended on 29 December 2018, manufacturers and sellers shall establish sound internal product quality control system, strictly implement post quality specification, quality responsibility and corresponding assessment measures. The products shall pass the quality inspection and substandard product shall not be passed off as a qualified one. A manufacturer shall be liable for the quality of the products it produced and shall bear the responsibility of the product quality according to the requirements of such regulation.

Pursuant to the “Tortious Liability Law of the People’s Republic of China”(《中華人民共和國侵權責任法》), which became effective from 1 July 2010, manufacturers shall be liable for damages caused by the defects of their products. If the seller fails to identify the manufacturer or the supplier of the defective products, the relevant seller shall bear the tortious liability. Where the defective product endangers personal or property safety, the victim shall be entitled to demand compensation from either the manufacturer or the seller. In the event that the seller has paid compensation in relation to the defective products when, in fact, the manufacturer shall be responsible for the defects, the seller shall be entitled to claim indemnity from the manufacturer. If the defect of the products is caused by the fault of a third party, such as a carrier or warehouseman, the manufacturer or seller of the product that has paid the compensation shall be entitled to claim indemnity from the third party. Where any defect of a product is found after the product is put into circulation, the manufacturer or seller shall take remedial measures, including but not limited to issuing warnings and recalling in a timely manner. If any damage is caused by the untimeliness or ineffectiveness of the remedial measures, the producer and seller shall bear tortious liability. Where a manufacturer or seller deliberately continues to produce or sell defective products, which cause death or serious damage to the health of another person, the victim shall be entitled to claim punitive compensation from the producer or seller.

Pursuant to the “Law on Protection of Consumer’s Rights and Interests of the People’s Republic of China” (《中華人民共和國消費者權益保護法》), which became effective from 1 January 1994 and was last amended on 25 October 2013, the rights and interests of consumers in respect of personal and property safety in purchasing and using commodities and/or in receiving services shall be protected. Consumers whose legitimate rights and interests are infringed upon purchasing and using commodities and/or in receiving services may demand compensation from the sellers and/or suppliers of such commodities or services. Consumers or other victims suffering from personal injuries or property damage resulting from defects of products may demand compensation from either the sellers or the producers. If the liability is on the producers, the sellers shall, after paying the compensation, have the right to recover the compensation from the producers. If the liability is on the sellers, the producers shall, after paying the compensation, have the right to recover the compensation from the sellers. Where a business operator violates the Law on Protection of Consumer’s Rights and Interests of the People’s Republic of China or other relevant laws or regulations, it may be subject to fines, an order to cease production or a revocation of licenses. Business operators that infringe the legitimate rights and interests of consumers by providing goods or services in violation of the Law on Protection of Consumer’s Rights and Interests of the People’s Republic of China and constitute criminal offenses shall be subject to criminal liability in accordance with the laws.



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### 3. *Special equipment*

Pursuant to the “Special Equipment Safety Law of the People’s Republic of China”(《中華人民共和國特種設備安全法》), which became effective from 1 January 2014, issues related to the production (including design, production, installation, modification and repair), operation, usage, inspection, testing, monitoring and management of special equipment safety, emergency relief during incident and investigation and treatment shall comply with the requirements of such law.

### 4. *Fire protection*

Pursuant to the “Fire Protection Law of the People’s Republic of China” (中華人民共和國消防法)), which became effective from 1 September 1998 and was last amended on 23 April 2019, and the “Provisions on the Supervision and Administration over Fire Protection for Construction Works” (《建設工程消防監督管理規定》), which became effective from 1 May 2009 and was last amended on 17 July 2012, the above laws and regulations are applicable to the supervision and administration of fire protection for construction works to be constructed, expanded or reconstructed. Fire protection institution under public security bureau shall carry out examination and verification on fire protection design for construction works, as well as fire protection acceptance inspection and record-filing, random checking and fire protection supervision over the construction works in accordance with the laws.

### 8. **The PRC laws and regulations relating to environmental protection**

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), which became effective from 26 December 1989 and was last amended on 24 April 2014, all units and individuals have the obligation to protect the environment. Enterprises and other production operators shall prevent and reduce environmental pollution and ecological damage as well as assume the liabilities for the damages caused in accordance with the laws. The competent department for environmental protection of the State Council formulates the national environmental quality standard and national pollutant emission standard and specifications for inspection. The Provincial People’s Governments may formulate local environmental quality standard and local pollutant emission standard for items not specified in the national environmental quality standard and national pollutant emission standard. They may formulate local environmental quality standard and local pollutant emission standard which are more stringent than the national ones for items already specified in the national environmental quality standard and national pollutant emission standard. Local environmental quality standard and local pollutant emission standard shall be reported to the competent department for environmental protection of the State Council for record keeping.

Pursuant to the “Law of the People’s Republic of China on Environment Impact Assessment” (《中華人民共和國環境影響評價法》), which became effective from 1 September 2003 and was last amended on 29 December 2018, “Administrative Regulations on Environmental Protection of Construction Projects” (《建設項目環境保護管理條例》), which became effective from 29 November 1998 and was last amended on 16 July 2017, the prevailing “Catalogue of the Classification Administration of Environmental Impact Assessment of Construction Projects” (《建設項目環境影響評價分類管理名錄》), which became effective from 1 September 2017 and was last amended on 28 April 2018 and the “Administrative Measures on the Filing of Environmental Impact Registration Forms of Construction Projects” (《建設項目環境影響登記表備案管理辦法》), which became

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effective from 1 January 2017, environment impact assessments shall be carried out in accordance with laws for projects which are constructed within Chinese territory and in other marine areas under the governance of China and have environmental impact. The state classifies and manages the environmental impact assessments of construction projects based on the level of environmental impact of the construction projects. The construction units shall organize and prepare the environmental impact report and environmental impact statement as well as filling in the environmental impact registration forms respectively in accordance with the “Catalogue of the Classification Administration of Environmental Impact Assessment of Construction Projects” (《建設項目環境影響評價分類管理名錄》). The environmental impact reports and environmental impact statements of construction projects shall be submitted to the competent ecological environment bodies for review and approval. The construction units shall proceed with the filing procedures of the environmental impact registration forms in accordance with laws. Construction units are prohibited to commence construction in case the environmental impact reports and environmental impact statements are not approved by the relevant bodies in charge of review and approval. Where ancillary environmental protection facilities are required for a construction project, the same shall be designed, constructed and come on stream at the same time with the main construction bodies. When the underlying construction projects of environmental impact reports and environmental impact statements completed, the construction units shall carry out acceptance inspection on the ancillary environmental protection facilities as well as preparing the inspection and acceptance report in accordance with the required standards and procedures of the competent environmental protection administrative bodies of the State Council. With respect to construction projects which are constructed, came into operation or used in stages, the related environmental protection facilities shall also be inspected and accepted in stages.

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), “Water Pollution Prevention and Control Law of the People’s Republic of China” (《中華人民共和國水污染防治法》), which became effective from 1 November 1984 and was last amended on 27 June 2017, “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste” (《中華人民共和國固體廢物污染環境防治法》), which became effective from 1 April 1996 and was last amended on 7 November 2016, “Atmospheric Pollution Prevention and Control Law of the People’s Republic of China” (《中華人民共和國大氣污染防治法》), which became effective from 1 June 1988 and was last amended on 26 October 2018, “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Noise” (《中華人民共和國環境噪聲污染防治法》), which became effective from 1 March 1997 and was last amended on 29 December 2018, China exercises the emission licence administration system. Enterprises, public institutions and other manufacturers and business operators which implement the pollutant emission licence administration system shall discharge pollutants according to the requirements set out in their pollutant emission licence and shall not discharge pollutants without obtaining the pollutant emission licence. Pursuant to the “Measures for Pollutant Discharge Permitting Administration (Trial)” (《排污許可管理辦法(試行)》), which became effective from 10 January 2018 and was last amended on 22 August 2019, the Ministry of Environmental Protection shall develop and issue according to law a classification administration list of pollutant discharge permitting for fixed pollution sources. The enterprises, public institutions and other producers and businesses on the list shall apply for and obtain a pollutant discharge permit according to the prescribed application time limit.

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### 9. The PRC laws and regulations relating to the import and export of goods

Pursuant to the “Customs Law of the People’s Republic of China” (《中華人民共和國海關法》), which became effective from 1 July 1987 and was last amended on 4 November 2017, “Administrative Measures on the Registration of Customs Declaration Entities of the People’s Republic of China” (《中華人民共和國海關報關單位註冊登記管理規定》), which became effective from 13 March 2014 and was last amended on 29 May 2018, in completing customs formalities, customs declaration entities shall comply with the requirements of the relevant national laws, administrative regulations and customs regulations and bear the corresponding legal responsibilities. The registration of customs declaration entity is classified into registration of customs declaration enterprise and registration of consignors or consignees of imported or exported goods. The customs declaration enterprise shall only be engaged in customs declaration business upon completing the registration procedures with the local customs office or a subordinate customs office authorized by it. A consignee or consignor of imported or exported goods may directly go through the registration procedure at the local customs office. Unless otherwise provided for, the declaration for the import or export of goods and the payment of duties may be made by the consignees or consignors of imported or exported goods themselves, and such formalities may also be completed by their entrusted customs brokers that are registered with the permission of the competent customs. The owners of the imported or exported goods may handle the declaration for the import or export of goods and the payment of duties themselves or entrust such formalities to other parties.

Pursuant to the “Foreign Trade Law of the People’s Republic of China” (《中華人民共和國對外貿易法》), which became effective from 1 July 1994 and was last amended on 7 November 2016, foreign trade operators engaging in the import or export of goods or technology shall proceed with the registration with the competent foreign trade administrative body under the State Council or its entrusted bodies. The specific method of registration is stipulated by the competent foreign trade administrative body under the State Council. If foreign trade operators fail to register as required, the customs authority shall not process the procedures of declaration, examination and release of the imported and exported goods.

Pursuant to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法), which became effective from 1 August 1989, and was last amended on 29 December 2018, the State Council shall set up the State administration for commodity inspection which shall be in charge of the inspection of import and export commodities throughout the country. The local import and export commodity inspection authorities set up by the State administration for commodity shall be responsible for the inspection of import and export commodities within areas under their jurisdiction. The local import and export commodity inspection authorities and the commodity inspection authorities recognised by the State administration for commodity shall conduct inspection of the import and export commodities in accordance with the regulations.

Pursuant to the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》), which became effective from 1 December 2005, and was last amended on 2 March 2019, for imports and exports listed in the catalogue which satisfy the criteria for exemption of inspection stipulated by the State, the consignee, the consignor or the manufacturing enterprise may submit an application to the General Administration of Customs of the PRC for examination and approval. Where approval is granted, the imports or exports shall be exempted from inspection by the entry and exit inspection and quarantine authorities.

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### 10. The PRC laws and regulations relating to foreign exchange management

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The State Administration of Foreign Exchange is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Pursuant to the “Notice of the People’s Bank of China on the Printing and Distribution of the ‘Regulations for Administration of the Settlement, Sale and Payment of Foreign Exchange’” (《中國人民銀行關於印發〈結匯、售匯及付匯管理規定〉的通知》), which became effective from 1 July 1996, upon approval, foreign investment enterprises can open a foreign exchange settlement account for their current account foreign exchange income with a selected bank engaging in foreign exchange business in its place of incorporation.

Pursuant to the “Regulation on Foreign Exchange Administration of the People’s Republic of China” (《中華人民共和國外匯管理條例》), which became effective from 1 April 1996 and was last amended on 5 August 2008, current account foreign exchange income may, in accordance with the relevant requirements of the state, be retained or sold to any financial institution engaging in foreign exchange settlement and sale business, and where any foreign exchange income on capital account is to be retained or sold to a financial institution engaging in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under the requirements of the state.

The “Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment” (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), which became effective from 17 December 2012 and was last amended on 10 October 2018, largely simplifies the previous foreign exchange review and approval procedures and cancels the approval procedure for the opening of and capital transfer into foreign exchange account under direct investment. Instead, banks shall handle the procedures for the account opening entity in accordance with the registration information of the relevant operation system of the foreign exchange office.

Pursuant to the “Circular of the State Administration of Foreign Exchange 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》), which became effective from 4 July 2014, a domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the foreign exchange office for going through the procedures for foreign exchange registration of overseas investments. A domestic resident contributing domestic lawful assets or interests shall apply to the foreign exchange office of the place of incorporation, or the foreign exchange office situated at the place where the domestic enterprise’s assets or interests are located for going through the procedures for registration; a domestic resident contributing overseas lawful assets or interests shall apply to the foreign exchange office of the place of incorporation, or the foreign exchange office of the location of household registration for going through the registration procedures.

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The “Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Control Policies on Direct Investment” (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which became effective on 1 June 2015, cancels the administrative approval requirements on foreign exchange registration under overseas direct investment and foreign exchange registration under overseas direct investment shall instead be approved and handled directly by banks. The SAFE and its branches indirectly supervise the foreign exchange registration under direct investment through banks. In case such domestic resident makes overseas investment with his or her onshore assets or interests, he or she shall proceed with the foreign exchange registration of special purpose vehicles by PRC resident individuals with the banks situated at the place where the onshore corporate assets or interests are located.

### **11. The PRC laws and regulations relating to properties**

#### **1. Land**

Pursuant to the “Land Administration Law of the People’s Republic of China” (《中華人民共和國土地管理法》), which became effective from 1 January 1987 and was last amended on 28 August 2004, and the “By-law on the Implementation of the Land Administration Law of the People’s Republic of China” (《中華人民共和國土地管理法實施條例》), which became effective from 1 January 1999 and was last amended on 29 July 2014, issues related to the ownership of land, land use right, the overall planning of land use, the protection of cultivated land and the construction land are all subject to the above laws and regulations.

#### **2. Property rights**

Pursuant to the “Property Law of the People’s Republic of China” (《中華人民共和國物權法》), which became effective from 1 October 2007, civil relationships arising from the possession and the use of property (including ownership, usufructuary right, security rights to the property and rights to possess) are subject to the law, of which a holder of the land use right of the construction land enjoys the rights to possess, use and seek proceeds from the state-owned land as prescribed by the laws and the rights to build buildings, structures and their accessory facilities on such land. A mortgage can be set up on the land use right of the construction land, buildings and other land affiliated items as prescribed by the laws.

#### **3. Construction under progress**

Pursuant to the “Law of Urban and Rural Planning of the People’s Republic of China” (《中華人民共和國城鄉規劃法》), which became effective from 1 January 2008 and was last amended on 23 April 2019, “Construction Law of the People’s Republic of China” (《中華人民共和國建築法》), which became effective from 1 March 1998 and was last amended on 23 April 2019, “Administrative Measures for Construction Permits of Building Projects” (《建築工程施工許可管理辦法》), which became effective on 25 October 2014 and was last amended on 19 September 2018, and the “Regulations on the Administration of Construction Project Quality” (《建設工程質量管理條例》), which became effective from 30 January 2000 and was last amended on 23 April 2019, construction activities carried out in the preoccupied areas of cities, towns and villages and in areas subject to planning control due to the needs of urban and rural construction and development shall comply with the relevant requirements of the “Law of Urban and Rural Planning of the People’s Republic of

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China”, under which the construction units shall obtain the Construction Land Use Planning Permit and Construction Works Planning Permit from the competent urban and rural planning department of the City and County People’s Government and apply for the Construction Permit with the competent housing and urban and rural department of the People’s Government above county level at places where the construction projects are located before construction commences. Upon receiving the completion report of the construction project, the construction unit shall organize the acceptance inspection by the relevant design, construction and supervision units.

#### **4. Leasing of commodity housing**

Pursuant to the “Law for Management of Tenancy for Commodity Housing” (《商品房屋租賃管理辦法》), which became effective on 1 February 2011, the law is applicable to leasing, supervision and management of commodity housing erected on the state-owned lands situated in the urban planning areas. The parties to a lease of a building shall enter into a lease contract in writing in accordance with laws and shall proceed with the registration of the lease with the real estate administration authority in which the building is situated.

Pursuant to the “Urban Real Estate Administration Law of the People’s Republic of China” (《中華人民共和國城市房地產管理法》), which became effective from 1 January 1995 and was last amended on 27 August 2009, those who acquire the right to use the State-owned land within the designated urban area for real estate development, engage in real estate development or transactions of real estate and exercise real estate administration shall abide by the law. For the purpose of leasing of houses, the lessor and lessee shall sign a written lease contract, prescribing such provisions as the leasing term, use of the house, rental and repair liabilities, and other rights and obligations of both parties; and go through registration procedures for record with the real estate administration department.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### HISTORY AND DEVELOPMENT

#### Overview

Our history can be traced back to 1991 when Mr. Shen, the chairman of our Board and executive Director, established 武進縣崔橋計算機配件廠 (Wujin District Cui Qiao Computer Parts Factory\*) which was principally engaged in the manufacturing of computer room facilities. In 1992, the business scope was expanded to the production of flooring products for manufacturing plants, computer room facilities and chairs in the PRC. In July 1997, it was converted to a joint-stock co-operative enterprise and was owned by Mr. Shen, Ms. Zhang and Mr. Shen Jun (沈軍) (a nephew of Mr. Shen and Ms. Zhang) as to 75.73%, 19.42% and 4.85%, respectively. It was subsequently converted to a limited liability company in December 2004. The name was subsequently changed to Jiachen Machinery Plant.

In December 2004, (i) Mr. Shen Jun transferred his 4.85% equity interest in Jiachen Machinery Plant to Ms. Zhang at a consideration of RMB50,000, which was equivalent to the amount of the registered capital paid by Mr. Shen Jun, and (ii) the registered capital of Jiachen Machinery Plant was increased from RMB1,030,000 to RMB5,000,000. Upon the completion of the above, Jiachen Machinery Plant was 85% owned by Mr. Shen and 15% owned by Ms. Zhang.

The registered capital of Jiachen Machinery Plant was further increased to RMB12,800,000 in September 2007 whereupon the shareholdings of Mr. Shen and Ms. Zhang in Jiachen Machinery Plant were changed to 84.77% and 15.23%, respectively.

Jiachen Machinery Plant became one of our former subsidiaries when JiaChen Floor acquired 84.77% equity interest in Jiachen Machinery Plant from Mr. Shen for a consideration of RMB10,850,000 in September 2011, which was equivalent to the amount of registered capital paid by JiaChen Floor.

In view of the growing demand for access flooring products, Mr. Shen and Mr. Shen MH established 江蘇萊士特地板有限公司 (Jiangsu Laishide Flooring Co., Ltd.\*) (which is now known as JiaChen Floor) in September 2009 to focus on manufacturing and marketing of access flooring products.

In November 2009, we purchased a factory building with a gross floor area of approximately 11,543.46 sq.m. from an Independent Third Party in order to build our first production plant in Henglin Town, Wujin District, Changzhou, Jiangsu Province, the PRC. In 2009, we commenced production at our first production plant.

Due to an increase in demand for our products, we leased a factory plant located in Henglin Town, Wujin District, Changzhou, Jiangsu Province, the PRC from an Independent Third Party, for the purpose of setting up our second production plant in September 2013.

Over the years, we have gradually established our business and reputation in the access flooring manufacturing industry. According to the CIC Report, we were the third largest player in access flooring manufacturing industry in the PRC with a 3.6% market share in terms of revenue in 2018.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### Our Key Business Milestones

The following table sets out the key business milestones of our Group's key business development:

Year	Milestone event
1991	<ul style="list-style-type: none"><li>Established 武進縣崔橋計算機配件廠 (Wujin District Cui Qiao Computer Parts Factory*) (which is now known as Jiachen Machinery Plant)</li></ul>
2009	<ul style="list-style-type: none"><li>Established 江蘇萊士特地板有限公司 (Jiangsu Laishide Flooring Co., Ltd.*) (which is now known as JiaChen Floor)</li><li>Our first production plant in Changzhou, the PRC commenced production</li></ul>
2011	<ul style="list-style-type: none"><li>Obtained 常州市知名商標證書 (Well-known Trademark of Changzhou City)</li></ul>
2012	<ul style="list-style-type: none"><li>Awarded as 中國防靜電裝備品牌企業 (China Anti-Static Equipment Brand Enterprise) by 中國電子儀器行業協會 (China Electronic Investment Industry Association)</li><li>Obtained ISO 9001:2008, ISO 14001:2004 certification</li><li>Obtained OHSAS 18001:1999 certification</li><li>Entered into our first overseas sale contract</li></ul>
2013	<ul style="list-style-type: none"><li>Entered into our first strategic cooperation agreement with a real estate company</li><li>Our second production plant in Changzhou, the PRC commenced production</li></ul>
2015	<ul style="list-style-type: none"><li>Accredited as 江蘇省高新技術企業 (Jiangsu Province Hi-tech enterprise)</li></ul>
2016	<ul style="list-style-type: none"><li>Established a joint laboratory of new graphene nanomaterials with an university in Zhejiang</li></ul>



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### OUR CORPORATE DEVELOPMENT

The corporate developments of our Group, including the material shareholding changes of members of our Group, are set out below.

#### **Our Company**

Our Company was incorporated in the Cayman Islands on 7 July 2017 as an exempted company with limited liability with an initial authorised share capital of HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each. One Share was held by Reid Services Limited which was transferred to Jiachen Investment on 7 July 2017. On 7 July 2017, 5,098 Shares, 3,125 Shares and 1,776 Shares were subsequently allotted and issued, credited as fully paid, to Jiachen Investment, Xinchen Investment, Yilong Investment, respectively. On 15 March 2018, (i) one Share was allotted and issued, credited as fully paid, to Jiachen Investment; and (ii) 129 Shares were allotted and issued, credited as fully paid, to Crystal Breeze Ventures, pursuant to the terms of the Share Swap Agreement.

As a result of the Reorganisation, our Company has become the holding company of our subsidiaries and indirectly holds a majority of equity interest in JiaChen Floor, our principal operating subsidiary, through Changzhou Jintai. For further details, please refer to the paragraph headed “The Reorganisation” in this section.

#### **Subsidiaries of our Group as at the Latest Practicable Date**

##### *1. LeiShuo Ventures*

LeiShuo Ventures was incorporated in the BVI on 18 July 2017 as a limited liability company and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. One share in LeiShuo Ventures was issued to our Company on 7 August 2017. Since then, LeiShuo Ventures has been wholly-owned by our Company and serves as an intermediate holding company of our Group. The principal business activity of LeiShuo Ventures is investment holding.

##### *2. Jinyueda Development*

Jinyueda Development was incorporated in Hong Kong on 11 August 2017 as a limited liability company. One share in Jinyueda Development was issued to LeiShuo Ventures on 11 August 2017. Since the date of its incorporation, Jinyueda Development has been wholly-owned by LeiShuo Ventures and serves as an intermediate holding company of our Group. The principal business activity of Jinyueda Development is investment holding.

##### *3. Rui Xing Holdings*

Rui Xing Holdings was incorporated in the BVI on 5 July 2016 as a limited liability company and is authorised to issue a maximum of 50,000 shares of one class with a par value of US\$1.00 each. On 3 September 2016, one share in Rui Xing Holdings was allotted and issued, credited as fully paid, to Ms. Yan which was subsequently transferred to Crystal Breeze Ventures on 3 August 2017 for a consideration of US\$1.00. As part of the Reorganisation, on 15 March 2018, our Company acquired

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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the entire issued share of Rui Xing Holdings from Crystal Breeze Ventures and since then, Rui Xing Holdings has been wholly-owned by our Company and serves as an intermediate holding company of our Group. The principal business activity of Rui Xing Holdings is investment holding. For further details, please refer to the paragraph headed “The Reorganisation” in this section.

#### 4. *Victor Best Investment*

Victor Best Investment was incorporated in Hong Kong on 30 June 2016 as a limited liability company. One share in Victor Best Investment was held by Cartech Limited, an Independent Third Party, at the time of incorporation. On 26 September 2016, Cartech Limited transferred one share in Victor Best Investment to Rui Xing Holdings for a consideration of HK\$1.00. Victor Best Investment serves as an intermediate holding company of our Group. The principal business activity of Victor Best Investment is investment holding.

#### 5. *Changzhou Jingang*

Changzhou Jingang was established in the PRC on 9 November 2017 as a wholly foreign-owned enterprise with a registered capital of RMB1,000,000 with the entire amount contributed and fully paid in cash by Jinyueda Development. On the same date, Changzhou Jingang obtained the business licence from 江蘇常州經濟開發區管理委員會 (Jiangsu Changzhou Economic Development District Management Committee\*). The principal business activity of Changzhou Jingang is business consulting, technology development, technology transfer and consulting of access flooring products.

#### 6. *Changzhou Jintai*

Changzhou Jintai was established in the PRC on 8 December 2017 with a registered capital of RMB990,000 with the entire amount contributed and fully paid in cash by Changzhou Jingang. On the same date, Changzhou Jintai obtained the business licence from 江蘇常州經濟開發區管理委員會 (Jiangsu Changzhou Economic Development District Management Committee\*). The principal business activity of Changzhou Jintai is business consulting, technology development, technology transfer and consulting of access flooring products.

#### 7. *JiaChen Floor*

JiaChen Floor was established in the PRC on 18 September 2009 as a limited liability company with a registered capital of RMB18,000,000. The principal business activity of JiaChen Floor is manufacturing, processing and installation of flooring products, manufacturing and processing of metal parts, design and implementation of renovation projects and export, manage and distribution of products and technology.

At the time of its establishment, the equity interest in JiaChen Floor was 40% owned by Mr. Shen and 60% owned by Mr. Shen MH. On 28 April 2011, Mr. Shen subscribed for the increased portion of registered capital in JiaChen Floor in the amount of RMB12,800,000. Upon completion of such subscription, the registered capital of JiaChen Floor was increased from RMB18,000,000 to RMB30,800,000, and JiaChen Floor was 64.94% owned by Mr. Shen and 35.06% owned by Mr. Shen MH.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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On 23 April 2012, Mr. Shen further subscribed for the increased portion of the registered capital in JiaChen Floor in the amount of RMB30,000,000 and upon completion of such subscription, the registered capital of JiaChen Floor was increased from RMB30,800,000 to RMB60,800,000, and JiaChen Floor was 82.24% owned by Mr. Shen and 17.76% owned by Mr. Shen MH.

On 9 September 2013, Mr. Shen transferred his 31.25% equity interest in JiaChen Floor to Ms. Zhang for a consideration of RMB19,000,000, which was determined with reference to the registered capital of JiaChen Floor at the time of transfer. Upon completion of this equity interest transfer, JiaChen Floor was 50.99% owned by Mr. Shen, 31.25% owned by Ms. Zhang and 17.76% owned by Mr. Shen MH.

For further details of JiaChen Floor, Changzhou Jintai and Victor Best Investment, please refer to the paragraph headed “The Reorganisation” in this section.

### **Subsidiaries disposed during the Track Record Period**

#### *1. Jia Shen Le*

Jia Shen Le was established in the PRC on 13 September 2011 as a limited liability company. Immediately before its disposal in December 2016, it was 61% owned by JiaChen Floor and 39% owned by Mr. Shen. As part of the Reorganisation, JiaChen Floor disposed of its 61% equity interest in Jia Shen Le to Mr. Shen in December 2016 and Jia Shen Le became wholly-owned by Mr. Shen. To the best knowledge of our Directors, Jia Shen Le had not had any business operation since the date of its establishment and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, as confirmed by Jia Shen Le, Jia Shen Le had not had any material non-compliances or litigations, and had not been imposed any administrative punishment because of any material non-compliances, and our PRC Legal Advisers are not aware of any administrative punishment imposed because of any material non-compliances on Jia Shen Le or any material litigations of Jia Shen Le after conducting a proper search.

#### *2. Jia Li Si*

Jia Li Si was established in the PRC on 19 September 2006 as a limited liability company. Immediately before its disposal in December 2016, it was principally engaged in, among others, manufacturing and sale of PVC flooring products and was 51% owned by JiaChen Floor and 49% owned by Mr. Zhou. Mr. Zhou is a merchant who has around 13 years of experience in PVC flooring business in the PRC. According to Mr. Zhou, he became acquainted with Mr. Shen for more than 30 years and they established Jia Li Si together to conduct business. As part of the Reorganisation, in December 2016, JiaChen Floor disposed of its 51% equity interest in Jia Li Si to Mr. Shen and subsequently Mr. Shen disposed of his 51% equity interest to Mr. Zhou. As our Group’s products mainly consist of steel access flooring products and calcium sulfate flooring products whose product nature was different from that of Jia Li Si, our Directors considered that it would be in the interest of our Group to dispose Jia Li Si and concentrate our resources on our Group’s main products.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Save for the co-investment in Jia Li Si with Mr. Shen, Mr. Zhou is an Independent Third Party and has no past or present relationships with our Group, our Shareholders, our Directors, our senior management, or any of their respective associates and any connected person of our Company.

During the Track Record Period and up to the Latest Practicable Date, as confirmed by Jia Li Si, Jia Li Si had not had any material non-compliances or litigations, and had not been imposed any administrative punishment because of any material non-compliances, and our PRC Legal Advisers are not aware of any administrative punishment imposed because of any material non-compliances on Jia Li Si or any material litigations of Jia Li Si after conducting a proper search.

### *3. Jiachen Machinery Plant*

Jiachen Machinery Plant was established in the PRC on 15 April 1991 as a collectively-owned enterprise. It was converted to become a joint-stock co-operative enterprise in July 1997 and become a limited liability company in December 2004. Immediately before its disposal in December 2016, it was principally engaged in, among others, manufacturing and sale of decorative paper and was 84.77% owned by JiaChen Floor and 15.23% owned by Ms. Zhang. As part of the Reorganisation, in December 2016, JiaChen Floor disposed of its 84.77% equity interest in Jiachen Machinery Plant to Mr. Shen.

During the Track Record Period and up to the Latest Practicable Date, as confirmed by Jiachen Machinery Plant, Jiachen Machinery Plant had not had any material non-compliances or litigations, and had not been imposed any administrative punishment because of any material non-compliances, and our PRC Legal Advisers are not aware of any administrative punishment imposed because of any material non-compliances on Jiachen Machinery Plant or any material litigations of Jiachen Machinery Plant after conducting a proper search.

For further details about disposal of the above three companies and the reasons for disposals of Jia Shen Le and Jiachen Machinery Plant, please refer to the paragraph headed “The Reorganisation” in this section and the section headed “Relationship with Controlling and Substantial Shareholders” in this prospectus.

## THE PRE-IPO INVESTMENT

Pursuant to the Pre-IPO Investment Agreement, Victor Best Investment subscribed for the increased portion of the registered capital in JiaChen Floor in the amount of RMB780,000 for a consideration of the U.S. dollars equivalent of RMB1,735,523.14. Upon completion of the Pre-IPO Investment, JiaChen Floor was 50.34% owned by Mr. Shen, 30.85% owned by Ms. Zhang, 17.54% owned by Mr. Shen MH and 1.27% owned by Victor Best Investment.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Further details of the Pre-IPO Investment are set out below:

Investor's background	:	<p>Victor Best Investment is a company incorporated in Hong Kong on 30 June 2016, which is principally engaged in the business of investment holding. Prior to the Reorganisation, Victor Best Investment was wholly owned by Ms. Yan indirectly. To the best knowledge of the Directors, Ms. Yan principally engages in investment and electronics industry.</p> <p>As confirmed by Ms. Yan, Ms. Yan first became acquainted with Mr. Shen when Ms. Yan met Mr. Shen and Mr. Shen MH in a business function. Save for the financing arrangement between our Group and a company indirectly owned as to 80% by Ms. Yan and her family members as disclosed in the section headed "Financial Information — Indebtedness and contingent liabilities — Other borrowings" in this prospectus, Ms. Yan was an Independent Third Party and had no past or present relationships with our Group, our Shareholders, our Directors, our senior management, or any of their respective associates and any connected persons of our Company prior to the completion of the Pre-IPO Investment. Ms. Yan was optimistic with the prospect of the access flooring manufacturing industry in the PRC. Therefore, she subsequently decided to invest in our Company as she saw good prospect.</p>
Date of the Pre-IPO Investment Agreement	:	18 December 2017
Date of obtaining renewed business license of JiaChen Floor	:	21 December 2017
Date of payment of consideration of the Pre-IPO Investment by Victor Best Investment	:	25 January 2018
Equity interest in JiaChen Floor acquired	:	1.27%
Amount of consideration paid <sup>(Note 1)</sup>	:	USD272,350

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Basis of determination of consideration	:	On an arm's length basis between the parties with reference to the relevant amount of the registered capital of JiaChen Floor at the time of the Pre-IPO Investment and the valuation of JiaChen Floor as at 30 September 2017.
Date of completion of the Pre-IPO Investment	:	25 January 2018
Number of Shares held by Ms. Yan immediately following completion of the Capitalisation Issue and the Global Offering	:	9,525,000 <sup>(Note 2)</sup>
Investment cost per Share paid by Ms. Yan (assuming that the Capitalisation Issue has taken place)	:	Approximately RMB0.18 (equivalent to approximately HK\$0.21) <sup>(Note 2)</sup>
Discount over the mid-point of the indicative Offer Price range	:	Approximately 62.8% <sup>(Note 2)</sup>
Use of proceeds	:	As general working capital. The funds received from the Pre-IPO Investment had been fully utilised.
Strategic benefits that Ms. Yan would bring to our Group	:	Our Directors believe that the investment made by Victor Best Investment, as a shareholder of our Company, can contribute capital and strengthen the capital base of our Company. Our Directors believe that our Company can leverage on previous investment experience, the connection with business association in Changzhou, the PRC and strong commercial network of Ms. Yan, which was established through her previous investments and working experience to assist our Company in the future as and when financing needs may arise and gaining new business opportunities as to further broaden our Company's customer base and business, which will bring strategic benefits for the development and expansion of our Group. In addition, in 2018, by using her connections and strong commercial network built from her participation in the business association in Changzhou, the PRC, Ms. Yan introduced a customer to JiaChen Floor which resulted in entering a business co-operation with JiaChen Floor.
Shareholding in our Company immediately following completion of the Capitalisation Issue and the Global Offering	:	0.95% (assuming that the options which may be granted under the Share Option Scheme are not exercised)

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Special rights	:	None
Relationship with our Group (other than being a Shareholder)	:	Ms. Yan will remain as a director of Rui Xing Holdings and Victor Best Investment and thus a core connected person (as defined in Rule 1.01 of the Listing Rules). However, as confirmed by Ms. Yan, given that she had never had the intention to participate in the daily business operations of our Company and has remained as a financial investor of our Group, she was not appointed as a director of our Company.
Lock-up	:	Not subject to lock-up
Public float	:	As Ms. Yan is a core connected person of our Company, the Shares held by Crystal Breeze Ventures will not be counted towards the public float for the purpose of Rule 8.08(1)(a) of the Listing Rules after Listing.

*Notes:*

- (1) All amounts were paid in the U.S. dollars. The actual total amount received was RMB1,735,523.14.
- (2) Calculation is based on a total of 1,000,000,000 Shares, being the number of Shares in issue immediately upon the completion of the Capitalisation Issue and the Global Offering (assuming that the options which may be granted under the Share Option Scheme are not exercised).

### **Sponsor's confirmation**

The Sponsor is not aware of any terms of the Pre-IPO Investment that are not in compliance with the "Interim Guidance on Pre-IPO Investments" issued by the Stock Exchange on 13 October 2010 (as amended) since the consideration under the Pre-IPO Investment Agreement was settled by Victor Best Investment on 25 January 2018 and the Pre-IPO Investment was completed on the same day, which was more than 28 clear days before the date of the first submission of the listing application to the Stock Exchange in relation to Listing. The Sponsor is of the view that the terms of the Pre-IPO Investment are in compliance with Guidance Letters HKEx-GL29-12 and HKEx-GL43-12 whereas Guidance Letter HKExGL44-12 is not applicable to the Pre-IPO Investment.

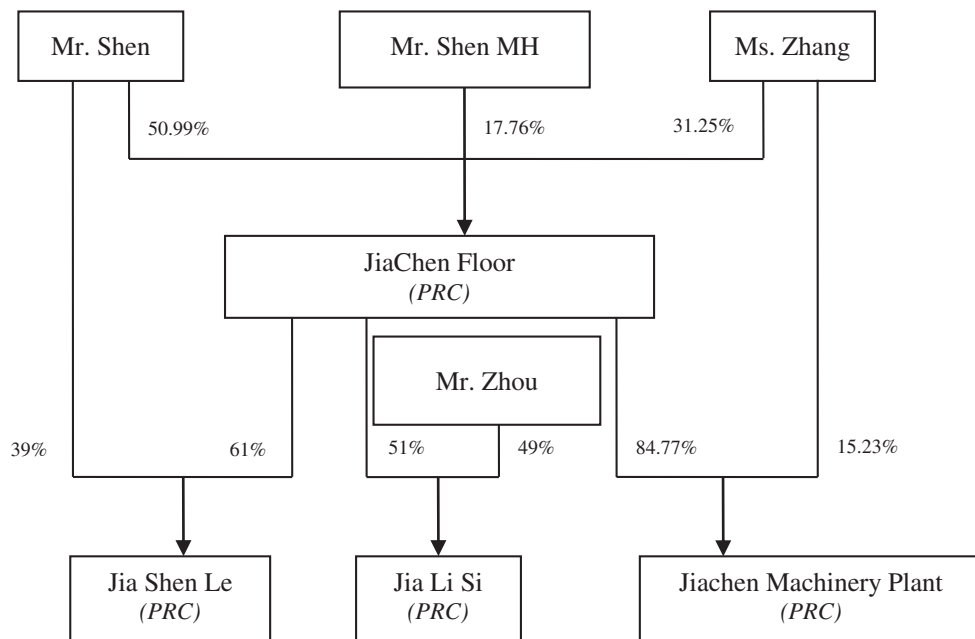
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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### THE REORGANISATION

In preparation for Listing, our Group underwent the Reorganisation which involved a series of steps. The chart below sets out our Group's corporate and shareholding structure immediately before the Reorganisation:



The Reorganisation involved the following steps:

#### (1) Disposals of Jia Shen Le, Jia Li Si and Jiachen Machinery Plant

In order to consolidate and focus on the core business of our Group, we disposed of our interests in certain companies to Mr. Shen and Mr. Zhou.

- *Jia Shen Le*

On 26 December 2016, JiaChen Floor and Mr. Shen entered into an equity interest transfer agreement whereby JiaChen Floor disposed of its 61% equity interest in Jia Shen Le to Mr. Shen for a consideration of RMB3,586,800 which was determined with reference to the valuation of Jia Shen Le as at 30 November 2016 and the registered capital of Jia Shen Le at the time of disposal. Upon completion of the equity interest transfer on 27 December 2016, Jia Shen Le became wholly-owned by Mr. Shen. The consideration was settled by way of netting off the amount due to/due from Mr. Shen.



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- *Jia Li Si*

On 12 December 2016, JiaChen Floor and Mr. Shen entered into an equity interest transfer agreement whereby JiaChen Floor disposed of its 51% equity interest in Jia Li Si to Mr. Shen for a consideration of RMB1,147,500 which was determined with reference to the valuation of Jia Li Si as at 30 November 2016 and the registered capital of Jia Li Si at the time of disposal. The consideration was fully settled on 23 December 2016. Upon completion of the equity interest transfer on 15 December 2016, Jia Li Si became 51% owned by Mr. Shen and 49% owned by Mr. Zhou.

On 22 December 2016, Mr. Shen and Mr. Zhou entered into an equity interest transfer agreement whereby Mr. Shen disposed of his 51% equity interest in Jia Li Si to Mr. Zhou, who holds the remaining 49% equity interest in Jia Li Si, for a consideration of RMB1,150,000. The consideration was fully settled on 23 December 2016. Upon completion of the equity interest transfer on 27 December 2016, Jia Li Si became wholly-owned by Mr. Zhou.

To the best of our Directors' knowledge, during the Track Record Period, our Group and Jia Li Si had six common suppliers and four common customers as both our Group and Jia Li Si purchased raw materials from suppliers located in Changzhou, the PRC and sold flooring materials to customers which focus on sales of construction materials.

None of the said common suppliers and common customers were our five largest suppliers or our five largest customers during the Track Record Period.

Save as disclosed in the paragraph below that Jia Li Si was a supplier of our Group during the Track Record Period, the business of Jia Li Si is manufacturing and sales of PVC flooring products which is different from the products manufactured by our Group and therefore, its operation is independent of and distinct from our Group.

The revenue and net profit (after tax) of Jia Li Si for the financial years ended 31 December 2016, 2017 and 2018 are set out below:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	22,737	34,388	44,009
Net profit (after tax)	660	991	1,616

The net profit of Jia Li Si accounted for approximately 3.4%, 4.8%, and 6.5% of the net profit of our Group for the financial years ended 31 December 2016, 2017 and 2018, respectively. Our Directors believe that the revenue contribution of Jia Li Si was insignificant compared to our Group's operation.

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During the Track Record Period and up to the Latest Practicable Date, Jia Li Si was a supplier of our Group and the transaction amount was approximately nil, RMB0.1 million, RMB3,300 and nil, respectively, for the financial years ended 31 December 2016, 2017, 2018 and for the six months ended 30 June 2019, respectively. Our Directors believe that the transactions were materially insignificant.

- *Jiachen Machinery Plant*

On 26 December 2016, JiaChen Floor entered into an equity interest transfer agreement with Mr. Shen whereby JiaChen Floor disposed of its 84.77% equity interest in Jiachen Machinery Plant to Mr. Shen for a consideration of RMB11,698,260 which was determined with reference to the valuation of Jiachen Machinery Plant as at 30 November 2016 and the registered capital of Jiachen Machinery Plant at the time of disposal. Upon completion of the equity interest transfer on 27 December 2016, Jiachen Machinery Plant was 84.77% owned by Mr. Shen and 15.23% owned by Ms. Zhang. The consideration was settled by netting off RMB8,198,260 due to/due from Mr. Shen and payment of the balance of RMB3,500,000 in cash by Mr. Shen.

Upon completion of the above disposals, we had ceased to have any interest in each of Jia Shen Le, Jia Li Si and Jiachen Machinery Plant. As far as our Directors are aware, each of Jia Shen Le, Jia Li Si and Jiachen Machinery Plant is not engaged in any business that will, or is likely to, compete with us.

To the best knowledge of our Directors, each of Jia Shen Le, Jia Li Si and Jiachen Machinery Plant has complied with relevant laws and regulations in all material aspects during the Track Record Period.

### **(2) Establishment of offshore holding companies and our Company**

On 15 March 2017, each of Mr. Shen, Ms. Zhang and Mr. Shen MH incorporated Jiachen Investment, Xinchun Investment and Yilong Investment, respectively, as their investment holding companies to hold their respective interest in our Company.

On 7 July 2017, our Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands. At the time of its incorporation, our Company was 50.99% owned by Jiachen Investment, 31.25% owned by Xinchun Investment and 17.76% owned by Yilong Investment.

On 18 July 2017, our Company incorporated LeiShuo Ventures, which, in turn, incorporated Jinyueda Development on 11 August 2017 to hold the entire equity interest in Changzhou Jingang.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### (3) Investment by Ms. Yan via Victor Best Investment in JiaChen Floor

Pursuant to the Pre-IPO Investment Agreement, Victor Best Investment, a company wholly-owned by Ms. Yan, subscribed for the increased portion of the registered capital in JiaChen Floor. For further details, please refer to the paragraph headed “The Pre-IPO Investment” in this section.

Upon completion of the Pre-IPO Investment, JiaChen Floor was converted to a sino-foreign joint venture company and was 50.34% owned by Mr. Shen, 30.85% owned by Ms. Zhang, 17.54% owned by Mr. Shen MH and 1.27% owned by Victor Best Investment.

On 18 December 2017, a joint venture agreement (the “**Joint Venture Agreement**”) was entered into among Mr. Shen, Ms. Zhang, Mr. Shen MH and Victor Best Investment with respect to JiaChen Floor following the Pre-IPO Investment by Victor Best Investment.

Pursuant to the Pre-IPO Investment Agreement, Ms. Yan only acquired 1.27% of the equity interest in JiaChen Floor and Ms. Yan would be indirectly interested in approximately 0.95% Shares immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the options which may be granted under the Share Option Scheme are not exercised) by virtue of her interest in Crystal Breeze Ventures. After the entering into of the Joint Venture Agreement, Ms. Yan has not controlled JiaChen Floor, either singly or jointly with Mr. Shen, Ms. Zhang and Mr. Shen MH.

The material terms of the Joint Venture Agreement are set out below:

Status of JiaChen Floor	JiaChen Floor is to be converted to a sino-foreign joint venture company. The parties will share its profits and risk according to their respective shareholding interest.
Business scope	The business scope of JiaChen Floor includes manufacturing and sale of access flooring products and providing related installation services.
Investment amount and registered capital	The investment amount of JiaChen Floor is RMB62,535,500 and the registered capital of JiaChen Floor is RMB61,580,000, of which Mr. Shen contributed RMB31,000,000 (50.34% of the registered capital); Ms. Zhang contributed RMB19,000,000 (30.85% of the registered capital); Mr. Shen MH contributed RMB10,800,000 (17.54% of the registered capital); and Victor Best Investment contributed RMB780,000 (1.27% of the registered capital).

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Responsibilities of the parties	<p>Mr. Shen, Ms. Zhang and Mr. Shen MH are responsible for, among others, (1) providing the capital in accordance with the Joint Venture Agreement; (2) applying to the relevant PRC authorities for converting JiaChen Floor to a sino-foreign joint venture company; (3) assisting JiaChen Floor to purchase equipment, inventory, office equipment, transportation and communication device, etc. in the PRC; (4) assisting JiaChen Floor to implement water, electricity and energy supply, transportation and communication device etc.; and (5) assisting JiaChen Floor to hire operating management staff, technical staff, work staff and other necessary staff.</p> <p>Victor Best Investment is responsible for providing the capital in accordance with the Joint Venture Agreement.</p>
Board of Directors	<p>The board of directors of JiaChen Floor comprises three directors, of which Mr. Shen, Ms. Zhang, and Mr. Shen MH shall jointly appoint two directors, and Victor Best Investment shall appoint one director.</p>
Reserved matters	<p>The following matters, among others, shall require unanimous approval of the board of directors of JiaChen Floor:</p> <ul style="list-style-type: none"><li>(a) amendment of the articles of association;</li><li>(b) increasing or reducing the registered capital;</li><li>(c) deciding on the merger or separation; and</li><li>(d) deciding on the termination or liquidation.</li></ul>
Supervisor	<p>JiaChen Floor shall have one supervisor only. The supervisor shall be appointed jointly by Mr. Shen, Ms. Zhang and Mr. Shen MH.</p>
Transfer of equity interest	<p>Without the prior written consent of the other parties of the Joint Venture Agreement, any shareholder of JiaChen Floor shall not create or permit to create any pledge, guarantee or any encumbrances over any of its equity interest in JiaChen Floor.</p> <p>Any shareholder of JiaChen Floor who wishes to transfer its equity interest in full or in part shall seek the agreement of the other parties of the Joint Venture Agreement, and the other parties of the Joint Venture Agreement shall have the first priority to purchase those interest.</p>

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### **(4) Establishment of Changzhou Jingang and Changzhou Jintai**

On 9 November 2017, Changzhou Jingang was established in the PRC by Jinyueda Development to hold its entire equity interest in Changzhou Jintai.

On 8 December 2017, Changzhou Jintai was established in the PRC by Changzhou Jingang.

### **(5) Subscription of the increased registered capital in Changzhou Jintai**

Pursuant to a capital increase subscription agreement dated 18 January 2018 entered into among Mr. Shen, Ms. Zhang, Mr. Shen MH and Changzhou Jingang, Mr. Shen, Ms. Zhang and Mr. Shen MH subscribed for the increased portion of the registered capital in the amount of RMB10,000 in Changzhou Jintai, representing 1% of the equity interest in Changzhou Jintai, which was satisfied by Mr. Shen, Ms. Zhang and Mr. Shen MH transferring 50.34%, 30.85%, and 17.54% of their respective equity interests in JiaChen Floor to Changzhou Jintai.

The reason for subscribing for the increased registered capital in Changzhou Jintai is to allow such step to be taken without having the need for offshore funding.

Mr. Shen, Ms. Zhang and Mr. Shen MH subscribed for Changzhou Jintai's increased registered capital by transferring their respective existing equity interest of 98.73% in aggregate in JiaChen Floor as consideration in exchange for 1% of the equity interest in Changzhou Jintai. As advised by our PRC Legal Advisers, since the subscription of the increased registered capital in Changzhou Jintai was satisfied by the transfer of their equity interests in JiaChen Floor to Changzhou Jintai, such step was performed without involving any payment of cash consideration.

As advised by our PRC Legal Advisers, the subscription of the increased registered capital in Changzhou Jintai described in the paragraph above was in full compliance with the applicable PRC laws and regulations.

No shareholders' agreement has been entered into between our Company and our Substantial Shareholders.

The consideration for the transfer of Mr. Shen's 50.34% equity interest in JiaChen Floor was RMB68.79 million, of which RMB5,100 being the registered capital and RMB68,784,900 being regarded as capital reserve.

The consideration for the transfer of Ms. Zhang's 30.85% equity interest in JiaChen Floor was RMB42.16 million, of which RMB3,100 being the registered capital and RMB42,156,900 being regarded as capital reserve.

The consideration for the transfer of Mr. Shen MH's 17.54% equity interest in JiaChen Floor was RMB23.97 million, of which RMB1,800 being the registered capital and RMB23,968,200 being regarded as capital reserve.

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According to the valuation report dated 7 December 2017 prepared by a PRC valuer, the market value of the aggregate 98.73% equity interest in JiaChen Floor amounted to approximately RMB133,203,160 as at 30 September 2017.

Upon completion of the above subscription of the increased registered capital in Changzhou Jintai and the investment by Ms. Yan via Victor Best Investment in JiaChen Floor in January 2018, (i) Changzhou Jintai was 0.51% owned by Mr. Shen, 0.31% owned by Ms. Zhang, 0.18% owned by Mr. Shen MH and 99% owned by Changzhou Jingang; and (ii) JiaChen Floor was 98.73% owned by Changzhou Jintai and 1.27% owned by Victor Best Investment.

### **(6) Acquisition of Rui Xing Holdings by our Company**

On 15 March 2018, our Company entered into the Share Swap Agreement with Crystal Breeze Ventures pursuant to which we acquired the entire issued shares of Rui Xing Holdings from Crystal Breeze Ventures at the consideration which was satisfied by us through the allotment and issue of 129 Shares, credited as fully paid, to Crystal Breeze Ventures. The transaction under the Share Swap Agreement was completed on 15 March 2018.

Upon completion of the above acquisition, Rui Xing Holdings became a wholly-owned subsidiary of our Company and our Company was 50.34% owned by Jiachen Investment, 30.85% owned by Xinchun Investment, 17.54% owned by Yilong Investment and 1.27% owned by Crystal Breeze Ventures.

As advised by our legal advisers, each of the steps in the Reorganisation as mentioned above was properly and legally completed and all consideration in relation thereto was properly settled.

### **(7) Increase in authorised share capital**

On 19 December 2019, our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each to HK\$50,000,000, divided into 5,000,000,000 shares of par value of HK\$0.01 each by the creation of an additional 4,962,000,000 Shares of par value of HK\$0.01 each, each ranking *pari passu* with Shares in issue.

### **(8) Capitalisation Issue and Global Offering**

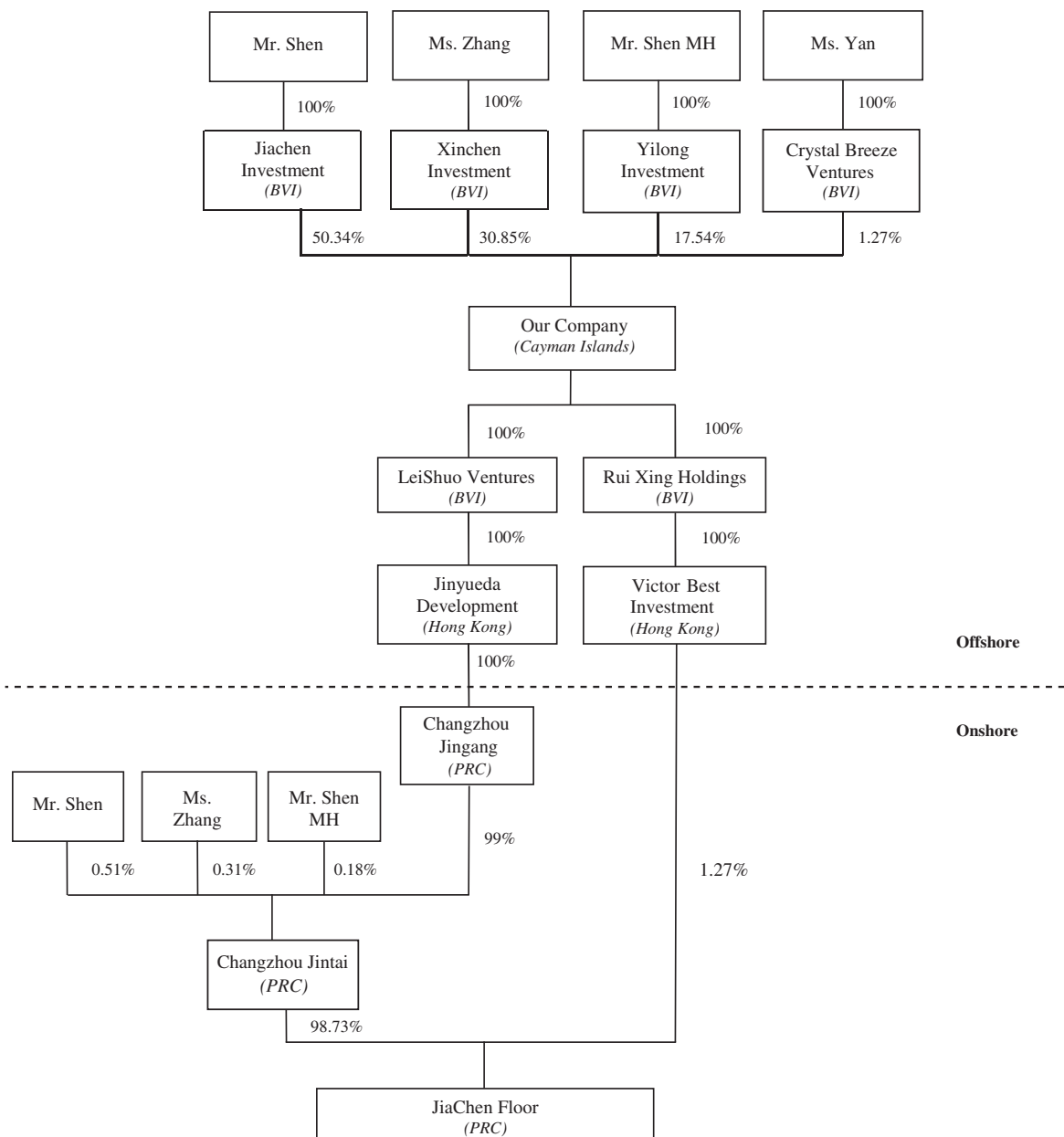
Conditional upon the creation of our Company's share premium account as a result of the issue of the new Shares pursuant to the Global Offering, an amount of HK\$7,499,898.70 standing to the credit of the share premium account of our Company will be capitalised by applying such sum towards paying up in full at par a total of 749,989,870 Shares for allotment and issue to the then existing Shareholders.

Our Company will offer 250,000,000 Shares under the Global Offering for subscription by the public and professional, institutional and other investors, representing a total of 25% of the enlarged issued capital of our Company upon Listing.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### CORPORATE STRUCTURE IMMEDIATELY AFTER THE REORGANISATION AND BEFORE COMPLETION OF THE GLOBAL OFFERING

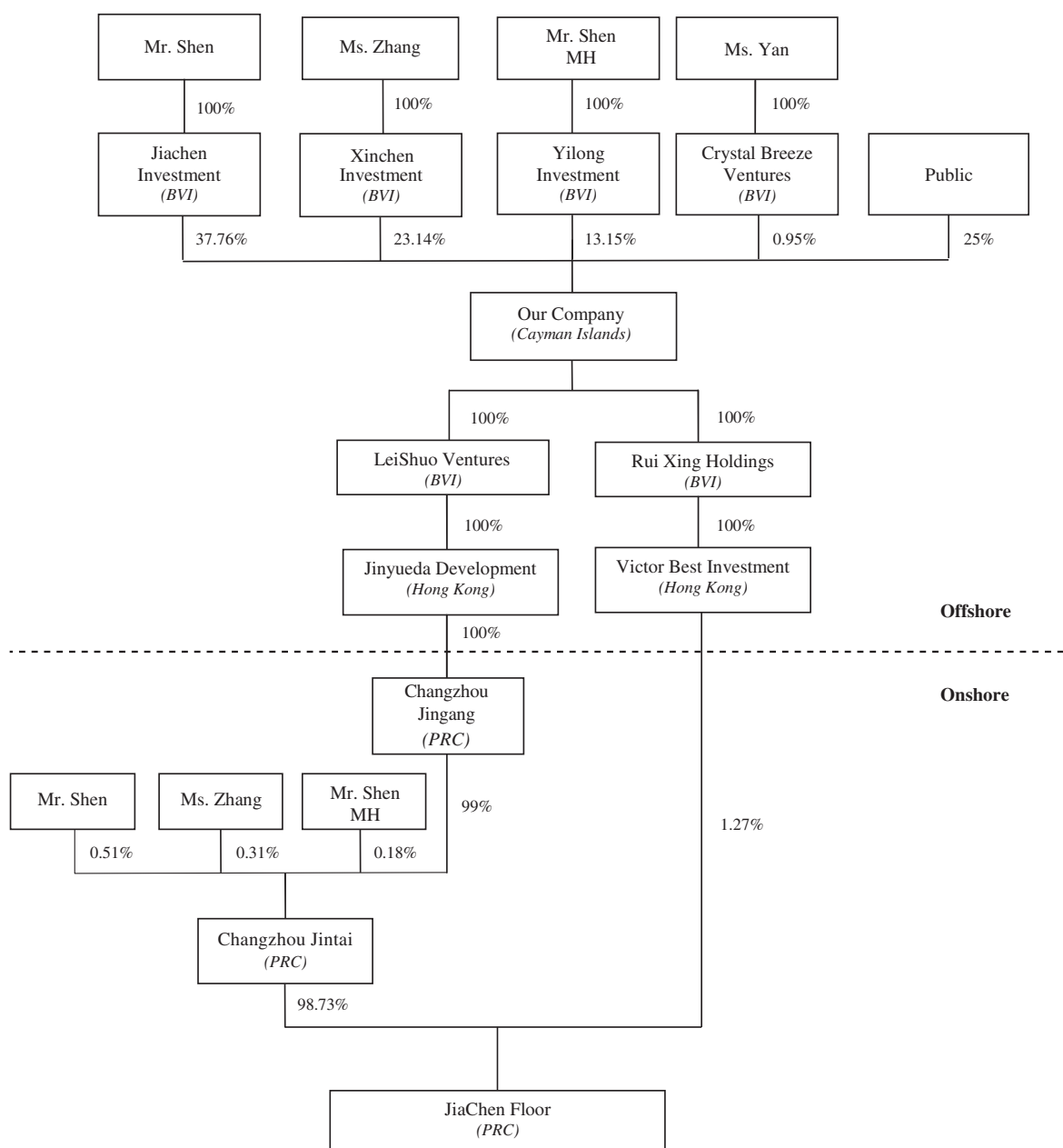
The chart below sets out the shareholding structure of our Group immediately after the Reorganisation and before completion of the Capitalisation Issue and the Global Offering:



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### CORPORATE STRUCTURE IMMEDIATELY AFTER THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

The chart below sets out the shareholding structure of our Group immediately after the Capitalisation Issue and the Global Offering (assuming the options which may be granted under the Share Option Scheme are not exercised):





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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

On 4 July 2014, the SAFE issued the Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment Financing and Return Investments Undertaken by Domestic Residents through Special Purpose Vehicles (Hui Fa [2014] No. 37) (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)(匯發[2014]37號) (“**Circular No. 37**”), a domestic resident shall, before contributing lawful domestic or overseas assets or interests to an overseas special purpose company, apply to the local branch of SAFE for foreign exchange registration of overseas investments. On 8 August 2006, six PRC regulatory agencies, including MOFCOM and CSRC, promulgated the Rules 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) (the “**M&A Rules**”), a regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on 8 September 2006 and amended on 22 June 2009. The M&A Rules, among other things, provides that a foreign investor seeking acquisition of the equity interest in a non-foreign-invested PRC enterprise, or purchasing and operating the assets of that enterprise by establishing a foreign-invested enterprise in the PRC, shall obtain the approval of MOFCOM or its counterparts at provincial level.

Our PRC Legal Advisers are of the opinion that the subscription of the increased registered capital in Changzhou Jintai by Mr. Shen, Ms. Zhang and Mr. Shen MH does not fall within the scope of the M&A Rules as JiaChen Floor was converted to a sino-foreign joint venture company on 21 December 2017.

Our PRC Legal Advisers are of the view that JiaChen Floor has complied with all the legal requirements with respect to the investment by Ms. Yan via Victor Best Investment in JiaChen Floor.

Furthermore, as all requisite approvals, permits and licences required in all material aspects under the PRC laws and regulations in connection with the Reorganisation, the Pre-IPO Investment and the equity interest transfers of our subsidiary in the PRC as set forth in this section have been obtained, and the Reorganisation has in all material aspects complied with all applicable PRC laws and regulations, our PRC Legal Advisers are of the opinion that no approval from CSRC or other competent authorities is required for our Company and its PRC subsidiary for the purpose of Listing.

### SAFE REGISTRATION IN THE PRC

SAFE Circular No. 37 requires a PRC individual resident (the “**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interest in an overseas special purpose vehicle (the “**Offshore SPV**”) that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, upon changes in basic information including (amongst others) PRC Resident shareholder, name or term of operation, or changes in material issues including (amongst others) capital increase or capital decrease, equity transfer or swap, merger or split, the Offshore SPV shall complete the registration procedures for the changes in a timely manner.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV's PRC subsidiary to distribute dividends to its overseas parent.

On 13 February 2015, SAFE released the Notice regarding Further Simplifying and Improving Direct Investment Foreign Exchange Management Policy (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on 1 June 2015. This notice replaces the foreign direct investment (the “**FDI**”) and offshore direct investment (the “**ODI**”) registrations at SAFE with the FDI and ODI registrations at qualified banks, which SAFE and its local branches will supervise indirectly. The registration under SAFE Circular No. 37 is under the catalogue of the FDI and it shall be registered at such qualified banks mentioned above. Our PRC Legal Advisers have confirmed that each of Mr. Shen, Ms. Zhang and Mr. Shen MH, being PRC Residents and beneficial owners of our Company, has registered with Sub-branch of Agricultural Bank of China in Changzhou Economic Development Zone in Changzhou City in respect of their foreign investments in our Group as at 28 June 2017 in accordance with SAFE Circular No. 37.

## BUSINESS

### OVERVIEW

We are principally engaged in the manufacturing and sales of access flooring products and provide related installation services with our headquarters based in Changzhou City, Jiangsu Province, the PRC. Our products mainly consist of: (i) steel access flooring products; and (ii) calcium sulfate access flooring products. Our access flooring products have been generally applied in office buildings in the PRC with characteristics of: (i) cable management (wires and cables are managed and organised underfloor with flexibility to accommodate any electronic devices); (ii) short installation time; (iii) high compressive strength and fire-resistance characteristic; and (iv) high bearing capacity.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, the access flooring products sold and used for our provision of installation services were all self-manufactured by us. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our products were mainly sold and applied in the PRC and, to a lesser extent, exported to overseas markets, such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore. Our Company's revenue is largely derived from contracts, which are non-recurring in nature. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, approximately 92.4%, 91.8%, 90.9% and 95.4% of our total revenue was derived from the PRC, respectively. According to the CIC Report, we were the third largest player in access flooring manufacturing industry with a market share of approximately 3.6% in terms of revenue in the PRC in 2018. The following table sets forth the breakdown of our revenue by the type of our major products during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Steel access flooring products	139,507	87.4	185,617	85.8	204,319	82.1	90,593	80.4	109,594	87.8
Calcium sulfate access flooring products	20,096	12.6	30,743	14.2	44,466	17.9	22,077	19.6	15,294	12.2
Total	159,603	100.0	216,360	100.0	248,785	100.0	112,670	100.0	124,888	100.0

*Note:* The revenue shown above includes the revenue derived from our provision of installation services of the respective products.

## BUSINESS

During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of our customers. We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. The following table sets forth the breakdown of our revenue during the Track Record Period by: (i) sales of access flooring products; and (ii) sales of access flooring products with installation services:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sales of access flooring products with installation services <sup>(Notes 1 &amp; 2)</sup>	134,901	84.5	188,931	87.3	186,546 <sup>(Note 3)</sup>	75.0	90,159	80.0	103,515	82.9
Sales of access flooring products	24,702	15.5	27,429	12.7	62,239	25.0	22,511	20.0	21,373	17.1
Total	159,603	100.0	216,360	100.0	248,785	100.0	112,670	100.0	124,888	100.0

*Notes:*

- During the Track Record Period and up to the Latest Practicable Date, our Group completed 541 projects of our sales of access flooring products with installation services. During the same period, our Group has 54 completed and 12 on-hand projects with the original contract sum of more than RMB5.0 million. Our Directors confirmed that the amount of revenue expected to be recognised is subject to the actual progress and commencement and completion dates of our projects. Further details of our projects are set out in the paragraph headed "Our projects" in this section.
- Our Directors confirmed that, during the Track Record Period, we provided ten installation only services amounted to approximately RMB0.4 million, RMB0.3 million, RMB36,000 and RMB0.9 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. For illustration purpose, as the amounts are not material, such installation only services are grouped into our sales of access flooring products with installation services.
- The decrease in our sales of access flooring products with installation services from approximately RMB188.9 million for the year ended 31 December 2017 to approximately RMB186.5 million for the year ended 31 December 2018 was mainly due to the decrease in the volume of calcium sulfate access flooring products, which has a higher unit selling price as compared to our steel access flooring products.

## BUSINESS

### Revenue from contracts with customers by types of performance obligations

	FY2016		FY2017		FY2018		6M2018		6M2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of access flooring products	151,504	94.9	205,922	95.2	238,202	95.7	107,565	95.5	118,444	94.8
Provision of installation services	8,099	5.1	10,438	4.8	10,583	4.3	5,105	4.5	6,444	5.2
Total	<u>159,603</u>	<u>100.0</u>	<u>216,360</u>	<u>100.0</u>	<u>248,785</u>	<u>100.0</u>	<u>112,670</u>	<u>100.0</u>	<u>124,888</u>	<u>100.0</u>

### Gross profit and gross profit margin with customers by types of performance obligations

	FY2016		FY2017		FY2018		6M2018		6M2019	
	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of access flooring products	35,962	23.7	52,572	25.5	59,046	24.8	25,808	24.0	29,948	25.3
Provision of installation services	1,243	15.3	1,172	11.2	1,120	10.6	523	10.2	894	13.9
Total	<u>37,205</u>	<u>23.3</u>	<u>53,744</u>	<u>24.8</u>	<u>60,166</u>	<u>24.2</u>	<u>26,331</u>	<u>23.4</u>	<u>30,842</u>	<u>24.7</u>

For details of our breakdown of revenue, gross profit and gross profit margin, please refer to the sections headed “Financial Information — Summary of results of operations” and “Financial Information — Gross profit and gross profit margin” in this prospectus.

Our presence in the access flooring manufacturing industry is established in the PRC. We have been awarded ISO 9001:2015 (Quality Management), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Assessment) certificates. With our commitment to quality control, our market recognition and service quality are further underpinned. We have been awarded the “Well-known Trademark of Changzhou City” (常州市知名商標證書) by the Recognition Committee of Well-known Trademark of Changzhou City (常州市知名商標認定委員會) in 2011, “Jiangsu Famous Brand Certificate” (江蘇名牌產品證書) by the Jiangsu Promotion Commission for Famous Brand Strategy (江蘇省名牌戰略推進委員會) in 2017, and the accreditation of AAA Credit Enterprise (企業信用等級證書AAA綜合信譽信用等級) by Jiangsu Branch of Lianhe Credit Information Service Co., Ltd. (聯合信用管理有限公司江蘇分公司) for the period from 2016 to 2018.

## BUSINESS

From 2015 to 2016, JiaChen Floor was one of the eight drafting units, and Mr. Chen, one of our executive Directors, was a drafter in a group of 11, for the drafting of the “General specification for raised access floor for electrostatic protection” (防靜電活動地板通用規範), a specification of the National Standard of the PRC promulgated by the State Administration for Market Regulation and Standardization Administration of the People’s Republic of China in June 2018, which has become effective in January 2019.

We had recorded a significant growth during the Track Record Period. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our revenue amounted to approximately RMB159.6 million, RMB216.4 million, RMB248.8 million and RMB124.9 million, respectively, representing a CAGR of approximately 24.9%. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our net profits attributable to owners of our Company were approximately RMB19.2 million, RMB20.5 million, RMB24.6 million and RMB7.0 million, respectively, representing a CAGR of approximately 13.3%. For the reasons of our growth in revenue and net profits during the Track Record Period, please refer to the section headed “Financial Information” in this prospectus.

During the Track Record Period, our revenue was mainly derived from the PRC and, to a lesser extent, from other regions, such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore, which accounted for approximately 7.6%, 8.2%, 9.1% and 4.6% of our total revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

The table below sets out our revenue by geographical location for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Approximate % of total Revenue	Revenue	Approximate % of total revenue	Revenue	Approximate % of total revenue	Revenue	Approximate % of total revenue	Revenue	Approximate % of total revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
PRC	147,517	92.4	198,717	91.8	226,046	90.9	102,032	90.6	119,111	95.4
Thailand	2,011	1.3	1,995	0.9	2,674	1.1	1,234	1.1	1,617	1.3
Malaysia	2,730	1.7	2,469	1.1	3,075	1.2	1,439	1.3	1,169	0.9
Taiwan	1,506	0.9	3,238	1.5	2,956	1.2	1,653	1.5	741	0.6
Hong Kong	2,271	1.4	1,885	0.9	1,867	0.7	515	0.5	498	0.4
Singapore	1,221	0.8	5,136	2.4	9,247	3.7	4,985	4.4	235	0.2
Others <sup>(Note)</sup>	2,347	1.5	2,920	1.4	2,920	1.2	812	0.6	1,517	1.2
Total	159,603	100.0	216,360	100.0	248,785	100.0	112,670	100.0	124,888	100.0

*Note:* Others include Bangladesh, Cambodia, Dubai, Egypt, Ethiopia, Ghana, India, Indonesia, Japan, Korea, Kuwait, Maldives, Mexico, Oman, Panama, Philippines, Qatar, Romania, Saudi Arabia, Sri Lanka, Turkey and Vietnam.

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## BUSINESS

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Our customers include property developers and main contractors of construction projects in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the revenue generated from our five largest customers amounted to approximately 22.7%, 18.6%, 21.4% and 45.4% of our total revenue, respectively, and our largest customer accounted for approximately 5.9%, 6.3%, 5.2%, 29.4% of our total revenue, respectively. For further details, please refer to the paragraph headed “Customers” in this section.

We purchased raw materials for use in our manufacturing process during the Track Record Period, among which our Directors considered steel and cement were our major raw materials. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our five largest suppliers amounted to approximately RMB50.2 million, RMB49.8 million, RMB60.7 million and RMB42.4 million, respectively, representing approximately 41.2%, 45.1%, 40.5% and 51.1% of our total purchase of raw materials and installation costs for the same periods, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our largest supplier accounted for approximately 13.0%, 17.0%, 14.8% and 28.2% of our total purchase of raw materials and installation costs, respectively. For further details, please refer to the paragraph headed “Suppliers and raw materials” in this section.

Our Group operates two manufacturing facilities based in Changzhou City, Jiangsu Province, the PRC, of a total gross floor area of 23,827 sq.m. and 5,056 sq.m., respectively.

For steel access flooring products, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our actual production volume was approximately 1.3 million sq.m., 1.1 million sq.m., 1.6 million sq.m. and 0.8 million sq.m., respectively, at an average utilisation rate of approximately 81.8%, 71.5%, 94.5% and 99.6% for the same periods, respectively. For calcium sulfate access flooring products, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our actual production volume was approximately 0.2 million sq.m., 0.1 million sq.m., 0.2 million sq.m. and 0.1 million sq.m., respectively, at an average utilisation rate of approximately 97.7%, 60.3%, 91.4% and 80.0% for the same periods, respectively. For details of the average utilisation rates of each of our major product types during the Track Record Period, please refer to the paragraph headed “Manufacturing facilities and production process — Manufacturing facilities” in this section.

### COMPETITIVE STRENGTHS

Our competitive strengths emanate from our commitment that set us apart from our competitors.

#### **A well-established access flooring manufacturer with a proven track record in the PRC**

We believe our core value and our commitment to product advancement and customer-centric experience have made an explicit statement in the PRC.

Based on a proven track record of accomplishment, we have been awarded the “Well-known Trademark of Changzhou City” (常州市知名商標證書) by the Recognition Committee of Well-known Trademark of Changzhou City (常州市知名商標認定委員會) in 2011, “Jiangsu Famous Brand Certificate” (江蘇名牌產品證書) by the Jiangsu Promotion Commission for Famous Brand Strategy (江蘇省名牌戰略推進委員會) in 2017, and the accreditation of AAA Credit Enterprise (企業信用等

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## BUSINESS

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級證書AAA 綜合信譽信用等級) by Jiangsu Branch of Lianhe Credit Information Service Co., Ltd. (聯合信用管理有限公司江蘇分公司) for the period from 2016 to 2018 and the “Brand Enterprises of Anti-Static Equipments Manufacturing in China” (中國防靜電裝備品牌企業) by the Branch of Anti-Static Equipment Manufacturing of China Electronic Production Equipment Industry Association (中國電子儀器行業協會防靜電裝備分會) for the periods from 2013 to 2014, from 2016 to 2017 and from 2019 to 2020, in which the branch is an organisation engaging in research, production, and operation of the anti-static equipment industry. For details of the recognition of our Group, please refer to the paragraph headed “Certificates, licences, permits, awards and approvals” in this section.

### **Core values and distinctive products and services are recognised by our customers**

Despite numerous recognitions, we strive to delve further into the understanding of customers’ needs. Amongst our 541 completed projects of sales of access flooring products with installation services during the Track Record Period and up to the Latest Practicable Date, we served our customers of different scales with various needs, ranging from established property developers to main contractors in the PRC, from offices to computer rooms, where our Directors believed that we demonstrated a profound understanding of our customers’ demands. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the total revenue derived from our sales of access flooring products with installation services amounted to approximately RMB134.9 million, RMB188.9 million, RMB186.5 million and RMB103.5 million, respectively, representing approximately 84.5%, 87.3%, 75.0% and 82.9% of our total revenue for the same periods, respectively, which strikes a contrast to some of our competitors. According to the CIC Report, only leading large-scale companies, which accounted for less than 20% among all the companies in the access flooring manufacturing industry in the PRC in 2018, offer installation services while most of the companies only involve in the sales of products to its customers. Our Directors are of the view that our vigorous responsiveness and professionalism to our customers’ needs distinguish us from some of our competitors.

Whilst customers’ nods to our commitment and industry recognition are explanatory to our premium standing in the market, we are determined to gain more exposure to stay compatible with our customers’ needs. Apart from doing business with customers in the PRC, we have also, to a lesser extent, accessed to overseas markets, such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore during the Track Record Period. Our Directors considered such sales penetration allows our customers, in particular, those with extensive business coverage in and out of China, to continue to engage us and refer new customers to us.

With the growing demand for industrial and office buildings in the PRC in accordance with the CIC Report, our Directors are of the view that our Group has laid down a solid foundation in this ever-competitive arena.

### **Stringent quality control**

Our Directors considered quality control as an indicator of meeting our customers’ requirements. We have gained the recognition of ISO 9001:2015 (Quality Management), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Assessment) certificates. As of the Latest Practicable Date, there were two full-time staff serving in our quality control department.



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## BUSINESS

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We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. According to the CIC Report, engaging suppliers of installation services aligns with the market practice, in which our Directors believed that it allows a lower fixed cost overhead, as well as optimises the quality of our flooring products with their expertise. To ensure our service quality, we adopt quality control measures for: (i) project team management structure; (ii) prevention of unauthorised multi-level engagement; (iii) supervision of installation work; and (iv) indemnity from suppliers of installation services. For further details, please refer to the paragraph headed “Quality control over work quality and performance of suppliers of installation services” in this section.

### **Experienced and stable management team**

Our Directors believed that our business success is brought by our experienced and stable management team. Establishing our Group in 2009, our executive Director, Mr. Shen, together with our executive Director and general manager, Mr. Chen, have possessed in-depth knowledge of our business operation.

In 2011, Mr. Shen was awarded the “Outstanding Entrepreneur of Jiangsu Province” (江蘇省優秀企業家) by the Jiangsu Famous Brand Promotion Association (江蘇名牌事業促進會) and the Quality Supervision Committee of Jiangsu Province (江蘇省質量監督委員會). From 2015 to 2016, Mr. Chen made his presence as a drafter in a group of 11 for the drafting of the “General specification for raised access floor for electrostatic protection” (防靜電活動地板通用規範), a specification of the National Standard of the PRC promulgated by the State Administration for Market Regulation and Standardization Administration of the People’s Republic of China in June 2018, which has become effective in January 2019.

With the expertise and recognition in the industry, our Group is determined to provide quality products and services to our customers. For further details of the experience and qualifications of our executive Directors and members of our senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

Our Directors are of the view that our Group encompasses a diverse portfolio of high caliber staff members and quality service.

## **BUSINESS STRATEGIES**

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

### **Increase our production capacity and efficiency by expansion of our production sites**

Our Group currently operates two manufacturing facilities in Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC. The first one has a gross floor area of 23,827 sq.m. and is owned by our Group (the “**Major Manufacturing Facility**”). The second one has a gross floor area of 5,056 sq.m. and is leased by our Group from a third party. The two manufacturing facilities are situated in Henglin Town, with a distance of approximately one kilometre between each other.

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## BUSINESS

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With reference to the CIC Report, although the China's access flooring manufacturing industry has continued to develop rapidly, competition within this market has also intensified in recent years, driven by, among others, shifts in the labour force, and higher requirements from downstream clients. Since some manufacturers are unable to keep up with fast-paced developments in the market, an increasing number of manufacturers have started to exit the market or have simply been absorbed by more capable manufacturers. In the near future, this trend is expected to accelerate at a quickening pace, with most manufacturers having put in a great deal of effort in consolidating their market position.

With around 100 access flooring manufacturing companies in China, intensified market competition and a high degree of homogenisation in the industry, our Directors believed that a significant increase in the market share would be more commercially sustainable in the long run as it would become more difficult to be distinguished in the industry. This will help our Group to further improve our reputation and track record in order to succeed in the industry in the long term.

Given the intense market competition within the access flooring manufacturing industry, a proven track record has become crucial for access flooring manufacturers. In order to finish projects on time, our Directors considered property developers and land owners focus on guarantees in terms of on-time delivery and product quality. Thus, these customers are more likely to select access flooring manufacturers that have a proven track record and sizeable production capacity. We believed the new entrants who lack a proven track record therefore face a tremendous challenge when seeking orders from new clients.

Therefore, it is crucial for our Group to expand our production facilities in order to acquire and grow market share in the access flooring manufacturing industry, and to demonstrate to customers that it is capable to guarantee on-time delivery and product quality. Further, the increase in production capacity would make it possible for our Group to bid and accept larger orders and deliver them on time.

To satisfy the anticipated increase in demand for our access flooring products, our Directors plan to further increase our production capacity and efficiency by installing five additional production lines and acquiring new machinery and equipment. In order to accommodate the additional production lines, machinery and equipment, we intend to acquire one parcel of land at Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC (the "**Targeted Land**"), which is adjacent to our Major Manufacturing Facility, with a site area of approximately 45 mu (equivalent to approximately 30,000 sq.m.), and construct two new factory buildings with a gross floor area of approximately 20,000 sq.m. on the Targeted Land to further increase our production capacity. Our Directors believed that such addition of production lines, machinery and equipment would not involve renovation or redesign of our existing production facilities, thus would not cause any disruption to our operations. As part of our expansion plan, we also plan to arrange approximately 100 employees to work in the new factories and the staff costs related to those employees will be funded by our internal resources.

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Our Directors considered that our Group needs to expand our production capacity by way of acquiring a parcel of land and constructing two factory buildings as opposed to: (i) renovating and re-designing our existing production facilities; (ii) leasing additional factory buildings; and (iii) replacing our aged machinery and equipment due to the following reasons:

(i) Renovation or re-design of our existing production facilities

Our current production sites are of limited space. The factories equipped with key machinery and equipment and inventory storage occupy approximately 68.8% of our production facilities whereas other ancillary facilities such as offices occupy approximately 20.8% of our production facilities.

The inventory areas are mainly used to store raw materials and semi-finished products, and thus they are part and parcel of the overall production process. As such, the inventory storage areas cannot be eliminated and converted to place machinery and equipment, and leasing of external inventory space is not a practical solution.

Given the load-bearing requirements of the key machinery and equipment, our existing ancillary facilities would not be able to house the key machinery and equipment. However, even if our existing ancillary facilities are converted to a production plant, our Directors estimated that the available space can only accommodate one additional production line. Thus, it would not provide sufficient space to house machinery and equipment necessary to increase the production capacity to the desired capacity.

Furthermore, our Directors do not consider redesigning and rebuilding our existing facilities is a feasible option given that it would involve suspension of the production at our Major Manufacturing Facility, being the only production plant of steel access flooring products. This would cause material disruption to our operation and have a material impact to our operation and business.

In view of the above, our Directors considered renovation and re-design of our existing production facilities is not practical.

(ii) Leasing additional factory buildings

Our Directors believed that purchasing a new plot of land can help mitigate the risk of market fluctuation of rental costs, which in turn would help lower the operation costs and enhance operational efficiency. We intend to build a new production facility with a gross floor area of 20,000 sq.m. on a new plot of land. The estimated average annual cost for renting a 20,000 sq.m. production facility in Henglin, Changzhou for 10 years is approximately RMB6.5 million, calculated based on a rent of RMB180 per sq.m. per annum, with reference to the market price in the neighbourhood and is expected to increase annually by approximately 7.9% thereafter according to the CIC Report. For acquiring a plot of land and constructing a production facility of similar size, the estimated annual expense is approximately RMB1.5 million, calculated by amortising or depreciating the capital expenditures (capital expenditures of acquiring the plot of land and building the production facility are estimated at approximately RMB20.3 million and approximately

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RMB21.3 million, respectively) over a useful life of 50 years for the land and 20 years for the production facility. Based on the above cost-benefit analysis, the estimated annual expense for acquiring a plot of land and constructing a production facility is approximately RMB5.1 million less than the relevant annual rental cost. For details of the cost-benefit analysis for owning a production facility versus leasing a production facility, please refer to the paragraph headed “Increase our production capacity and efficiency by expansion of our production sites — Cost-benefit analysis for establishing new production facilities” in this section.

In addition, our Directors also believed that acquiring a new plot of land can strengthen the asset base of our Group which can help obtain more preferential terms from banks for financing arrangements for our operation, if needed. Furthermore, leasing will expose us to risks and costs of, amongst others: (i) rise of rental prices; (ii) business interruptions brought on by relocation of production facilities in the event that the landlord terminates the lease; and (iii) in the case if the landlord terminates the lease, our Group may not be able to identify factory buildings with comparable or better terms.

(iii) Replacement of aged machinery and equipment

The existing machinery and equipment are already optimal in their production capacities. The estimated production capacity for our five production lines for the year ended 31 December 2018 was approximately 1.9 million sq.m., while the estimated production capacity for the year ending 31 December 2022 (being the first complete year when the additional five production lines are in full operation) is approximately 4.1 million sq.m. The estimated production capacity of our existing five production lines and the new additional five production lines are comparable to each other.

Furthermore, our existing machinery and equipment are of similar size of that of the machinery and equipment our Group intends to acquire. Thus, replacing our existing machinery and equipment with new ones would not be able to save space in the factory building, and thus no additional production line could be added.

Therefore, there will not be a material or meaningful increase in production capacity even if our Group replaces our existing machinery and equipment with new ones.

Our Directors considered that the acquisition of the Targeted Land for expanding our production site is a crucial factor in determining our long-term growth and future success.

To expand our manufacturing facilities as mentioned above, we set out our implementation plans for the period from the Latest Practicable Date to 30 June 2021. For further details of our implementation plans, please refer to the section headed “Future Plans and Use of Proceeds — Our implementation plans” in this prospectus. Potential investors should note that our implementation plans are formulated on the bases and key assumptions listed in the section headed “Future Plans and Use of Proceeds — Bases and key assumptions” in this prospectus. These bases and assumptions are

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inherently subject to many uncertainties and unpredictable factors, in particular, the risk factors as set out in the section headed “Risk Factors” in this prospectus. Therefore, there is no assurance that our business and expansion plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished.

### *Acquisition of the Targeted Land and construction plan for two new factory buildings*

On 20 December 2018, our Group entered into a memorandum of understanding (the “**Memorandum of Understanding**”) with the municipal people’s government in Henglin Town, Wujin District, Changzhou, China (常州市武進區橫林鎮人民政府) (the “**Changzhou Municipal People’s Government**”) in respect of the acquisition of the Targeted Land and a construction plan of two factory buildings with a gross floor area of approximately 20,000 sq.m. to be built thereon (the “**Construction Plan**”), pursuant to which:

- (a) the Changzhou Municipal People’s Government agreed to:
  - (i) facilitate us in dealing with problems in relation to the fixed properties and neighbourhood relationship arising from the Construction Plan during the construction of the factory buildings; and
  - (ii) set up a project team to facilitate us in completing the Construction Plan effectively, implementing the land quota (用地指標) of the project, and handling the pre-construction matters, including construction planning, environmental protection and fire safety; and
- (b) our Group agreed to:
  - (i) obtain the rights to use of the Targeted Land and be responsible for the cost of land acquisition and the relevant taxation and the cost of temporary electricity and water supply incurred during the implementation of the Construction Plan;
  - (ii) utilise the Targeted Land effectively according to the land quota’s requirement of the PRC government; and
  - (iii) carry out the Construction Plan in accordance with the relevant regulations and procedures provided in a project plan, including the implementation of the relevant local and national environmental protection and safety production laws and regulations during the manufacturing process and day-to-day management.

Pursuant to a notice issued by the Changzhou Municipal People’s Government, the Targeted Land will be expropriated by the end of 2019. Furthermore, a formal agreement regarding the acquisition of the Targeted Land is expected to be entered upon Listing, and as confirmed by the Changzhou Municipal People’s Government, such transfer of the Targeted Land can be completed within three months thereafter. Therefore, our Directors do not foresee any difficulties in acquiring the Targeted Land.

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The total expected capital expenditure to be incurred for the acquisition of the Targeted Land and the implementation of the Construction Plan will be approximately RMB41.7 million, among which approximately RMB20.3 million will be spent on acquiring the Targeted Land and approximately RMB21.4 million will be spent on constructing the factory buildings. We expect the Construction Plan to be completed by the first quarter of 2021. For further details about the time frame of the implementation of the Construction Plan, please refer to the section headed “Future Plans and Use of Proceeds — Our implementation plans” in this prospectus.

### *Building and installation of additional production lines in the new factory buildings*

As at the Latest Practicable Date, we had five production lines in operation. As part of our expansion plan and to cater for the expected demand of our products, we intend to establish and install five additional production lines, of which three and two additional production lines will be operated for manufacturing steel access flooring products and calcium sulfate access flooring products, respectively.

The three additional production lines for producing steel access flooring products and the two additional production lines for producing calcium sulfate access flooring products are expected to be installed by March 2021 and June 2021, respectively. We expect to run a one-month trial after installation of all the additional production lines, and if the trial performance is satisfactory, the additional production lines are expected to fully operate a month after the installation. The table below sets forth the increase in the estimated production capacity by product types with the expected time frame:

<b>Estimated production capacity (sq.m.)</b> <i>(Note 1)</i>	<b>For the year ended</b>	<b>For the year ending 31 December</b>			
	<b>31 December</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	'000	'000	'000	'000	'000
Steel access flooring products	1,696	1,696	1,696	2,914	3,320
Calcium sulfate access flooring products	<u>233</u>	<u>259</u> <sup>(Note 2)</sup>	<u>293</u> <sup>(Note 2)</sup>	<u>562</u>	<u>778</u>
<b>Total</b>	<u><u>1,929</u></u>	<u><u>1,955</u></u>	<u><u>1,989</u></u>	<u><u>3,476</u></u>	<u><u>4,098</u></u>

*Notes:*

- The estimated production capacity is the total quantity of products that can be manufactured in the relevant year, which is estimated by the number of machine hours available for production on the basis that the production lines operate 26 days per month and eight hours per day without taking the time required for routine maintenance and replacement of machinery and equipment into account during the course of production. The operating hours for each type of machines may differ in the manufacturing process.

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2. The increase of production capacity for our calcium sulfate access flooring products for the years ending 31 December 2019 and 2020 is attributable to an upgrade of the production lines which was completed in June 2019.

We intend to utilise approximately RMB26.2 million to establish and install the additional production lines, comprising RMB13.2 million and RMB13.0 million for the three production lines for manufacturing steel access flooring products and two production lines for manufacturing calcium sulfate access flooring products, respectively.

*Acquisition of environmental-friendly and energy-saving facilities and equipment for the new factory buildings*

To stay compatible with the additional production lines, our Directors intend to purchase and install environmental-friendly and energy-saving facilities and equipment in the new manufacturing facility as part of our expansion plan. By using the energy-saving equipment in our manufacturing process, our Group aims to reduce the adverse environmental impacts arising from our manufacturing process. Particulars of the additional facilities and equipment and the estimated capital expenditure are as follows:

<b>Facilities and equipment</b>	<b>Unit</b>	<b>Estimated capital expenditure</b>
		<i>RMB'000</i>
Energy-saving equipment		
- photovoltaic energy-saving system, such as photovoltaic cables	1	1,000
- system for increasing electricity generation capacity, such as high and low voltage power distribution equipment	1	420
Other environmental-friendly facilities		
- system for reducing pollutants, such as photocatalytic purification system for reducing volatile organic compounds	1	260
- system for recycling sewage and effluents, such as coagulation tank and sand filters	1	420
<b>Total</b>	4	2,100

We plan to utilise RMB2.1 million to purchase the environmental-friendly and energy-saving facilities and equipment for our new manufacturing facility and we expect full operation of these facilities and equipment upon installation by June 2021.

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### *Commercial rationale for expansion*

Our Directors believed that it is essential for us to further expand our current manufacturing facilities due to the following reasons:

1. *Increasing demand in the access flooring manufacturing industry:* According to the CIC Report, from 2014 to 2018, the revenue in the access flooring manufacturing industry increased from approximately RMB4,948.4 million to approximately RMB6,336.4 million, demonstrating a CAGR of approximately 6.4%. It is attributable to primary factors such as: (i) a rising demand from construction of industrial office buildings in second-tier cities and above in China; (ii) an increase in the number of aging office buildings in China with the retirement of more obsolete access flooring product units; (iii) an increasing number of more stringent policies adopted by the PRC Government, stimulating an expected increase in the demand for steel access flooring products; (iv) a growth in price of access flooring products as a result of increasing prices of the relevant raw materials; and (v) an increase in penetration rate of calcium sulfate access flooring products due to its high performance. Going forward, along with the growth of downstream industries, the sales value of access flooring products is expected to reach approximately RMB8,490.7 million by 2023, representing a CAGR of approximately 6.0% between 2018 and 2023. For further information about the drivers of the access flooring manufacturing industry, please refer to the section headed “Industry Overview — Drivers of China’s access flooring manufacturing industry” in this prospectus. As we were the third largest player in the access flooring manufacturing industry in accordance with the CIC Report in terms of domestic sales revenue in the PRC in 2018, our Directors are of the view that there will be a growing need for our access flooring products within the market in the PRC in support of our expansion plan.

With reference to the CIC Report, our Directors believed that there is an adequate long-term demand for our products. In particular, our Group wishes to target the demand for calcium sulfate access flooring products, given its higher prices due to its high intensity, high loading capacity and long lasting durability, more customers are choosing it as building material. According to the CIC Report, from 2018 to 2023, the revenue for calcium sulfate access flooring products is forecast to continue its historical strong growth from approximately RMB1,394.0 million to approximately RMB2,292.5 million at a CAGR of approximately 10.5%. As such, our Group plans to increase its production capacity of calcium sulfate access flooring products significantly by approximately 233.9% or 0.5 million sq.m. from 2018 to 2022 to capture the business opportunities offered in the market. Besides, steel access flooring products has historically been an important portion of our Group’s business and in line with the CIC Report, our Directors believed that there will continue to be steady growth of demand for the foreseeable future. Consequently, in the proposed new production site, our Group plans to expand our production capacity of steel access flooring products by approximately 95.8% or 1.6 million sq.m. from 2018 to 2022, in order to secure market demand as well as making it possible for our Group to bid and accept larger orders.



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2. *Addition of new projects and addition of new customers to our existing customer base:* We have achieved a stable business growth during the Track Record Period. For the year ended 31 December 2016, we recorded revenue of approximately RMB159.6 million, which increased to approximately RMB216.4 million for the year ended 31 December 2017 and further to approximately RMB248.8 million for the year ended 31 December 2018. For the six months ended 30 June 2019, our business experienced a growth and recorded revenue of approximately RMB124.9 million as compared to the six months ended 30 June 2018, in which we recorded revenue of approximately RMB112.7 million. Our revenue recorded a growth by approximately 35.6% from the year ended 31 December 2016 to the year ended 31 December 2017, approximately 15.0% from the year ended 31 December 2017 to the year ended 31 December 2018 and approximately 10.8% from the six months ended 30 June 2018 to the six months ended 30 June 2019. Before submitting a tender or quotation, we will take into account factors including but not limited to our available resources, our expected workload in the near future, our projects on hand as at the date of submission of tender or quotation and our tender strategy. Accordingly, our number of tenders and quotations submitted and the contract value of successful tenders and quotations may fluctuate each year. Furthermore, due to our limited production capacity, we had to turn down tender invitations in an aggregate contract value of approximately RMB70.9 million for the year ended 31 December 2018 and approximately RMB32.1 million for the six months ended 30 June 2019. Alongside with our revenue growth during the Track Record Period, we have recorded a growing trend in our value of backlog projects from approximately RMB70.7 million as at 1 January 2016 to approximately RMB83.5 million as at the Latest Practicable Date which collectively demonstrated a stable and considerable demand for our business growth during the Track Record Period and up to the Latest Practicable Date.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we submitted 46 tenders, of which 20 projects were awarded. During the same period, our Group secured 67 contracts with an aggregate estimated contract sum (exclusive of tax) of approximately RMB111.5 million.

The following table sets forth particulars of on-going contracts secured subsequent to the Track Record Period and up to the Latest Practicable Date, each with aggregate estimated contract sum (exclusive of tax) of over RMB5.0 million (in descending order by estimated contract sum without taking any rectifications, modifications or adjustments into account):

Contract	Location	Status	Actual/ expected commencement date <i>(Note 1)</i>	Expected completion date <i>(Note 2)</i>	Estimated contract sum
					<i>RMB'000</i>
C1	Zhejiang	Contract signed	July 2019	December 2019	8,400
C2	Shanghai	Contract signed	August 2019	June 2020	13,558
C3	Guangdong	Contract signed	November 2019	May 2020	5,811
C4	Guangdong	Contract signed	November 2019	October 2020	8,123
C5	Jiangsu	Contract signed	December 2019	June 2020	6,086
C6	Guangdong	Contract signed	December 2019	March 2020	8,625

*Notes:*

1. Expected commencement date refers to: (i) the expected commencement date as specified in the original contract or letter of award (where contract is yet to be executed); or (ii) our estimation based on our experience on the size of projects.

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2. Expected completion date refers to: (i) the expected completion date as specified in the original contract or letter of award (where contract is yet to be executed); or (ii) our estimation based on our experience on the size of projects.
  
3. *Current production capacity is insufficient to cope with the increasing demand of our access flooring products:* During the Track Record Period, our revenue recorded a growth by approximately 35.6% from the year ended 31 December 2016 to the year ended 31 December 2017, approximately 15.0% from the year ended 31 December 2017 to the year ended 31 December 2018, and approximately 10.8% from the six months ended 30 June 2018 to the six months ended 30 June 2019. Please refer to the paragraph headed “Manufacturing facilities and production process — production processes” in this section. For the six months ended 30 June 2019, we have already achieved an average utilisation rate of approximately 99.6% and 80.0% for our steel access flooring products and calcium sulfate access flooring products, respectively. For further details about our production capacity, please refer to the paragraph headed “Manufacturing facilities and production process — Manufacturing facilities” in this section. Our Directors are of the view that the existing production facilities are operating under optimal condition and are in good maintenance condition. Given that our production capacity during the Track Record Period has almost saturated, our Directors anticipate that our current production capacity may not be sufficient to satisfy all the potential orders and we may fail to deliver our products in a timely manner. Therefore, our Directors considered that it will be in our best interest to expand our current manufacturing facilities, including to establish and install the five additional production lines as mentioned above. For the year ending 31 December 2019, our estimated production capacity is expected to be approximately 2.0 million sq.m., among which approximately 1.7 million sq.m. are for steel access flooring products and approximately 0.3 million sq.m. are for calcium sulfate access flooring products. As a result of the five additional production lines to be installed, we will have 10 production lines in total and our estimated production capacity is expected to increase to approximately 4.1 million sq.m. per annum, among which approximately 3.3 million sq.m. are for steel access flooring products and approximately 0.8 million sq.m. are for calcium sulfate access flooring products.
  
4. *Current production sites are of limited space:* As at the Latest Practicable Date, our existing two manufacturing facilities in Henglin Town, Changzhou City, Jiangsu Province, the PRC, have a total gross floor area of approximately 28,882 sq.m., which comprise of factories equipped with 76 key machinery and equipment and our inventory storage (occupying approximately 19,883.5 sq.m. or 68.8% of our manufacturing facilities), and other ancillary facilities such as office (occupying approximately 5,993.2 sq.m. or 20.8% of our manufacturing facilities). For details of our current manufacturing facilities, please refer to the paragraph headed “Manufacturing facilities and production process — Manufacturing facilities” in this section. In addition, up to the Latest Practicable Date, we had a total of 136 manufacturing employees working in shift in our manufacturing facilities. Since our existing manufacturing facilities cannot provide sufficient space to accommodate the new machinery and equipment and the additional production lines, our Directors considered that it is of our Group’s best interest to proceed with the Construction Plan, and the construction of new premises can also benefit us by freeing up certain storage space of our existing manufacturing facilities for better manufacturing arrangement.

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### *Site selection*

When assessing the option of the proposed location of the new manufacturing facilities and its feasibility, we have taken into account, among others, the following factors:

1. *Synergy effect to be brought by the new manufacturing facility:* our existing manufacturing facilities are currently located in Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC. It is intended that the new manufacturing facility will be built on the Targeted Land, which is adjacent to our Major Manufacturing Facility, with a gross site area of approximately 45 mu (equivalent to approximately 30,000 sq.m.). Our Directors believed that the new manufacturing facility will have synergy effects with our existing manufacturing facilities as they are adjacent to each other, which can help lower the transportation cost of raw materials and finished goods, and have more flexible use of manufacturing employees.
2. *Our funding need and liquidity position:* Although our business generated net operating cash inflow, it does not necessarily mean that our Group has no imminent needs to raise funds in order to implement our business strategies, in particular our expansion plan. Taking into account the fact that: (i) our Group only had cash and cash equivalents of approximately RMB14.1 million and unused banking facilities of nil as at 30 June 2019; (ii) our trade and bills receivables were approximately RMB141.8 million as at 30 June 2019; (iii) our trade and bills payables were approximately RMB31.2 million as at 30 June 2019; (iv) the amount of bank borrowings repayable within one year as at 30 June 2019 was approximately RMB98.8 million; and (v) our Group's cash outflow exposure including the mismatch in the time between receipt of payments from our customers and payments to our suppliers and staff costs, our Directors believed that our Group may not have sufficient internal generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group's operation.

Our Directors are of the view that when our financial resources rely largely on the financial strength of our Controlling Shareholders and banking facilities, it substantially restricts our Group's development and expansion plan. Our Directors therefore considered that it is beneficial for us to strengthen our capital base through raising funds under the Global Offering, so that we are able to expand the scale of our business after the Global Offering.

As at the Latest Practicable Date, our Directors confirmed that we had not implemented the above expansion plan and had not incurred any expenditure in connection with such plan.

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### *Cost-benefit analysis for establishing new production facilities*

To illustrate the benefit of owning a property instead of leasing a property, the following table sets forth a cost-benefit analysis for a ten-year period of owning a production facility versus leasing a production facility:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 1 to Year 10
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>(1) Own a property</b>											
Estimated amortisation charges of the land <sup>(Note 1)</sup>	405	405	405	405	405	405	405	405	405	405	4,050
Estimated depreciation charges of the production facility <sup>(Note 2)</sup>	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	1,066	10,660
	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>1,471</u>	<u>14,710</u>
<b>(2) Lease a property</b>											
Estimated rental costs <sup>(Note 3)</sup>	4,522	4,880	5,265	5,681	6,130	6,614	7,137	7,700	8,309	8,965	65,203
	<u>4,522</u>	<u>4,880</u>	<u>5,265</u>	<u>5,681</u>	<u>6,130</u>	<u>6,614</u>	<u>7,137</u>	<u>7,700</u>	<u>8,309</u>	<u>8,965</u>	<u>65,203</u>
<b>Cost saving of owning a property <sup>(Note 4)</sup></b>	<u>3,051</u>	<u>3,049</u>	<u>3,794</u>	<u>4,210</u>	<u>4,659</u>	<u>5,143</u>	<u>5,666</u>	<u>6,229</u>	<u>6,838</u>	<u>7,494</u>	<u>50,493</u>

*Notes:*

- The estimated amortisation charges of the land are determined in accordance with our depreciation policy by depreciating over the land's estimated useful life of 50 years on a straight-line basis.
- The estimated depreciation charges of the production facility are determined in accordance with our depreciation policy by depreciating over the production facility's estimated useful life of 20 years on a straight-line basis.
- The estimated rental costs are determined with reference to the current rental rate of a similar production facility in Changzhou and are expected to increase by approximately 7.9% every year. According to CIC Report, the estimated rental rate is fair and reasonable and consistent with prevailing market rates for similar premises at similar locations and the annual rental growth of approximately 7.9% per year is considered reasonable.
- The cost-benefit analysis above is for illustrative purposes only and the cost-saving amount of owning a property is estimated for a period of 10 years only, while the term of industrial land use right to be granted is generally 50 years in the PRC. If the analysis above is extended for a longer period of time, the estimated total cost-saving amount for owning a property will increase.

Based on the above analysis, the estimated annual expense for acquiring a plot of land and constructing a production facility is lower than the estimated annual rental costs. Hence, we believe that it is more cost effective for our Group to acquire and own rather than to lease our new production facility.

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The breakeven period is calculated on accounting basis for the first point in time at which the monthly operating revenue is at least equal to the monthly total operating expenses. The total operating costs include fixed costs covering cost of acquiring the land, cost of constructing the factory buildings, depreciation expenses, employee benefit expenses, and variable costs including variable manufacturing costs and cost of raw materials. We estimate the selling prices based on the average price of our sold steel access flooring products and calcium sulfate access flooring products for the year ended 31 December 2018. Upon installation of the additional five production lines, we estimate our sales will increase steadily starting from July 2021. It is expected that the growth rate for each of the month during the period from July to October in 2021 compared to the same month in 2020 will be approximately 5%, 10%, 15% and 20%. Given our revenue increased at a CAGR of approximately 24.9% from 2016 to 2018 and the expected sustained growth in demand of our products based on the CIC Report, we forecast that our growth rate of sales will remain at approximately 24.9% after October 2021. Based on the analysis below, we estimate that the breakeven period of our steel access flooring products and calcium sulfate access flooring products are both approximately three months. The following table sets out the assumption of the fixed and variable costs and selling prices of our steel access flooring products and calcium sulfate access flooring products:

	<u>Fixed costs</u>	<u>Variable costs</u>	<u>Selling prices</u>	<u>Breakeven volume</u>
	<i>RMB million/ annum</i>	<i>RMB/sq.m.</i>	<i>RMB/sq.m.</i>	<i>sq.m./month</i>
Steel access flooring products	5.1	87.9	121.9	12,401
Calcium sulfate access flooring products	3.9	117.0	171.7	5,938

Investment payback period refers to the number of years needed for our products to result in net cash inflows compared to the initial cash investments for acquiring the parcel of land, constructing the factory buildings and acquiring automated machinery and equipment. The calculation of the monthly cash inflow is based on our Group's forecasted earnings before interest, tax, depreciation and amortisation. The payback period for our steel access flooring products is approximately three years and the payback period for our calcium sulfate access flooring products is approximately 2.5 years.

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### Upgrade our existing production lines by acquiring automated machinery and equipment

While the expansion described above will help us to have five additional production lines, we also intend to upgrade and refurbish our five existing production lines with the adoption of automated machines for increasing the automated level of our existing production process to improve our operational efficiency and increase productivity. Such upgrade solely involves installation of automated machinery and equipment (such as full-automatic mechanical arms) into our existing machinery, which requires no extra space. In addition, it is estimated that such installation will require approximately two to three hours for each of the production lines to complete and have to take place after our usual production hours. Thus, the upgrade will not cause any disruption to our operations. We believe such investment in automated machinery will further enable us to benefit from the reducing incidents of product defects which result mainly from manual labour.

As at the Latest Practicable Date, we had obtained quotations from several potential suppliers for the automated machinery and equipment necessary for upgrading our five existing production lines. We intend to use approximately RMB4.9 million for upgrading and refurbishing our existing production lines. The details of the machinery and equipment are set out below:

<u>Production line</u>	<u>Details of machinery</u>	<u>Unit</u>	<b>Estimated capital expenditure</b> <i>(Note)</i>
			<i>RMB'000</i>
Steel access flooring product	Full-automatic mechanical arm (for production line with specification of 500mm x 500mm)	5	1,000
	Full-automatic mechanical arm (for production line with specification of 600mm x 600mm)	5	1,000
Calcium sulfate access flooring product	Automatic board-reversing machine	3	500
	Full-automatic mechanical arm	5	1,000
	Automatic stacking machine	4	400
	Pressing machine remould	6	<u>1,000</u>
<b>Total</b>			<u><u>4,900</u></u>

*Note:* The estimated capital expenditure includes the installation fees for setting up the machinery and equipment.

Our Directors expect that the full installation and trial-run testing of the enhanced machinery and equipment will be completed by March 2021 for steel access flooring product production lines and June 2021 for calcium sulfate access flooring product production lines, and the actual operation will commence after satisfactory testing.

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## BUSINESS

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### **Upgrade our ERP system**

As we expect that our business will continue to grow, we recognise the importance of efficient and effective management across our operating platform. Our current ERP system provides accounting and supply chain support. To enhance our operational efficiency, we plan to upgrade our existing ERP system by installing a new ERP system which could provide us with more services that improve our quality management, warehouse management and other operational management, such as to establish online commerce platforms. Our Group intends to utilise approximately RMB2.2 million for the upgrade of our ERP system and the full operation of the upgraded ERP system is expected to commence in June 2021.

The total expected capital expenditure to be incurred for: (i) acquisition of the Targeted Land and the implementation of the construction plan for the new factory buildings; (ii) building and installation of additional production lines in the new factory buildings; (iii) acquisition of environmental-friendly and energy-saving facilities and equipment for the new factory buildings; (iv) upgrade of our existing production lines by acquiring automated machinery and equipment; and (v) upgrade of our ERP system, will be fully financed by the net proceeds of the Global Offering, and any shortfall will be funded by our internal resources or bank borrowings.

For details of the time frame of the above plan, please refer to section headed “Future Plans and Use of Proceeds — Our implementation plans” in this prospectus.

### **OUR PRODUCTS AND SERVICES**

#### **Our products**

Our products mainly consist of: (i) steel access flooring products; and (ii) calcium sulfate access flooring products. During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of our customers. Generally, our Directors considered that our access flooring products can be utilised for about 20 years of product life cycle. We price our products based on the costs of raw materials and other costs. During the Track Record Period, the average unit selling price of our steel access flooring products and calcium sulfate access flooring products ranged from approximately RMB113.5 per sq.m. to approximately RMB122.9 per sq.m. and approximately RMB158.9 per sq.m. to approximately RMB171.7 per sq.m., respectively.

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The table below sets out the revenue of our Group for the periods indicated by major products segments, which are also expressed as a percentage of total revenue:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Approximate % of total		Approximate % of total		Approximate % of total		Approximate % of total		Approximate % of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
							<i>(unaudited)</i>			
Steel access flooring products	139,507	87.4	185,617	85.8	204,319	82.1	90,593	80.4	109,594	87.8
Calcium sulfate access flooring products	20,096	12.6	30,743	14.2	44,466	17.9	22,077	19.6	15,294	12.2
Total	<u>159,603</u>	<u>100.0</u>	<u>216,360</u>	<u>100.0</u>	<u>248,785</u>	<u>100.0</u>	<u>112,670</u>	<u>100.0</u>	<u>124,888</u>	<u>100.0</u>

*Note:* The revenue shown above includes the revenue derived from our provision of installation services of the respective products.

According to the CIC Report, there are some marked differences between steel access flooring products and calcium sulfate access flooring products.

Steel access flooring products, in which the cement is filled in a 100% steel structure, have been widely installed in many new office buildings in the PRC and are considered more cost effective than calcium sulfate access flooring products. Meanwhile, calcium sulfate access flooring products are made of plant fibers and solidified calcium sulfate crystals that are more widely used in data centres due to its higher loading capacity.

The characteristics of our access flooring products include: (i) cable management (wires and cables are managed and organised underfloor with flexibility to accommodate any electronic devices); (ii) short installation time; (iii) high compressive strength and fire-resistance characteristic; and (iv) high bearing capacity. Our Group also serves different specifications of products in accordance with our customers' requirements.

### Steel access flooring products

Our steel access flooring products are made of steel comprising of a flat steel top with hollow shells of the same material as its base, which are filled with cement. During the Track Record Period, our Group offers various types of steel access flooring products with different specifications, such as 500mm x 500mm or 600mm x 600mm of our square sheet plates with thickness of 28 mm and 33 mm, to fulfil our customers' requirements. Steel access flooring product is our major product, the sales of which accounted for approximately 87.4%, 85.8%, 82.1% and 87.8% of our total revenue, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, and had a gross profit margin of approximately 22.7%, 23.7%, 23.7% and 24.8% for the same periods, respectively.



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## BUSINESS

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Set out below are the photos of our steel access flooring products:



Top view



Bottom view



Paved side view



Paved side view (with pedestal)

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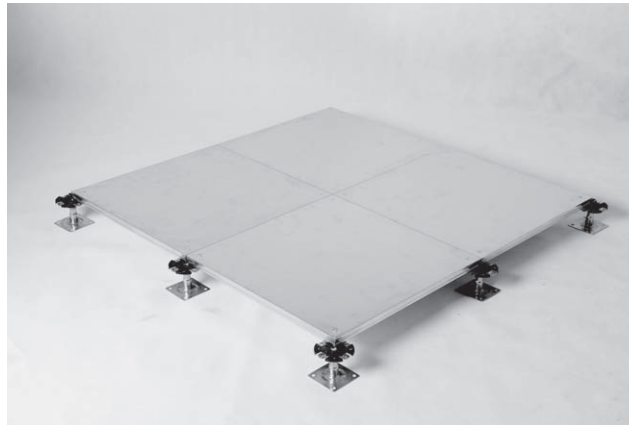
## BUSINESS

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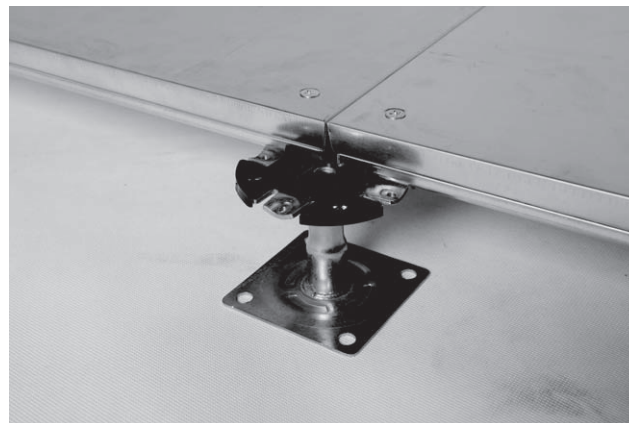
### Calcium sulfate access flooring products

Our calcium sulfate access flooring products are mainly made of steel and gesso, which is embedded at the top and bottom of galvanised steel sheets in a hexahedral manner. During the Track Record Period, our Group offered calcium sulfate access flooring products with different specifications, such as the 28 mm and 30 mm thick square sheet plates, to fulfil our customers' requirements. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, revenue derived from sales of calcium sulfate access flooring products accounted for approximately 12.6%, 14.2%, 17.9% and 12.2% of our total revenue, respectively, and had a gross profit margin of approximately 27.6%, 31.5%, 26.5% and 24.2% for the same periods, respectively.

Set out below are the photos of our calcium sulfate access flooring products:



Paved side view



Paved side view (with pedestal)

For details of the sales volume and average unit selling price of our products, please refer to the section headed “Financial Information — Revenue — Revenue by product type” in this prospectus.

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## BUSINESS

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### **Installation Services**

During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of our customers. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, the access flooring products sold and used for our provision of installation services were all self-manufactured by us. We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. The installation costs thereof are included in our selling price in the contract. The engagement of suppliers of installation services for our provision of installation services of access flooring manufacturing industry is an industry practice in the PRC in accordance with the CIC Report. We adopt our internal quality control measures to ensure the work performance of our suppliers of installation services. For further details, please refer to the paragraph headed “Suppliers and raw materials — Quality control on installation services” in this section.

During the Track Record Period and up to the Latest Practicable Date, our Group completed 541 projects of sales of access flooring products with installation services. In particular, for the years ended 31 December 2016, 2017 and 2018, the six months ended 30 June 2019 and subsequent to the Track Record Period and up to the Latest Practicable Date, we completed a total of 68, 189, 147, 66 and 71 projects of sales of access flooring products with installation services, respectively, of which six projects involved installation services only had been completed during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that there were no material disputes between our Group and our customers with respect to the quality of installation services.

### **MANUFACTURING FACILITIES AND PRODUCTION PROCESS**

#### **Manufacturing facilities**

Our Group currently operates two manufacturing facilities in Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC. The first one has a gross floor area of 23,827 sq.m. and is owned by our Group. The second one has a gross floor area of 5,056 sq.m. and is leased by our Group from a third party. The two manufacturing facilities are situated in Henglin Town, with a distance of approximately one kilometre between each other. For details of our owned and leased properties, please refer to the paragraph headed “Properties” in this section. As at the Latest Practicable Date, we had 136 employees in our manufacturing department.

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## BUSINESS

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The table below sets out the estimated production capacity, actual production volume and average utilisation rate of our products for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019:

### Estimated production capacity (sq.m.) *(Note 1)*

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	'000	'000	'000	'000
Steel access flooring products	1,568	1,568	1,696 <sup>(Note 3)</sup>	848
Calcium sulfate access flooring products	214	214	233 <sup>(Note 4)</sup>	125 <sup>(Note 4)</sup>
<b>Total</b>	<b>1,782</b>	<b>1,782</b>	<b>1,929</b>	<b>973</b>

### Actual production volume (sq.m.)

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	'000	'000	'000	'000
Steel access flooring products	1,283	1,121	1,603	845
Calcium sulfate access flooring products	209	129	213	100
<b>Total</b>	<b>1,492</b>	<b>1,250</b>	<b>1,816</b>	<b>945</b>

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### Average utilisation rate (%) *(Note 2)*

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	%	%	%	%
Steel access flooring products	81.8	71.5	94.5	99.6
Calcium sulfate access flooring products	97.7	60.3	91.4	80.0
<b>Overall</b>	<b>83.7</b>	<b>70.1</b>	<b>94.1</b>	<b>97.1</b>

*Notes:*

1. The estimated production capacity is the total quantity of products that can be manufactured in the relevant year/period, which is estimated by the number of machine hours available for production on the basis that the production lines operate 26 days per month and eight hours per day without taking the time required for routine maintenance and replacement of machinery and equipment into account during the course of production. The operating hours for each type of machines may differ in the manufacturing process.
2. The average utilisation rate is calculated by dividing the actual production volume for a year/period by the estimated production capacity for the same year/period.
3. The increase of production capacity for our steel access flooring products for the year ended 31 December 2018 is attributable to an upgrade of the production lines, of which the installation was completed in January 2018.
4. The increase of production capacity for our calcium sulfate access flooring products for the year ended 31 December 2018 and the six months ended 30 June 2019 is attributable to an upgrade of the production lines, of which the installation was completed in January 2018 and June 2019, respectively.

There are various factors that may affect the average utilisation rates of our products. These factors include the quality, supply and timely delivery of raw materials, the level of our inventory, and any scheduled inspections and repairs and maintenance of our machinery and equipment. The average utilisation rate for our steel access flooring products was approximately 81.8%, 71.5%, 94.5% and 99.6% for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively, and the average utilisation rate for our calcium sulfate access flooring products was approximately 97.7%, 60.3%, 91.4% and 80.0% for the same periods, respectively.

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Our Directors considered that there were lower average utilisation rates for both of our products for the year ended 31 December 2017 because: (i) it was expected that the price of key raw materials would increase after the year of 2016. Thus, we intended to acquire more key raw materials during the year of 2016; and (ii) in view of the storage space and manufacturing capacity at that time, our Directors considered that it was feasible and beneficial for us to manufacture more finished goods in the year of 2016. As such, the level of finished goods was higher, amounting to approximately RMB59.2 million of finished goods as at 31 December 2016. Subsequently, we sold off the finished goods we manufactured in the year of 2016, resulting lower average utilisation rates for both of our steel access flooring products and calcium sulfate access flooring products for the year ended 31 December 2017.

### Our production machinery and equipment

We possess a variety of machinery and equipment for different stages of our production process. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we acquired new machinery in the amount of approximately RMB3.9 million, RMB1.0 million, RMB1.3 million and RMB1.4 million, respectively. Our machinery have a total net book value of approximately RMB18.4 million as at 30 June 2019. Based on our experience, the estimated useful life of our plant and machinery are generally five to 10 years and our Directors considered that such useful life may be extended for a longer period if they are under proper repairs and maintenance. The following table sets out the major functions, number of units and weighted average remaining useful life of our key production machinery and equipment as at 30 June 2019:

Production machinery and equipment	Major function <small>(Note 1)</small>	Unit	Approximate weighted average remaining useful life <small>(Note 2)</small>
			<i>Years</i>
Pressing machine (壓力機)	It compresses and forms the access flooring product into the required shape out of the mould.	29	3
Two point pressing machine (雙點壓力機)	It compresses and forms the access flooring product into the required shape out of the mould.	1	4
Robotic hand (機械手)	It replaces manual placement and performs placement of products in the manufacturing process.	23	5
Calcium sulfate access flooring manufacturing system (硫酸鈣地板製造系統)	It mixes and processes raw materials of calcium sulfate access flooring products.	1	3
Dedusting system (除塵系統)	It absorbs dust particles generated during the production of calcium sulfate access flooring products.	1	4
Gypsum board drying room (石膏板烘房)	It absorbs the moisture of the calcium sulfate pallet boards with the hot air circulation of natural gas.	1	4

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<b>Production machinery and equipment</b>	<b>Major function</b> <i>(Note 1)</i>	<b>Unit</b>	<b>Approximate weighted average remaining useful life</b> <i>(Note 2)</i>
			<i>Years</i>
Gypsum board making machine (石膏板成型機)	It compresses and forms into the required shapes of raw materials of calcium sulfate.	6	3
Hydraulic machine (液壓機)	It stretches the steel access flooring product into the required shape out of the mould.	4	4
Powder coating line (噴粉綫)	It sprays the surface of the steel access flooring products with epoxy resin powder to prevent corrosion.	1	2
Welding machine (鏈條焊機)	It welds the surface board and the base board.	9	6
	Total	<u>76</u>	

*Notes:*

1. Our Directors confirmed that the functions of the machinery and equipment listed above are based on customised specification requested by us in accordance with our manufacturing needs.
2. The calculation of the weighted average remaining useful life of our machinery is based on the weighted average of the remaining depreciable period of each unit of machinery determined in accordance with our applicable accounting policies, under which the depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives.

We perform regular maintenance checks on the status of our production machinery and equipment and bring in replacement or upgrade thereof from time to time for enhanced performance and technical capabilities. We believe our production machinery and equipment are well maintained and in good quality condition.

Our Directors confirmed that we did not experience any material disruption to our business operations as a result of our manufacturing facilities malfunction and we did not encounter any accidents causing significant personal injuries or death at our manufacturing facilities during the Track Record Period and up to the Latest Practicable Date. As advised by our PRC legal advisers, our manufacturing facilities were in compliance with the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

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## Production processes

### 1. Production process for steel access flooring products

The diagram below illustrates the key production process and approximate time required for manufacturing our steel access flooring products:

	Key production step <sup>(Note)</sup>	Major machinery used	Description
Full-automatic	Coating		
	↓		
	Extension and stamping of base panel	<ul style="list-style-type: none"> <li>Hydraulic machine (液壓機)</li> </ul>	The lower part of the cold-pressed steel sheet of the steel raised flooring is stretched into the required shape (with a surrounding frame and several semi-spherical structures in the middle).
	↓		
	Folding of surface panel	<ul style="list-style-type: none"> <li>Stamping press (通用型沖床)</li> </ul>	The edges of the surface steel sheet of the steel raised flooring are folded into 90 degree.
	↓		
	Cutting of base panel	<ul style="list-style-type: none"> <li>Stamping press (通用型沖床)</li> </ul>	The extra parts of the edges of the stretched base panel are cut off.
	↓		
	Combination of panels	<ul style="list-style-type: none"> <li>Stamping press (通用型沖床)</li> </ul>	The trimmed lower steel sheet and the surface steel sheet that is bended into 90 degree are riveted together.
	↓		
Semi-automatic	Spot welding	<ul style="list-style-type: none"> <li>Spot welding machine (多頭點焊機)</li> </ul>	After riveting the flooring parts, a spot welding machine is used to weld the surface panel and the stretched semi-spherical base panel.
	↓		
	Powder coating	<ul style="list-style-type: none"> <li>Shower line (噴淋流水線)</li> </ul>	After completing the surface spraying of epoxy polyester powder on the welded flooring, anti-corrosive treatment is carried out to protect the flooring from rusting.
	↓		
	Hole plugging	N/A	Plastic tubes are inserted into the installation holes at the four corners of the flooring by our staff.
	↓		
	Grouting	<ul style="list-style-type: none"> <li>Grouting machine (灌漿生產線)</li> </ul>	After carrying out the surface anti-corrosive spraying, the interior of the hollow flooring is grouted with foam concrete, which will meet the loading requirement after the foam concrete solidifies.
	↓		
Panel washing	<ul style="list-style-type: none"> <li>Washing machine for panels (洗板機)</li> </ul>	Wash the foam concrete spilled on the surface of the flooring after grouting.	
↓			
	Pallet loading	N/A	Flooring which has passed inspection is stacked upon wooden trays, tied up with packing tapes and stacked with pallets by our staff.

*Note: It usually takes around four days for the production of one sheet of our steel access flooring product.*



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### 2. Production process for calcium sulfate access flooring products

The diagram below illustrates the key production processes and the approximate time required for manufacturing our calcium sulfate access flooring products:

	Key production step <small>(Note)</small>	Major machinery used	Description
Full-automatic	Panel pressing	<ul style="list-style-type: none"> <li>Pressing machine (成型機器)</li> </ul>	Mix and stir the standardised raw materials, then compress and form into the required shape.
	↓		
	Panel drying	N/A	Dry and preserve the pallet boards in natural condition.
	↓		
	Oven drying	<ul style="list-style-type: none"> <li>Oven (烘箱)</li> </ul>	Dry the pallet boards in oven.
	↓		
Semi-automatic	Panel shaving	<ul style="list-style-type: none"> <li>Shaving machine (刨切機)</li> </ul>	Shave and cut the upper and lower surface of the dried pallet boards to meet the thickness requirement of the base board.
	↓		
	Edges milling	<ul style="list-style-type: none"> <li>Edge milling machine (銑邊機)</li> </ul>	Carry out milling and processing on the pallet board edges to get the required size.
	↓		
	Steel coating	<ul style="list-style-type: none"> <li>Automatic steel coating line for calcium sulfate (硫酸鈣全包板自動線)</li> </ul>	Coat the upper and lower surface of the processed pallet board with glue and cover with galvanised steel sheet to form the finished product.
	↓		
		<ul style="list-style-type: none"> <li>Stamping press (沖床)</li> </ul>	
	↓		
	<ul style="list-style-type: none"> <li>Grouting line (灌漿生產線)</li> <li>Forklift (鏟車)</li> </ul>	Instill foam concrete into the hollow flooring after coating.  Inspect the product before piling up, stacking with pallets and packing.	
↓			
	<ul style="list-style-type: none"> <li>Pressure testing machine (壓力測試機)</li> </ul>	Put the finished products into storage.	

*Note: It usually takes around five days for the production of one sheet of our calcium sulfate access flooring product.*

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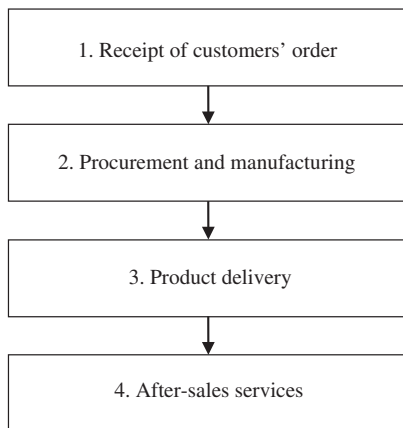
## BUSINESS

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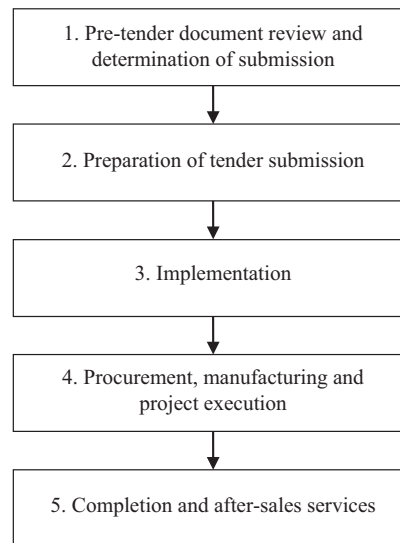
### BUSINESS MODEL AND OUR OPERATIONS

During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of our customers. We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. For easier reference, we present the business models and procedures as follows:

#### A. Sales of access flooring products



#### B. Sales of access flooring products with installation services



#### A. Sales of access flooring products

We provide access flooring products including: (i) steel access flooring products; and (ii) calcium sulfate access flooring products to our customers in the PRC and overseas markets.

##### 1. *Receipt of customers' order*

In general, we develop contact with customers by: (i) strategy implemented by our sales and marketing team; and (ii) customers' interests perceived by our Group. After receipt of customers' order enquiry and specifications, we offer our customers a variety of our products from our existing product portfolio. If requested, we will provide corresponding inspection reports to our customers for reference to ensure that our products comply with the product requirements and specifications given by our customers.

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## BUSINESS

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### *2. Procurement and manufacturing*

Our access flooring products are procured and manufactured based on our estimated annual production plan. Therefore, our Directors confirmed that we usually negotiate with our customers regarding the product availability and delivery date to allow sufficient time for us to manufacture the products and execute the production plans. For details of our production process, please refer to the paragraph headed “Manufacturing facilities and production process — Production processes” in this section.

We then confirm the sales order with our customers by executing sales and purchase agreements. For details of the salient terms of the sales and purchase agreements with our customers, please refer to the paragraph headed “Customers — Salient terms with our customers” in this section.

### *3. Product delivery*

Upon completion of the entire production process, our access flooring products would be delivered to our customers. We engage logistic service providers to deliver our products to our customers’ designated sites for both of our domestic and overseas sales. For overseas sales, our products are delivered by shipment on a FOB basis in general.

### *4. After-sales services*

We recognise the importance of providing quality services and have put procedures in place to ensure that feedback from customers is handled in a timely and appropriate manner. In general, we offer the warranty period ranging from 12 to 24 months.

Besides, according to our after-sales policy, during the warranty period, we accept any product returns due to defects caused by us and bear the delivery costs of such products returned to us after conducting investigation to ascertain the cause of the defect. If we receive a defective product complaint from our customers, our sales representatives would refer the complaint to our Group, which would then investigate if there are any material issues with the product quality. If so, we would trace the cause and may arrange product return for our customers.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not: (i) receive any material fine, product recall order or other penalty from any regulatory body; (ii) receive any material product return request from our customers; (iii) incur any material warranty expenses for our products; (iv) receive any material complaints from our customers; or (v) receive any requests from our customers to terminate the transactions, which had a material adverse impact on us taken as a whole.

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## BUSINESS

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### **B. Sales of access flooring products with installation services**

Our sales of access flooring products with installation services mainly involves (i) pre-tender document review and determination of submission; (ii) preparation of tender submission; (iii) implementation; (iv) procurement, manufacturing and project execution; and (v) completion and after-sales services.

Depending on the business relationship with our customers and the project nature, our Directors confirmed that we have three different operational procedures: (i) place tender on a project-by-project basis in most occasions; (ii) place tender or seek quotation from our cooperation partners pursuant to the cooperation agreements, which our Directors believed that it could facilitate a stable source of orders from our customers whilst they have a solid support from us; and (iii) customers' quotation requests initiated by us or the customers. During the Track Record Period, our Group had a total of 15 cooperation partners. For details of the salient terms of the cooperation agreements, please refer to the paragraph headed "Customers — Cooperation arrangement with our customers" in this section.

#### ***1. Pre-tender document review and determination of submission***

Generally speaking, our Directors considered that we identify potential projects in three manners: (i) tender invitation; (ii) cooperation agreements with our customers; and (iii) requests for quotation from our customers.

When we receive the tender invitation, we study the tender document and seek clarification if necessary. In determining whether to proceed with tender submission, we perform a pre-tender assessment. It takes various factors into account, including technical requirements, feasibility of project timetable, logistics, payment method, our capability and compliance. Our Directors considered the pre-tender assessment is crucial to our decision of placing tender.

If our Directors considered that the proposed projects do not act in our best business interests, we may decline the tender invitations. Otherwise, we would conduct relevant preparation work for the tender submission.

Meanwhile, we also receive quotation requests from both our cooperation partners and other customers. For details of the agreements with our cooperation partners, please refer to the paragraph headed "Customers — Cooperation arrangement with our customers" in this section.

#### ***2. Preparation of tender submission***

Upon successful assessment, we commence the preparation for the tender submission. Our Directors considered that it usually covers our quotations, price determination analysis, programme of work and other technical information of the project. The requirements thereof may vary in customers' requests and project scales.

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## BUSINESS

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Our procurement team would seek quotation from our suppliers and suppliers of installation services regarding the price of raw materials and installation services' charges. Together with the quotations and tenderer's response on the queries we raised, our Directors confirmed that we prepare our tender proposal based on a cost-plus pricing model, including the scale, project specifications and other estimated costs. We would seek the internal approval for the finalised tender proposal prior to our submission.

Our Directors believed that the factors affecting our tender success rate primarily include our tender price and our track records. Our Directors confirmed that it generally takes around one month after our tender submission for the final tender result announcement.

The following table sets forth the number of projects for which we have submitted tenders, the number of successful tenders and the tender success rate during the Track Record Period.

	Cooperation partners <sup>(Note 1)</sup>				Other customers			
	For the year ended 31 December			For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019	2016	2017	2018	2019
<b>Number of tender submitted</b>	4	8	5	4	82	77	60	42
<b>Number of successful tenders</b>	2	3	2	1	26	26	23	16
<b>Tender success rate (%)<sup>(Note 2)</sup></b>	50.0	37.5	40.0	25.0	31.7	33.8	38.3	38.1

*Notes:*

1. During the Track Record Period, our Group entered into cooperation agreements with some of our customers. For details of the cooperation agreements, please refer to the paragraph headed "Customers — Cooperation arrangement with our customers" in this section.
2. Tender success rate for a given financial year or period indicated is calculated as the percentage rate in which tenders submitted for a given financial year indicated is subsequently being awarded projects.

When we are awarded a project, we enter contract with customers. The contract will include key terms such as the responsibilities of the relevant parties, price, payment terms, quality requirement of the projects and warranty. For further details of the major contractual terms, please refer to the paragraph headed "Customers — Salient terms with our customers" in this section.

### 3. *Implementation*

As soon as we are formally engaged by our customers, we start the detailed project planning and coordination of work. Thereafter, we commence the implementation of project by: (i) formation of project team; (ii) engagement of suppliers of installation services; and (iii) raw material planning. Besides, our customers may require our Group to provide contract performance deposit as security for our Group's performance in accordance with the contract when the project is awarded to us, which will be released upon the final account. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the total amount for the contract performance deposits was approximately RMB1.6 million, RMB1.7 million, RMB1.0 million and RMB0.7 million, respectively. In addition, a certain percentage of final account would be retained as retention money, which would generally be released after the warranty period.

- *Formation of project team*

Our project team adopts a top-down management structure to ensure the quality.

The project managers of our Group, including qualified assistant engineers registered by Housing and Urban-Rural Development Department of Jiangsu Province (江蘇省住房和城鄉建設廳) and other professionals, are responsible for the overall management of our projects, which includes the implementation of our submitted method statement for installation, work progress, coordination with customers (landlords, main contractors and their representatives), handling of work completion and payment application. In addition, our suppliers of installation services perform work allocation and supervision of installation techniques, work safety and quality. Our Directors are of the view that project progress and any difficulties encountered would be monitored and coordinated with other parties, to ensure the work performed complies with the statutory requirements, contractual specifications and drawings.

- *Engagement of suppliers of installation services*

During the Track Record Period, we engaged suppliers to perform installation services for a project by seeking quotation.

Our Directors considered that the work performed by our suppliers of installation services are generally labour intensive or skill-specific, such as floor placing, fixing and formwork erection, in which our Directors believed that it allows a lower fixed overhead cost and optimises the quality of our flooring products with the expertise of our suppliers of installation services. Meanwhile, we would oversee the installation work carried out by our suppliers of installation services to ensure the installation work completed are in accordance with the statutory requirements and contractual specifications. By engaging our suppliers of installation services to carry out the installation work, our Directors are of the view that we are able to focus on quality control and resource allocation.

For further details on the selections of suppliers of installation services and their arrangement, please refer to the paragraph headed "Suppliers and raw materials — Engagement of suppliers of installation services" in this section.

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- *Raw materials planning*

Based on our production plans and contracts on hand, we source and purchase raw materials from our internal approved list of suppliers generally.

We compile an inventory of raw materials and products. Pursuant to our estimated annual production plan, we usually purchase raw materials in bulk to fulfil our estimated annual needs. Meanwhile, we also conduct stocktake on a regular basis to ensure product availability. We do not foresee any material difficulties in sourcing the raw materials in future. For further details of the inventory, please refer to the paragraph headed “Inventory” in this section.

Under urgent needs, our Directors confirmed that we may also seek quotations directly from agents and suppliers which are not in our internal approved list.

#### **4. *Manufacturing and project execution***

- *Manufacturing*

We manufacture our access flooring products with a variety of machinery and equipment to ensure our access flooring products are in a stable supply. For the production process of our access flooring products, please refer to the paragraph headed “Manufacturing facilities and production process — Production processes” in this section.

- *Coordination and supervision*

Our project team holds meetings for ongoing projects from time to time. Sometimes, our customers may request rectifications, modifications or adjustments to the work scope. Meanwhile, we prepare progress status reports specifying the completed work in the agreed time frame for our customers’ acknowledgement. For further details of our quality assurance procedure, please refer to the paragraph headed “Quality control” in this section.

- *Certification and payment of work*

Our Group recognises revenue based on progress of work which our Directors will make reference to: (i) the progress status reports acknowledged by either our customers or their agents; and (ii) the installation reports issued by the suppliers of installation services to determine the quantities of our products having been delivered and installed. Based on the progress of work, we normally request progress payment from our customers. Our Directors confirmed that payments are usually made to us by our customers in the period of 60 to 365 days upon the issuance of installation reports.

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### 5. *Completion and after-sales services*

Based on (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by the suppliers of installation services having certified the accumulated quantities of our products delivered and installed onto our customers' properties are substantially the same as the total amount of our products required to be supplied and installed as set out in the contract, and also based on our Directors' foresight that there would not be any material rectification, modification or adjustment regarding the work scope, our Directors would consider the project is completed.

After the project is completed, our customers would inspect our completed work. Upon our customers' satisfaction of our completed work, a final completion report will be signed by the customer for us. Our Directors considered that it is appropriate to consider the project completed at the time when the accumulated quantities of our products having been delivered and installed onto our customers' properties, as certified either by (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by the suppliers of installation services, are substantially the same as the total amount of our products required to be supplied and installed as set out in the contract, because: (i) our work of supply and installation plays a small part in the whole construction work where it is not practicable to consider our work completed at the time when the whole construction work of the properties is completed; (ii) once our products are delivered and installed onto our customers' properties, it is not practicable to rework and the performed work will not have any alternative use to us; and (iii) based on our historical experience with similar projects, our Directors considered that the difference of the quantities of works performed by us (in terms of quantities of our products having been delivered and installed) between the final completion reports signed by our customers, and accumulated progress status reports acknowledged either by our customers or their agents, and/or the installation reports issued by suppliers of installation services is immaterial.

The product warranty period commences after the project is complete and a certain percentage of final account is generally retained by the customer as retention money and would be released to us after the product warranty period. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our retention monies receivables amounted to approximately RMB4.0 million, RMB17.2 million, RMB21.2 million and RMB18.3 million, respectively. For further discussion and analysis, please refer to the section headed "Financial Information — Discussion of selected consolidated statements of financial position — Contract assets and liabilities" in this prospectus. According to the CIC Report, it is the industry norm that a product warranty period is required by our customers, during which we are responsible for rectifying all work defects identified by our customers. The product warranty period ranges generally from 12 to 24 months from the date specified in contracts and commences upon the issuance of the progress status report and/or installation report. During the product warranty period, our customers could raise their concerns of our products and the installation services from time to time and we are required to rectify all defects to their satisfaction. Meanwhile, the relevant suppliers of installation services are responsible for rectifying the work defects to our and/or our customers' satisfaction according to the terms of the agreement made between these suppliers and our Group.

In addition, we maintain our customer's complaint policy in a stringent manner. Our sales representatives would refer all material customers' complaints to our Group, confirm if there are any material issues with the product quality and reply to our customers in a prompt manner.



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During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not experience any material claims by our customers in respect of any defective works, and therefore we had not made any provision for repair and maintenance costs in respect of defective works during the product warranty period. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material project delays or loss-making contracts.

### OUR PROJECTS

In relation to the contracts entered and completed by our Group during the Track Record Period, the contract size ranged from approximately RMB1,900 to approximately RMB19 million, and the average contract size was approximately RMB1.6 million; while the duration of our contracts ranged from approximately one day to approximately 28 months, and the average contract duration was approximately 3.9 months.

The table below sets forth the contract size of our contracts during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Contract size</b>				
— Largest	12,543	19,041	15,272	16,981
— Smallest	9	8	5	2
<b>Average contract size</b>	1,892	1,749	1,573	1,362

The table below sets forth the actual duration of our contracts during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	<i>Month</i>	<i>Month</i>	<i>Month</i>	<i>Month</i>
<b>Duration</b>				
— Longest	10.2	21.5	28.2	19.2
— Shortest <sup>(Note)</sup>	0	0	0	0
<b>Average duration</b>	2.1	4.8	3.7	3.5

*Note:* The shortest duration of our contracts ranges from one to two days.

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### Completed projects

The following table sets out our completed projects with the original contract sum of more than RMB5.0 million each during the Track Record Period and up to the Latest Practicable Date:

Project	Products	Commencement date (Note 1)	Completion date (Note 2)	Location	Original contract sum (Note 3)	Amount of revenue recognised (Note 4) for the year ended 31 December			Amount of revenue recognised (Note 4)	
						2016	2017	2018	for the six months ended 30 June 2019	
						RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
P1	Steel	July 2012	January 2016	Shanghai	11,246	484	—	—	—	—
P2	Steel	May 2014	March 2016	Guangdong	5,600	125	—	—	—	—
P3	Steel	May 2013	May 2016	Shanghai	6,238	116	—	—	—	—
P4	Steel	August 2013	July 2016	Henan	14,373	2,117	—	—	—	—
P5	Steel	August 2014	January 2017	Shanghai	5,822	—	244	—	—	—
P6	Steel	September 2013	February 2017	Beijing	6,458	—	1,066	—	—	—
P7	Steel	July 2013	March 2017	Shanghai	8,849	—	385	—	—	—
P8	Steel	April 2014	March 2017	Zhejiang	7,900	379	409	—	—	—
P9	Steel	August 2015	March 2017	Hunan	9,067	1,737	329	—	—	—
P10	Steel	August 2015	March 2017	Beijing	9,126	6,197	284	—	—	—
P11	Steel	April 2016	March 2017	Zhejiang	6,808	5,062	630	—	—	—
P12	Steel	January 2015	April 2017	Guangxi	8,794	—	92	—	—	—
P13	Calcium sulfate	January 2016	April 2017	Zhejiang	9,645	7,929	906	—	—	—
P14	Steel	September 2013	May 2017	Guangdong	8,314	877	1,525	—	—	—
P15	Steel	December 2015	May 2017	Shanghai	6,435	4,118	1,253	—	—	—
P16	Steel	September 2013	June 2017	Chongqing	14,630	1,188	411	—	—	—
P17	Steel	November 2014	June 2017	Jiangsu	9,592	2,824	258	—	—	—
P18	Steel	July 2015	June 2017	Shandong	5,016	849	364	—	—	—
P19	Steel	April 2014	July 2017	Tianjin	7,423	2,712	1,410	—	—	—
P20	Calcium sulfate	June 2016	July 2017	Guangdong	9,870	6,196	1,426	—	—	—
P21	Steel	January 2016	August 2017	Jiangsu	8,320	4,516	2,307	—	—	—
P22	Steel	November 2016	September 2017	Shanghai	5,250	—	5,022	—	—	—
P23	Steel	January 2016	October 2017	Shandong	5,508	4,037	782	—	—	—
P24	Steel	March 2016	October 2017	Guangxi	11,446	9,459	835	—	—	—
P25	Steel	October 2016	October 2017	Shanghai	7,278	—	4,885	—	—	—
P26	Steel	January 2017	October 2017	Zhejiang	13,950	—	13,688	—	—	—
P27	Calcium sulfate	August 2015	November 2017	Guangdong	17,379	1,697	730	—	—	—
P28	Steel	May 2016	December 2017	Guangxi	8,083	2,103	5,399	—	—	—
P29	Steel	December 2016	December 2017	Fujian	5,066	—	4,926	—	—	—
P30	Steel	June 2016	January 2018	Fujian	12,543	4,243	6,168	60	—	—
P31	Steel	April 2017	April 2018	Zhejiang	6,060	—	1,768	570	—	—
P32	Calcium sulfate	September 2017	May 2018	Guangdong	6,022	—	4,032	809	—	—
P33	Calcium sulfate	September 2017	June 2018	Guangdong	6,982	—	—	6,238	—	—
P34	Steel	October 2017	June 2018	Chongqing	5,310	—	—	3,175	—	—
P35	Steel	March 2018	June 2018	Zhejiang	5,280	—	—	4,810	—	—
P36	Steel	March 2017	July 2018	Beijing	8,564	—	6,143	521	—	—
P37	Steel	September 2017	December 2018	Jiangsu	7,048	—	267	5,639	—	—
P38	Steel	November 2017	January 2019	Tianjin	5,346	—	1,717	2,690	—	3
P39	Steel	August 2018	February 2019	Jiangsu	14,861	—	—	10,205	—	985
P40	Calcium sulfate	March 2017	March 2019	Guangdong	8,809	—	3,920	642	—	655
P41	Steel	February 2017	April 2019	Tianjin	9,767	—	—	4,281	—	3,950
P42	Steel	June 2017	April 2019	Beijing	9,979	—	4,768	3,628	—	191
P43	Steel	July 2017	June 2019	Guangdong	16,399	—	—	8,238	—	7,549
P44	Steel	February 2018	June 2019	Guangdong	19,041	—	—	1,161	—	16,074

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Project	Products	Commencement date <i>(Note 1)</i>	Completion date <i>(Note 2)</i>	Location	Original contract sum <i>(Note 3)</i>	Amount of revenue recognised <i>(Note 4)</i> for the year ended 31 December			Amount of revenue recognised <i>(Note 4)</i> for the six months ended 30 June 2019
						2016	2017	2018	RMB'000
					RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
P45	Steel	April 2018	June 2019	Guangdong	15,272	—	—	3,483	13,113
P46 <sup>(Note 5)</sup>	Steel	January 2015	August 2019	Guangdong	7,617	132	1,736	2,046	—
P47 <sup>(Note 5)</sup>	Steel	July 2019	August 2019	Beijing	8,425	—	—	—	—
P48 <sup>(Note 5)</sup>	Steel	February 2017	August 2019	Henan	7,010	—	201	4,071	—
P49 <sup>(Note 5)</sup>	Steel	May 2017	December 2019	Zhejiang	8,432	—	1,656	4,092	588
P50 <sup>(Note 5)</sup>	Calcium sulfate	September 2017	December 2019	Guangdong	18,440	—	7,262	8,338	—
P51 <sup>(Note 5)</sup>	Calcium sulfate	January 2018	December 2019	Guangdong	12,580	—	—	8,282	—
P52 <sup>(Note 5)</sup>	Calcium sulfate	June 2018	December 2019	Beijing	6,014	—	—	515	2,060
P53 <sup>(Note 5)</sup>	Steel	July 2018	December 2019	Jiangsu	8,400	—	—	—	5,192
P54 <sup>(Note 5)</sup>	Steel	July 2019	December 2019	Zhejiang	8,400	—	—	—	—
Subtotal					496,087	69,097	89,204	83,494	50,360
Other projects with original contract sum less than RMB5.0 million each						63,662	93,656	97,661	35,149
Total revenue						<u>132,759</u>	<u>182,860</u>	<u>181,155</u>	<u>85,509</u>

*Notes:*

- Commencement date in general refers to the contract signing date.
- Completion date in general refers to the completion date as considered by our Directors that the project is completed based on the accumulated quantities of our products having been delivered and installed onto our customers' properties with reference to: (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by our suppliers of installation services.
- Original contract sum is inclusive of tax.
- Revenue recognised exclusive of tax for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 represents the actual amount of works performed by us during the same period, which were based on: (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by our suppliers of installation services, and which could be different from the original contract sum. Besides, certain amount of revenue were recognised after these projects were completed as there were minor rectifications, modifications or adjustments requested by our customers after the projects were considered completed by our Directors.
- For projects completed after 30 June 2019, the revenue recognised subsequent to the Track Record Period would not be reflected in the Accountants' Report.

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### Projects on hand

The following table sets out our projects on hand with the original contract sum of more than RMB5.0 million each as at the Latest Practicable Date:

Project	Product	Commencement date <i>(Note 1)</i>	Expected completion date <i>(Note 2)</i>	Location	Original contract sum <i>(Note 3)</i>	Amount of revenue recognised <i>(Note 4)</i>			Revenue to be recognised	Revenue to be recognised	
						for the year ended 31 December	for the six months ended 30 June	for the six months ended 31 December	for the year ending 31 December		
					2016	2017	2018	2019	2019	2020	
					RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
PO1	Steel	December 2014	March 2020	Hunan	13,200	2,142	3,642	168	—	2,113	3,169
PO2	Steel	July 2015	December 2019	Shandong	5,528	—	1,352	1,295	—	2,113	—
PO3	Steel	August 2017	March 2020	Beijing	12,729	—	1,077	—	—	4,288	5,396
PO4	Steel	March 2018	December 2019	Tianjin	5,123	—	—	1,821	—	2,537	—
PO5	Steel	April 2019	February 2020	Hunan	5,720	—	—	—	4,606	215	215
PO6	Steel	April 2019	October 2020	Beijing	16,981	—	—	—	113	7,025	7,810
PO7	Steel	May 2019	March 2020	Beijing	6,417	—	—	—	3,961	1,484	209
PO8	Calcium Sulfate	August 2019	June 2020	Shanghai	13,558	—	—	—	—	8,401	3,580
PO9	Steel	November 2019	October 2020	Guangdong	8,123	—	—	—	—	1,198	5,990
PO10	Steel	November 2019	May 2020	Guangdong	5,811	—	—	—	—	—	5,142
PO11	Steel	December 2019	June 2020	Jiangsu	6,086	—	—	—	—	—	5,385
PO12	Steel	December 2019	March 2020	Guangdong	8,625	—	—	—	—	—	7,633
				Subtotal	107,901	2,142	6,071	3,284	8,680	29,374	44,529
				Other projects with original contract sum less than RMB5.0 million each		0	0	2,107	9,326	29,150	31,353
				Total revenue		2,142	6,071	5,391	18,006	58,524	75,882

#### Notes:

- Commencement date in general refers to the contract signing date.
- Expected completion date refers to: (i) the expected completion date as specified in the original contract or letter of award (if applicable); (ii) our estimation based on project progress of the accumulated quantities of our products having been delivered and installed onto our customers' properties with reference to: (a) the progress status reports acknowledged by either our customers or their agents; and/or (b) the installation reports issued by our suppliers of installation services, and our Directors foresee that there would not be any material rectification, modification or adjustment regarding the work scope of the project.
- Original contract sum is inclusive of tax.

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4. Revenue recognised exclusive of tax for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 represents the actual amount of works performed by us during the same period, which were based on: (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by our suppliers of installation services, and could be different from the original contract sum.
5. The original contract sum involves the sales of access flooring products only (without installation), and part of the access flooring products have not been delivered.

### Our backlog movement

The following table sets out the backlog movement in the number of our projects which remains to be completed pursuant to the terms of the outstanding contracts as at a certain date and assuming performance in accordance with the contract terms as at the Latest Practicable Date:

<b>Sales of access flooring products with installation services</b>	<b>As at 31 December</b>			<b>As at</b>	<b>Latest</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June 2019</b>	<b>Practicable Date</b>
Opening number of projects <sup>(Note 1)</sup>	76	100	54	55	63
Number of new projects <sup>(Note 2)</sup>	92	143	148	74	67
Number of completed projects <sup>(Note 3)</sup>	(68)	(189)	(147)	(66)	(71)
Ending number of projects	100	54	55	63	59

*Notes:*

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year/period as indicated.
2. Number of new projects means the number of new projects during the relevant year/period as indicated.
3. Number of completed projects means the number of projects where our Directors considered the projects are completed based on the accumulated quantities of our products having been delivered and installed onto our customers' properties with reference to: (i) the progress status reports acknowledged by either our customers or their agents; and/or (ii) the installation reports issued by our suppliers of installation services.
4. Ending number of projects equals to the opening number of projects plus number of new projects minus number of completed projects during the relevant year/period as indicated.

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The following table sets out the backlog movement in the value of our projects during the Track Record Period and up to the Latest Practicable Date:

<b>Sales of access flooring products with installation services</b>	<b>As at 31 December</b>			<b>As at</b>	<b>Latest</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June 2019</b>	<b>Practicable Date</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening value of backlog projects	70,691	77,744	90,518	97,124	78,652
Awarded contract amount of new projects <sup>(Note 1)</sup>	147,531	208,824	196,671	88,416	111,489
Revenue recognised <sup>(Note 2)</sup>	(134,901)	(188,931)	(186,546)	(103,515)	(104,080)
Value of subsequent rectifications, modifications or adjustments <sup>(Note 3)</sup>	<u>(5,577)</u>	<u>(7,119)</u>	<u>(3,519)</u>	<u>(3,373)</u>	<u>(2,550)</u>
Ending value of backlog projects <sup>(Note 4)</sup>	<u><u>77,744</u></u>	<u><u>90,518</u></u>	<u><u>97,124</u></u>	<u><u>78,652</u></u>	<u><u>83,511</u></u>

*Notes:*

- Awarded contract amount of new projects represents the total contract sum of new projects awarded to us and may not include subsequent rectifications, modifications or adjustments, as such final revenue recognised from a contract may differ from the awarded contract amount.
- The revenue recognised for each year/period of the Track Record Period represents the audited revenue recognised for each of the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, and the revenue recognised from 30 June 2019 to the Latest Practicable Date represents the unaudited revenue recognised for the same period, in each case taking no account of any subsequent rectifications, modifications and adjustments.
- Our Directors confirmed that the value of subsequent rectifications, modifications or adjustments, which may result in addition or deduction of the original contract sum of our projects during the Track Record Period, is attributable to the design amendments of the original floor plan. We estimate our cost with reference to the floor plan provided by our customers, which is subject to the design amendments at the implementation stage. Our Directors considered that there was no material rectification, modification or adjustment to the work scope requested by our customers during the Track Record Period.
- Ending value of backlog refers to the portion of the total estimated revenue that has not been recognised with respect to our contracts as at the end of the relevant year/period as indicated.

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### SALES AND MARKETING

Our sales and marketing department consists of 19 staff as at the Latest Practicable Date.

As we were as the third market player in the PRC with reference to the CIC Report, our Directors considered a top-down management structure is conducive to our market penetration in the industry. Our sales manager is responsible for: (i) formulating company sales and marketing strategy and planning upon the approval of our general manager; (ii) managing major on-site promotional activities; (iii) analysing the market environment, target, planning and business activities on a regular basis; (iv) formulating the market price of our products based on the market and industry situation; (v) negotiating and entering into agreement; (vi) allocating resources for annual sales plan; and (vii) understanding customers' needs by visit. Meanwhile, the principal duties of our sales representatives are to expand our customer base, track our existing customers' needs, negotiate and enter into contract with them. As for back-up supporting staff, they assist in supervising contract execution, compiling relevant statistics for analysis and handling customers' concerns in a timely fashion.

With the concerted efforts of our staff, our Group continues its commitment to quality access flooring products with different sales and marketing strategies, including improving quality products, brand recognition and our responsiveness to customers. During the Track Record Period, our Directors confirmed that we did not sell our products through any distributors in the PRC. The table below sets forth our revenue in the PRC and other regions:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	Revenue	Approximate % of total Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
PRC	147,517	92.4	198,717	91.8	226,046	90.9	102,032	90.6	119,111	95.4
Thailand	2,011	1.3	1,995	0.9	2,674	1.1	1,234	1.1	1,617	1.3
Malaysia	2,730	1.7	2,469	1.1	3,075	1.2	1,439	1.3	1,169	0.9
Taiwan	1,506	0.9	3,238	1.5	2,956	1.2	1,653	1.5	741	0.6
Hong Kong	2,271	1.4	1,885	0.9	1,867	0.7	515	0.5	498	0.4
Singapore	1,221	0.8	5,136	2.4	9,247	3.7	4,985	4.4	235	0.2
Others <sup>(Note)</sup>	2,347	1.5	2,920	1.4	2,920	1.2	812	0.6	1,517	1.2
Total	159,603	100.0	216,360	100.0	248,785	100.0	112,670	100.0	124,888	100.0

*Note:* Others include Bangladesh, Cambodia, Dubai, Egypt, Ethiopia, Ghana, India, Indonesia, Japan, Korea, Kuwait, Maldives, Mexico, Oman, Panama, Philippines, Qatar, Romania, Saudi Arabia, Sri Lanka, Turkey and Vietnam.

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During the Track Record Period, we sold our products to other regions, such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore. The overseas markets, in aggregate, accounted for approximately 7.6%, 8.2%, 9.1% and 4.6% of our total revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

In addition, we attended exhibitions and trade fairs such as China (UAE) Trade Fair (中國(阿聯酋)貿易博覽會暨建築裝飾材料展覽會) in 2017. Our Directors are of the view that exhibitions and trade fairs are good platforms for our brand promotion and expansion of our customer base.

### CUSTOMERS

Our customers include property developers and main contractors of construction projects in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, approximately 92.4%, 91.8%, 90.9% and 95.4% of our revenue were derived from sales in the PRC, respectively. Our Directors are of the view that our sales network allows us to provide prompt responses and timely support to our customers.

On top of the project-based tendering, we also enter into cooperation agreements with some of our customers by contractual commitment. During the Track Record Period, our Group had a total of 15 cooperation partners. For details of the cooperation arrangement with our customers, please refer to the paragraph headed “Cooperation arrangement with our customers” in this section.

### Major Customers

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our top five largest customers contributed approximately RMB36.2 million, RMB40.3 million, RMB53.1 million and RMB56.7 million to our total revenue, respectively, representing approximately 22.7%, 18.6%, 21.4% and 45.4% of our total revenue for the same periods, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our largest customer contributed approximately RMB9.5 million, RMB13.7 million, RMB13.0 million and RMB36.7 million of our total revenue, respectively, representing approximately 5.9%, 6.3%, 5.2% and 29.4% of our total revenue for the same periods, respectively.

Our Directors are of the view that we did not encounter any concentration risk or counterparty risk of customers during the Track Record Period.



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The tables below set forth the information about our five largest customers during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Customer	Background <sup>(Note)</sup>	Location	Revenue contribution to our Group	Approximate percentage to the total revenue of our Group	Business relationship since	Credit terms	Payment method
				<i>RMB'000</i>	<i>%</i>		<i>Days</i>	
1	Customer A	A PRC company with a registered capital of RMB5 million engaging in, among other things, wholesale, commission agent, import and export.	PRC	9,459	5.9	2016	180	Bank transfer
2	Customer B	A PRC company with a registered capital of RMB35.9 million engaging in, among other things, site leasing, house leasing and installation services of building power system, building water system, mechanical and electrical equipment.	PRC	9,288	5.8	2016	60	Bank transfer
3	Customer C	A PRC company with a registered capital of RMB1.8 billion engaging in, among other things, rental of office and commercial buildings.	PRC	6,197	3.9	2015	180	Bank transfer
4	Customer D	A PRC company with a registered capital of USD784.5 million engaging in, among other things, real estate development, house leasing and property management. The revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB16.6 billion.	PRC	6,196	3.9	2016	180	Bank transfer
5	Customer E	A wholly-foreign owned enterprise (有限責任公司(台港澳法人獨資)) established in the PRC with a registered capital of USD143 million engaging in, among other things, research and development of electric commerce platform software, other computer software and property management.	PRC	5,062	3.2	2016	60	Bank transfer
Total				36,202	22.7			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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*For the year ended 31 December 2017*

Rank	Customer	Background <sup>(Note)</sup>	Location	Revenue contribution to our Group	Approximate percentage to the total revenue of our Group	Business relationship since	Credit terms	Payment method
				<i>RMB'000</i>	<i>%</i>		<i>Days</i>	
1	Customer F	A PRC company with a registered capital of RMB100 million engaging in development and operation of real estate, self-owned house leasing and property management.	PRC	13,688	6.3	2017	180	Bank transfer
2	Customer G	A wholly-foreign owned enterprise (有限責任公司(台港澳法人獨資)) established in the PRC with a registered capital of HKD2.5 billion engaging in operation of Shenzhen Bay Sports Centre (深圳灣體育中心), development, construction and operation of China Resources Headquarters project in the T107-0028 plot in Nanshan District, Shenzhen.	PRC	7,262	3.4	2017	365	Electronic commercial draft
3	Customer H	A wholly-foreign owned enterprise (有限責任公司(台港澳法人獨資)) established in the PRC with a registered capital of HKD1.7 billion engaging in, among other things, operation of import and export business of various kinds of goods and technologies. The revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB17.8 billion.	PRC	6,926	3.2	2016	180	Telegraphic transfer
4	China Construction Shenzhen Decoration Co Ltd (中建深圳裝飾有限公司)	A PRC company with a registered capital of RMB300 million engaging in, among other things, contracting and design. The revenue of its listed parent company in the PRC for the year ended 31 December 2018 amounted to approximately RMB1.2 trillion.	PRC	6,225	2.9	2012	180	Bank transfer
5	Xiamen Haixia Mingzhu Investment & Development Co Ltd (廈門海峽明珠投資開發有限公司)	A PRC company with a registered capital of RMB300 million engaging in, among other things, development, sales of real estate and property management.	PRC	6,168	2.8	2016	180	Bank transfer
Total				<u>40,269</u>	<u>18.6</u>			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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*For the year ended 31 December 2018*

Rank	Customer	Background <sup>(Note)</sup>	Location	Revenue contribution to our Group	Approximate percentage to the total revenue of our Group	Business relationship since	Credit terms	Payment method
				RMB'000	%		Days	
1	Qianhai Jiaxiya Ground Overhead System (Shenzhen) Co Ltd 前海加西亞地面架空系統(深圳)有限公司	A PRC company with a registered capital of RMB5 million engaging in, among other things, design and sales of antistatic equipment and purchase and sales of floorboards and decorative materials.	PRC	12,975	5.2	2018	180	Bank transfer
2	Customer I	A PRC company with a registered capital of RMB10 million engaging in, among other things, real estate development and operation with lawfully obtained land use rights. The revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB297 billion.	PRC	12,937	5.2	2017	365	Supply chain financing (commercial acceptance bill/ factoring/ letter of credit)
3	Nanjing Software Valley Qichuang Communication Technology Co Ltd 南京軟件谷奇創通訊科技有限公司	A PRC company with a registered capital of USD82 million engaging in, among other things, technological research and development, consultancy services and property management. The parent company is a listed company in Hong Kong, the issued shares of which has been suspended with effect from 1 April 2016. The unaudited revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB11.6 billion.	PRC	10,205	4.1	2018	180	Telegraphic transfer
4	Customer D	A PRC company with a registered capital of USD784.5 million engaging in, among other things, real estate development, house leasing and property management. The revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB16.6 billion.	PRC	8,675	3.5	2016	180	Bank transfer
5	Customer G	A wholly-foreign owned enterprise (有限責任公司(台港澳法人獨資) established in the PRC with a registered capital of HKD2.5 billion engaging in operation of Shenzhen Bay Sports Centre (深圳灣體育中心), development, construction and operation of China Resources Headquarters project in the T107-0028 plot in Nanshan District, Shenzhen.	PRC	8,338	3.4	2017	180	Electronic commercial draft
Total				53,130	21.4			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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*For the six months ended 30 June 2019*

Rank	Customer	Background <sup>(Note)</sup>	Location	Revenue contribution to our Group	Approximate percentage of the total revenue of our Group	Business Relationship since	Credit terms	Payment method
				<i>RMB'000</i>	<i>%</i>		<i>Days</i>	
1	Customer I	A PRC company with a registered capital of RMB10 million engaging in, among other things, real estate development and operation with lawfully obtained land use rights. The revenue of its listed parent company in Hong Kong for the year ended 31 December 2018 amounted to approximately RMB297 billion.	PRC	36,736	29.4	2017	365	Supply chain financing (commercial acceptance bill/ factoring/ letter of credit)
2	Customer J	A PRC company with a registered capital of RMB10 billion engaging in, among other things, development, operation and related supporting services of real estate and ancillary facilities. The revenue of its listed parent company in the PRC for the six months ended 30 June 2019 amounted to approximately RMB201 billion.	PRC	5,819	4.7	2018	60	Bank transfer
3	Customer K	A PRC company with a registered capital of RMB5 million engaging in, among other things, sales of steel materials, aluminum alloy products, glass products, building materials and decorative materials.	PRC	5,193	4.2	2018	60	Bank transfer
4	Customer L	A PRC company with a registered capital of RMB50 million engaging in, among other things, interior and exterior decoration design, construction and design of construction and mechanical and electrical equipment installation engineering.	PRC	4,606	3.7	2016	60	Bank transfer
5	Customer M	A PRC company with a registered capital of RMB66 million engaging in, among other things, building of construction engineering, water conservancy and hydropower engineering.	PRC	4,308	3.4	2019	60	Bank transfer
Total				<u>56,662</u>	<u>45.4</u>			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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Our Directors confirmed that none of our Directors, their respective close associates or any of our Shareholders holding more than 5% of our issued capital, to the best knowledge of our Directors, held any interests in any customers during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that all of them were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, our Directors also confirmed that we had not experienced any material payment defaults by our customers and did not experience any early termination of contracts by our customers.

### **Salient terms with our customers**

Our Directors believed that it is a market practice for our customers to engage us on a project-by-project basis, in which the contracts generally cover contract price, work scope, payment terms, retention payments, contract performance deposit and warranty. The salient terms of our typical contract with our customers are summarised below:

<u>Salient terms</u>	<u>Description</u>
Contract sum	The contract price for carrying out our scope of work in accordance with the contract.
Duration	The specified period which sets out when the project has to be completed. In some cases, we are required to follow a specified pre-determined work schedule.
Credit terms	It generally ranges from 60 to 365 days.
Quantities and specifications	Description of the types and specifications of works to be performed, together with the quantity of the product required and the unit price of each.
Price adjustment	None
Modification	Our customers may vary the scope of work by rectifications, modifications or adjustments. All works executed by us as a result of such rectifications, modifications or adjustments shall be determined between our customer and us with reference to the rates and prices specified in the contract.
Retention money	It is a market practice for our customers to hold up a certain percentage of each progress payment made to us as retention money. The percentage is generally prescribed as 3% to 10% of the contract amount. The retention money is generally released at the expiry of the product warranty period or an agreed time period.

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<u>Salient terms</u>	<u>Description</u>
Contract performance deposit	In some cases, we may be required by our customers to provide a contract performance deposit, which is generally prescribed as 3% to 10% of the contract amount, to ensure our due performance of our work as stipulated in the contract.
Sales rebate / Discount terms	Not applicable
Renewal	Not applicable
Termination	Our customers are generally entitled to terminate the contract in certain circumstances such as failing to perform our works with due care, failing to remove defective materials, or failing to take remedial action of defective work.
Product warranty period	<p>It is a market practice for our customers to request us to take remedial action against defect or imperfection in relation to installation works performed for a particular project. Our warranty period is generally: (i) a specified period after completion of our work; or (ii) a period until the expiry of the defect warranty period as specified by our customers, depending on the terms and conditions of the contract.</p> <p>If there is any defect, we agree to take rectification work and instruct our relevant suppliers of installation services to carry out the relevant rectification work and bear all the associated rectification costs.</p>

### **Cooperation arrangement with our customers**

During the Track Record Period, our Group had a total of 15 cooperation partners. These customers are private or listed companies in the PRC or Hong Kong, and their principal businesses include, telecommunications services, project management, property development and property management. For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, revenue derived from cooperation contracts contributed approximately RMB31.4 million, RMB25.5 million, RMB36.7 million and RMB47.4 million to our total revenue, respectively, representing approximately 19.7%, 11.8%, 14.8% and 38.0% of our total revenue for the same periods, respectively. We also recorded gross profit margins of approximately 23.0%, 17.6%, 19.3% and 22.0%, respectively for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. During the Track Record Period, our Directors confirmed that we did not have any loss-making projects with these customers.

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Similar to our other projects, we manage the risk of cost overruns by undertaking the following measures: (i) taking into consideration any possible inflation and cost increases during the term of the contract when submitting tender proposal/ quotation; (ii) obtaining quotations from different suitable suppliers for comparison before placing purchase orders; and (iii) pricing of our services are overseen by our general manager. Our Directors believed that such arrangement with our customers could facilitate a stable source of orders from our customers whilst they would have a solid support from us.

There is no fixed or committed contract value or guaranteed business volume under the cooperation agreements. The actual amount and nature of works required to be performed by our Group are subject to the work orders received from these customers from time to time during the terms of the cooperation agreements and are charged in accordance with the agreed terms stated in the cooperation agreements.

### **Salient terms in the cooperation agreements**

The following table sets out the salient terms in a typical cooperation agreement:

<b>Salient terms</b>	<b>Description</b>
Product	The products referred to in the cooperation agreements are in relation to both of our steel access flooring products and calcium sulfate access flooring products.
Nature	The work nature of the cooperation agreements are in relation to the sales of access flooring products with installation services projects.
Duration	No specified duration is mentioned in the cooperation agreements.
Termination	Our customers are generally entitled to terminate the contract in certain circumstances such as failing to execute our works in accordance with our customers' requirements as stipulated in the agreements.

### **Pricing policy and tender strategy**

Our Directors considered that both product specifications and technical requirements are the major factors affecting our product and/or service price. Based on the market needs, we usually adopt a cost-plus pricing policy that takes various factors into consideration, such as the production cost, price of raw materials, installation cost and market competition. We formulate our tender strategy based on this cost-plus pricing policy. Furthermore, in preparing the pricing of a tender, we place emphasis on certain factors including: (i) the availability of our manpower and resources; (ii) the methodology and complexity of the project; (iii) the completion time requested by customers; (iv) the overall cost in undertaking the job; (v) the specifications stated in the tender document; and (vi) the

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relationship with the customers. We will also consider potential difficulties, such as expected competition from the market, in estimating the total cost of projects. We prepare our tender submission based on cost estimates, including production cost, transportation, installation, project management, plus a mark-up with reference to the prevailing market rates.

For both of our (i) sales of access flooring products; and (ii) sales of access flooring products with installation services, the contracts generally do not specify any provision for us to renegotiate if there is a significant fluctuation in the price of raw materials. Our Directors confirmed that during the Track Record Period, we did not experience any material fluctuations in the cost of raw materials, difficulties in sourcing raw materials or any major defaults or delay by our suppliers, that had a material adverse impact on our operations.

### **Credit policy**

Our Directors confirmed that in assessing our customer to determine their credit terms, we usually take various factors and customers' creditworthiness into account, such as the customers' historical payment record, length of business relationship with us and their financial conditions.

In general, the credit period granted by us to our customers ranges from 60 to 365 days from the respective date of invoice. As at 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, retention monies receivables on completed contracts amounted to approximately RMB4.0 million, RMB17.2 million, RMB21.2 million and RMB18.3 million, respectively. Our Directors also monitor the repayment status so as to minimise or avoid late payment and/or non-repayment by our customers.

During the Track Record Period, we did not experience any material difficulty in collecting payments and we had no disputes with our customers as to the collection of retention money which, if unpaid, would have a material impact to our operations and business.

### **Seasonality**

Based on the experience of our Directors in relation to the industry we operate, and the operations of our Group, our Directors are of the view that the industry does not exhibit any significant seasonality due to the fact that building or construction projects are generally ongoing throughout the year.

## **SUPPLIERS AND RAW MATERIALS**

### **Purchase of raw materials and installation costs**

We procure raw materials such as steel and cement for our access flooring products mainly from suppliers who are based in the PRC. We also engage suppliers to provide installation services.



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The purchase of raw materials and the installation costs incurred during the Track Record Period are set out below:

	For the year ended 31 December						For the six months ended 30 June	
	2016		2017		2018		2019	
	<i>RMB'000</i>	<i>Approximate % of total purchase of raw materials and installation costs</i>	<i>RMB'000</i>	<i>Approximate % of total purchase of raw materials and installation costs</i>	<i>RMB'000</i>	<i>Approximate % of total purchase of raw materials and installation costs</i>	<i>RMB'000</i>	<i>Approximate % of total purchase of raw materials and installation costs</i>
Steel	89,652	73.5	68,616	62.1	91,021	60.8	57,318	69.0
Cement	7,775	6.4	5,914	5.3	12,040	8.1	5,533	6.7
Installation services	6,856	5.6	9,266	8.4	9,463	6.3	5,551	6.7
Other raw materials <sup>(Note)</sup>	17,635	14.5	26,698	24.2	37,174	24.8	14,601	17.6
<b>Total</b>	<b>121,918</b>	<b>100.0</b>	<b>110,494</b>	<b>100.0</b>	<b>149,698</b>	<b>100.0</b>	<b>83,003</b>	<b>100.0</b>

*Note:* Other raw materials include packaging material, aluminium head, fibre, welding pipe, gesso, overlaying and gypsum powder.

During the Track Record Period, our total purchase of raw materials amounted to approximately RMB115.1 million, RMB101.2 million, RMB140.2 million and RMB77.5 million, respectively, representing approximately 94.4%, 91.6%, 93.7% and 93.3% of our total purchase of raw materials and installation costs for the same periods, respectively, and the decrease in 2017 was primarily attributable to the decrease in the actual production volume as a result of the high level of finished goods in 2016 that subsequently sold off in 2017.

For details of the sensitivity analysis in relation to changes in raw materials, please refer to the section headed “Financial Information — Key factors affecting our financial conditions and results of operations” in this prospectus.

Our Directors confirmed that our suppliers engaged by us during the Track Record Period are Independent Third Parties. Our Directors also confirmed that our Group had neither experienced any material dispute with our suppliers of installation services, material storage nor delay in installation services, and there was no material amount of defective raw materials returned to our suppliers or unsatisfactory finished products reprocessed or disposed by our Group during the Track Record Period.

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### **Selection policies on suppliers and procurement policies**

As raw materials are essential to our manufacturing of access flooring products, our Directors confirmed that we adopt various measures to ensure a stable supply: (i) seeking quotation from the suppliers in our internal approved list; (ii) entering into framework agreement with some of our suppliers; and (iii) placing order to other suppliers in urgent and uncommon occasions. Our procurement agreement generally covers the product amount, unit price, quality specifications and responsibilities of our suppliers for any defects to be found.

In general, we select our suppliers in our internal approved list based on their: (i) track record; (ii) quality of materials; and (iii) pricing competitiveness. Our Directors confirmed that we may visit the suppliers' factories before and during the cooperation. Our quality control department would conduct assessment of the raw materials from time to time regarding the material attributes, ranging from their appearance, thickness to their functionality before storage. Our Directors considered these procedures are conducive to manufacturing premium quality access flooring products.

### **Engagement of suppliers of installation services**

During the Track Record Period, we sold our access flooring products, with or without installation services, depending on the need of the customers. We normally engage suppliers of installation services to perform the relevant installation services for our access flooring products if installation services are requested by our customers. According to the CIC Report, engaging suppliers of installation services is considered as an industry practice.

Our Directors considered that engaging suppliers of installation services to provide installation services not only aligns with the market practice, but also allows a lower fixed overhead cost, as well as optimises the quality of our flooring products with their expertise. Our Directors are of the view that any form of long-term agreement with suppliers of installation services would be unnecessary, thereby no related long-term cooperation and/or agreement had been entered into during the Track Record Period.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our Group's installation costs incurred in the engagement with our suppliers of installation services amounted to approximately RMB6.9 million, RMB9.3 million, RMB9.5 million and RMB5.6 million, respectively, representing approximately 5.6%, 8.4%, 6.3% and 6.7% of our total purchase of raw materials and installation costs for the same periods, respectively.

### **Quality control on installation services**

To supervise the performance of our suppliers of installation services and ensure that they comply with the requirements of the main contracts and our quality standards, we have adopted the following measures: (i) project team management structure; (ii) prevention of unauthorised multi-level engagement; (iii) supervision of installation work of our suppliers of installation services; and (iv) indemnity from our suppliers of installation services.

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Our project team adopts a top-down management structure, where project managers are in charge of our overall project management to ensure the quality of the installation work performed by our suppliers of installation services.

Furthermore, to ensure the quality of workmanship, we forbid our suppliers of installation services from sub-contracting the installation services to third-party service providers in the absence of our consent.

During the installation, our project manager would supervise the performance of our suppliers of installation services from time to time and check if there is any non-conformance incurred. When the installation is finished, our company representative will conduct a further check on the installation work before certifying the completion of the relevant project.

Where there is any substandard work performance, our suppliers of installation services are obliged to perform rectification. In the event that our suppliers of installation services fail to rectify the work up to the required standard, our relevant suppliers of installation services would be held fully liable to indemnify us against any loss and expense incurred.

With the above measures, our Directors are of the view that our installation services are under our stringent supervision. During the Track Record Period, our Directors confirmed that there was no material claim or complaint against our Group in relation the quality of installation work provided by our suppliers of installation services and the cost incurred for rectifying their defective works, if any, was immaterial.

For our quality control measures over our suppliers of installation services, please refer to the paragraph headed “Quality control — Quality control over work quality and performance of suppliers of installation services” in this section.

### **Major suppliers**

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our five largest suppliers amounted to approximately RMB50.2 million, RMB49.8 million, RMB60.7 million and RMB42.4 million, respectively, representing approximately 41.2%, 45.1%, 40.5% and 51.1% of our total purchase of raw materials and installation costs for the same periods, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our largest supplier amounted to approximately RMB15.9 million, RMB18.7 million, RMB22.2 million and RMB23.4 million, respectively, representing approximately 13.0%, 17.0%, 14.8% and 28.2% of our total purchase of raw materials and installation costs for the same periods, respectively.

Our Directors are of the view that we do not encounter any concentration risk or counterparty risk of suppliers.

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The tables below set forth the information about our five largest suppliers during the Track Record Period:

*For the year ended 31 December 2016*

Rank	Supplier	Background <sup>(Note)</sup>	Location	Major construction materials/services provided	Amount	Approximate % to the total purchase of raw materials and installation costs of our Group	Business relationship since	Credit terms	Payment method
					RMB'000	%		Days	
1	Changzhou Jenes New Material Technology Co. Ltd. (常州市傑尼斯新材料科技有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of density board products and research and development of new board material technology.	PRC	Steel sheet	15,907	13.0	2015	60	Telegraphic transfer, bank acceptance note
2	Changzhou Jianshuo Business Co. Ltd (常州建碩商貿有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of steel, metallic materials, hardware products, building decoration materials, rubber and plastic products, construction machinery and accessories.	PRC	Steel sheet	12,379	10.2	2015	60	Telegraphic transfer
3	Changzhou Qianghua Tinning Thin Board Co. Ltd. (常州市強華鍍錫薄板有限公司)	A PRC company with a registered capital of RMB5 million engaging in manufacturing and processing of tinning thin board and powder coating.	PRC	Steel sheet	9,004	7.4	2012	60	Telegraphic transfer, bank acceptance note
4	Wuxi Zhongcai New Material Co. Ltd. (無錫中彩新材料股份有限公司)	A PRC company (Taiwan, Hong Kong or Macau domestic joint venture) with a registered capital of RMB390 million engaging in, among other things, production of hot-dip galvanised sheet, aluminum zinc silicon alloyed ingots, cold-rolled sheet and steel products.	PRC	Steel sheet	7,572	6.2	2016	60	Telegraphic transfer
5	Changzhou Yeshuo Trade Co. Ltd. (常州燁碩商貿有限公司)	A PRC company with a registered capital of RMB2 million engaging in sales of metal materials, building materials, decorative materials, mechanical equipment, hardware, electrical appliances, general merchandise and office supplies.	PRC	Steel sheet	5,309	4.4	2013	60	Telegraphic transfer, bank acceptance note
Total					50,171	41.2			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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*For the year ended 31 December 2017*

Rank	Supplier	Background <sup>(Note)</sup>	Location	Major construction materials/services provided	Amount	Approximate	Business relationship since	Credit terms	Payment method
						% to the total purchase of raw materials and installation costs of our Group			
					<i>RMB'000</i>	<i>%</i>		<i>Days</i>	
1	Changzhou Jenes New Material Technology Co. Ltd. (常州市傑尼斯新材料科技有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of density board products and research and development of new board material technology.	PRC	Steel sheet	18,732	17.0	2015	60	Telegraphic transfer, bank acceptance note
2	Changzhou Zhishuo Metal Materials Co. Ltd. (常州智碩金屬材料有限公司)	A PRC company with a registered capital of RMB2 million engaging in, among other things, sales of metal materials, building materials, decorative materials, mechanical equipment and electronic equipment.	PRC	Steel sheet	10,374	9.4	2015	60	Telegraphic transfer
3	Changzhou Jianshuo Business Co. Ltd (常州建碩商貿有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of steel, metallic materials, hardware products, building decoration materials, rubber and plastic products, construction machinery and accessories.	PRC	Steel sheet	9,686	8.8	2015	60	Telegraphic transfer
4	Shanghai Liyun Handling Services Co Ltd (上海立允裝卸服務有限公司)	A PRC Company with a registered capital of RMB2 million engaging in, among other things, manual handling, warehousing and earthwork construct project services.	PRC	Installation services	5,998	5.4	2015	60	Telegraphic transfer
5	Changzhou Tianshuo Metal Materials Co Ltd (常州天碩金屬材料有限公司)	A PRC company with a registered capital of RMB3 million engaging in sales of steel, metal materials, hardware products, building decoration materials, rubber and plastic products, construction machinery equipment and accessories.	PRC	Steel sheet	5,039	4.6	2017	60	Telegraphic transfer
Total					<u>49,829</u>	<u>45.1</u>			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

## BUSINESS

*For the year ended 31 December 2018*

Rank	Supplier	Background <sup>(Note)</sup>	Location	Major construction materials/services provided	Amount	Approximate	Business relationship since	Credit terms	Payment method
						% to the total purchase of raw materials and installation costs of our Group			
					RMB'000	%		Days	
1	Changzhou Jenes New Material Technology Co. Ltd. (常州市傑尼斯新材料科技有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of density board products and research and development of new board material technology.	PRC	Steel sheet	22,195	14.8	2015	60	Telegraphic transfer, bank acceptance note
2	Wuxi Hubang Trading Co Ltd (無錫市虎榜商貿有限公司)	A PRC company with a registered capital of RMB4.5 million engaging in, among other things, sales of building materials, general mechanical equipment, metal materials and minerals.	PRC	Cement	12,009	8.0	2017	60	Telegraphic transfer, bank acceptance note
3	Changzhou Tianshuo Metal Materials Co Ltd (常州天碩金屬材料有限公司)	A PRC company with a registered capital of RMB3 million engaging in sales of steel, metal materials, hardware products, building decoration materials, rubber and plastic products, construction machinery equipment and accessories.	PRC	Steel sheet	10,184	6.8	2017	60	Telegraphic transfer
4	Shanghai Liyun Handling Services Co Ltd (上海立允裝卸服務有限公司)	A PRC Company with a registered capital of RMB2 million engaging in, among other things, manual handling, warehousing and earthwork construct project services.	PRC	Installation services	8,325	5.6	2015	60	Telegraphic transfer
5	Changzhou Pingzhan Metal Material Co Ltd (常州平展金屬材料有限公司)	A PRC company with a registered capital of RMB1 million engaging in sales of metal materials, decorative materials, building materials, hardware and electrical products, general machinery and accessories.	PRC	Steel sheet	7,978	5.3	2017	60	Telegraphic transfer, bank acceptance note
Total					60,691	40.5			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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*For the six months ended 30 June 2019*

Rank	Supplier	Background <sup>(Note)</sup>	Location	Major construction materials/services provided	Amount	Approximate	Business relationship since	Credit terms	Payment method
						% to the total purchase of raw materials and installation costs of our Group			
					<i>RMB '000</i>	<i>%</i>		<i>Days</i>	
1	Changzhou Jenes New Material Technology Co. Ltd. (常州市傑尼斯新材料科技有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of density board products and research and development of new board material technology.	PRC	Steel sheet	23,396	28.2	2015	60	Telegraphic transfer, bank acceptance note
2	Wuxi Hubang Trading Co Ltd (無錫市虎榜商貿有限公司)	A PRC company with a registered capital of RMB4.5 million engaging in, among other things, sales of building materials, general mechanical equipment, metal materials and minerals.	PRC	Cement	5,533	6.7	2017	60	Telegraphic transfer, bank acceptance note
3	Changzhou Jianshuo Business Co. Ltd (常州建碩商貿有限公司)	A PRC company with a registered capital of RMB3 million engaging in, among other things, sales of steel, metallic materials, hardware products, building decoration materials, rubber and plastic products, construction machinery and accessories.	PRC	Steel sheet	4,557	5.5	2015	60	Telegraphic transfer
4	Changzhou Zhishuo Metal Materials Co. Ltd. (常州智碩金屬材料有限公司)	A PRC company with a registered capital of RMB2 million engaging in, among other things, sales of metal materials, building materials, decorative materials, mechanical equipment and electronic equipment.	PRC	Steel sheet	4,534	5.5	2015	60	Telegraphic transfer
5	Changzhou Pingzhan Metal Material Co Ltd (常州平展金屬材料有限公司)	A PRC company with a registered capital of RMB1 million engaging in sales of metal materials, decorative materials, building materials, hardware and electrical products, general machinery and accessories.	PRC	Steel sheet	4,403	5.2	2017	60	Telegraphic transfer, bank acceptance note
Total					42,423	51.1			

*Note:* Such information is based on publicly available information provided on the website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), an independent search agent, and other available information, if applicable.

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During the Track Record Period, there was no material cancellation of purchase orders placed by us with our suppliers. So far as is known to our Directors, none of our suppliers had filed for bankruptcy, insolvency or similar proceedings during the Track Record Period. Our Directors confirmed that we did not experience any material shortage or delay in the supply of raw materials or services we required from our suppliers during the Track Record Period.

During the Track Record Period, our Group advanced certain interest-free loans to seven suppliers (the “**Borrowers**”), six of which were our five largest Suppliers during the Track Record Period, for their temporary working capital needs, including procurement of raw materials (the “**Relevant Advances**”). Certain repayment of the Relevant Advances were made within a short period of time because the Relevant Advances served as short-term financing that ensured sufficient funds to implement and support the Borrowers’ daily and temporary business plan. Such arrangement was not in compliance with the General Lending Provisions 《貸款通則》 in the PRC and had been ceased since June 2018. For further details, please refer to the paragraph headed “Non-compliance incidents” in this section.

The following table sets forth the details of the Relevant Advances:

Name of Borrowers	Amount of loan advanced for the year ended 31 December			Amount of loan advanced for the six months ended 30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Yeshuo Trade Co. Ltd. (常州燁碩商貿有限公司)	4,000	—	—	—
Changzhou Jianshuo Business Co. Ltd. (常州建碩商貿有限公司)	4,000	—	—	—
Changzhou Jenes New Material Technology Co. Ltd. (常州市傑尼斯新材料科技有限公 司)	—	25,250	16,000	—
Changzhou Zhishuo Metal Materials Co. Ltd. (常州智碩金屬材料有限公司)	—	17,500	—	—
Wuxi Hubang Trading Co Ltd (無錫市虎榜 商貿有限公司)	—	700	5,400	—
Changzhou Linda Aluminum Products Company Limited (常州市琳達鋁製品有 限公司) <i>(Note 1)</i>	—	800	1,000	—
Changzhou Tianshuo Metal Materials Co Ltd (常州天碩金屬材料有限公司)	—	7,250	6,500	—
<b>Total</b>	<b>8,000</b>	<b>51,500</b>	<b>28,900</b>	<b>—</b>



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*Notes:*

1. A PRC company with a registered capital of RMB2 million engaging in, among other things, manufacturing of aluminum products, flooring products and parts, mechanical parts and packaging materials.
2. The Relevant Advances did not bear any interest and have been fully settled and repaid by the Borrowers.

As confirmed by our Directors, the Relevant Advances were unrelated to the course of our businesses with the Borrowers, and the negotiation of the terms of: (i) our purchases of raw materials; and (ii) the Relevant Advances were conducted on individual basis and were neither inter-connected nor inter-conditional with each other. As at the Latest Practicable Date, our Directors confirmed that we had not entered into any arrangement with the Borrowers which associates our purchases of raw materials with the Relevant Advances. Our Directors also confirmed that such arrangement will not be carried out in the future. During the Track Record Period, the pricing, payment method and credit period of the purchase agreements with the Borrowers were comparable to those of our other suppliers.

Our Directors confirmed that none of our Directors, their respective close associates or shareholders holding more than 5% of the issued share capital in our Company had any interest in our five largest suppliers and all of them were Independent Third Parties during the Track Record Period and up to the Latest Practicable Date.

### **Purchase agreements of raw materials**

Our raw materials are generally sourced from a number of suppliers, and we normally have various sources of suppliers for each type of raw materials to reduce our dependency on a single supplier.

The typical framework purchase agreement entered into between our Group and our suppliers contain the following salient terms:

<b>Salient terms</b>	<b>Description</b>
Duration	It is generally up to one year
Pricing	The pricing for providing the type of raw materials in accordance with the framework purchase agreements subject to final purchase order and price confirmation sheet
Price adjustment	None
Minimum purchase commitment	None
Payment method	Telegraphic transfer and bank acceptance note
Delivery	Specific location requested by us

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<u>Salient terms</u>	<u>Description</u>
Testing	We shall conduct quantity and packaging checks when we receive the raw materials. We shall check for any visible quality defects when we receive the raw materials. As for other inherited quality concerns, we shall issue a notification to suppliers. Suppliers shall handle the concern and bear the costs thereof if they are liable for it.
Warranty period	Not applicable
Renewal	Not applicable
Termination	Not applicable

During the Track Record Period, our Directors confirmed that we did not experience any material difficulty in sourcing the raw materials nor have we experienced any material shortage or delay in the supply of the raw materials during the same period. Our Directors confirmed that we closely monitor the market price of the raw materials and do not anticipate difficulty in procuring the raw materials necessary for our production, and believed that in the event of increase in the price of the raw materials, we are generally able to transfer a portion of such increase by increasing the prices of our products. We believe that we do not significantly rely on any particular supplier for these raw materials. For further details, please refer to section headed “Risk Factors — We rely on suppliers of installation services to undertake installation works for our products. Any delay or defect in their works may adversely affect our business, financial conditions and results of operations” in this prospectus.

### **Agreements with our suppliers of installation services**

The table below sets forth the salient terms in our typical agreements with our suppliers of installation services:

<u>Salient terms</u>	<u>Description</u>
Duration	It is as specified in accordance with the contract.
Responsibilities of our suppliers of installation services and raw materials procurement policy	The work scope mainly involves the labour arrangements for installation of access flooring products including steel access flooring products and calcium sulfate access flooring products. Our suppliers of installation services are only required to provide the requisite labour and we will provide the products and technical support to them.
Time period for the project	To ensure the projects are completed within the time stipulated in the agreements and also our agreement with our customers, our suppliers of installation services are required to follow our instructions and are under our supervision.

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<u>Salient terms</u>	<u>Description</u>
Installation service fees and basis of determining such fees	The fees for carrying out the installation work in accordance with the contract.
Control over our suppliers of installation services	Our suppliers of installation services are required to comply with the terms and conditions of our contracts with our customers including compliance with safety requirements. Our project management team would inspect the construction sites from time to time.
Rights and obligations of the parties and compliance with relevant quality requirements	Our suppliers of installation services are generally required to comply with relevant terms and conditions in our contracts with our customers and perform their work in accordance with the relevant specifications in our contracts with our customers.
Renewal	Not applicable
Termination	Not applicable

## INVENTORY

Our inventory mainly consists of raw materials and finished products. Our Directors confirmed that we constantly monitor our inventory level of raw materials and finished products to meet the production plan and minimise any wastage on inventory or obsolete inventory. As at 31 December 2016, 2017, 2018 and 30 June 2019, our finished goods inventories amounted to approximately RMB59.2 million, RMB26.8 million, RMB21.1 million and RMB19.1 million, respectively.

## RESEARCH AND PRODUCT DEVELOPMENT

Our Directors committed to exhibiting a high level of consciousness on our product design, function and quality. As at the Latest Practicable Date, we had a research and development team comprising four members who have obtained relevant qualification as assistant engineer (助理工程師).

During the Track Record Period, we had entered into an agreement with an academic institution with a view to enhancing our research and development capability. In 2016, we engaged Changzhou Industrial Technology Research Institute of Zhejiang University (浙江大學常州工業技術研究院) for the research and development on graphene coatings with anti-corrosion ability. During the Track Record Period, we achieved the following achievements in research: (i) better recombination ability of the coating resin in graphene; (ii) better performance of the graphene coating powder in terms of coating flexibility, resistance and other technical areas. In addition, there was a subsidy for cooperative research project of manufacturing industry and academic institution of Changzhou City (常州市產學研合作計畫項目補助) of RMB100,000 granted to us by the Science and Technology Bureau of Jiangsu Changzhou Economic Development Zone (江蘇常州經濟開發區科學技術局) and the Financial Bureau of Jiangsu Changzhou Economic Development Zone (江蘇常州經濟開發區財政局) in December 2017.

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For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, our research and development costs amounted to approximately RMB6.2 million, RMB7.9 million, RMB8.3 million and RMB4.7 million, respectively. Our Directors considered that our continual improvement of our research and development attributed to our market presence. Details of our intellectual property rights are set out in the paragraph headed “Intellectual property” in this section and the section headed “Statutory and General Information — B. Further information about the business of our Company — 2. Intellectual property rights” in Appendix IV to this prospectus.

### QUALITY CONTROL

To maintain consistent quality of our products and services, we have conformed our quality management system to the internationally recognised quality standards and have been awarded the ISO 19001:2015 (Quality Management) certification. In addition, we have in-house quality control requirements for both raw materials and finished products, which specify quality inspection procedures, standards and housekeeping. As at the Latest Practicable Date, there were two full-time staff serving in our quality control department.

During the Track Record Period, we also engaged MII Anti-Static Products Quality Supervision & Testing Center (信息產業防靜電產品質量監督檢驗中心) to perform product inspection, including but not limited to products’ mechanical properties, appearance, combustion performance and impact resistance.

Our quality control measures cover various stages of our operations. At the raw material procurement stage, we lay down a series of criteria in selecting our suppliers and conduct sample testing to ensure that the raw materials meet our quality standards. Our Directors confirmed that we would reject and return the failed raw materials. Besides, during the manufacturing process, our quality control staff would conduct product assessment to ensure the products’ quality standards and satisfy the applicable regulatory requirements. Our Directors confirmed that, during the Track Record Period, we were not subject to material product warranty, recall or other product related claims.

We have engaged suppliers of installation services to carry out installation works in our sales of access flooring products with installation services projects. Our Directors believed that on-site supervision and meetings with both our suppliers of installation services and customers are conducive to ensure the installation services provided by the suppliers of installation services are up-to-standard and in good quality. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, there was no material claim or complaint against our Group in relation to the quality of work provided by our suppliers of installation services and the cost incurred for rectifying defective work was immaterial.

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### *Quality control over work quality and performance of suppliers of installation services*

To monitor the performance of our suppliers of installation services and ensure that our suppliers of installation services comply with the requirements of our contract with our customers and our quality standards, we have put in place the following measures:

- *Management structure between our project management team and our suppliers of installation services*

Prior to the installation services, our project team would specify the required technical skills to our suppliers of installation services. To facilitate quality control of installation work, our project team adopts a top-down management structure to ensure the quality of the installation services performed by our suppliers of installation services.

Our project managers are responsible for the overall management of our project, which includes the implementation of our submitted method statement for installation, work progress, coordination with our customers (landlords, main contractors and their representatives), handling of work completion and payment application. Our Directors considered that under the top-down management, any difficulties in relation to the installation work performed by our suppliers of installation services could be monitored and resolved, and we could continue to coordinate with other parties to ensure the installation work performed complies with the statutory requirements, contractual specifications and drawings.

- *Prevention of unauthorised multi-level engagement*

To ensure quality installation services and workmanship, we prohibit our suppliers of installation services from engaging others to provide the installation services in the absence of our consent. If any of our suppliers of installation services is in breach of such prohibition, such supplier is required to indemnify us against any loss and damages incurred.

- *Constant monitoring and review on work progress of the suppliers of installation services*

Our project manager supervises the work performance of our suppliers of installation services from time to time. We prepare report on the work progress from time to time. The report covers the work progress, material planning and use, problems during construction (if any) and feedback. To ensure customers' satisfaction, our project manager also reviews any non-conformance and its causes, identifies the responsible suppliers of installation services and provides corresponding instructions to them to rectify the defects or non-conforming work accordingly.

Our project manager holds and chairs review meetings with the participation of the site representatives of our suppliers of installation services from time to time. During the review meeting, our project manager reviews and updates the resource allocation and work progress that allows us to deploy our products in a timely manner. Our Directors believed that the supervision and the review meeting could ensure our service quality.

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- *Indemnity from our suppliers of installation services for substandard work performance*

If a supplier of installation services fails to rectify its works to the required standard under the contract, such supplier would then be held fully liable to indemnify us against any loss and expense incurred. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not receive claim from any of our customers for unsatisfactory work performed by our suppliers of installation services.

In view of the above measures, our Directors are of the view that we have adequate and effective measures to control the quality of the installation work performed by our suppliers of installation services.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group was the owner of two domain names and registered four trademarks in the PRC and one trademark in Hong Kong. Besides, as at the Latest Practicable Date, we had registered 35 patents. For further details, please refer to the section headed “Statutory and General Information — B. Further information about the business of our Company — 2. Intellectual property rights” in Appendix IV to this prospectus.

As at the Latest Practicable Date, save for the above, we did not have any material intellectual property rights (whether registered or pending registrations) that are significant to our business operations or financial positions. As at the Latest Practicable Date, our Directors confirmed that we had not engaged in, and were not aware of, any litigation or legal proceedings for the violation of intellectual property rights or any material violation.

### COMPETITION

According to the CIC Report, the demand for access flooring products in the PRC has grown significantly in recent years. The market drivers propelling China’s access flooring manufacturing industry include: (i) the growing demand from the newly completed office and industrial office buildings; (ii) the increasing proportion of the office buildings adopting access flooring products; (iii) the supportive government policies; and (iv) an increased overall demand for new building materials.

According to the CIC Report, we were the third largest player in access flooring manufacturing industry with a market share of approximately 3.6% in terms of revenue in the PRC in 2018. In view of the competition in the access flooring manufacturing industry, our Directors are of the view that we compete with our competitors on products recognition in the flooring market, market share, product design, product features and quality, marketing, regional offices network channels, research and development, time-to-market, relationship with cooperation partners, customer service and access to capital.

For further details of competitive strengths, please refer to the paragraph headed “Competitive strengths” in this section. For further details of the competitive landscape, please refer to the section headed “Industry Overview — Competitive landscape of China’s access flooring manufacturing industry” in this prospectus.

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### EMPLOYEES

As at the Latest Practicable Date, we had 217 employees in our Group, all of whom were based in the PRC. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

<u>Employee by function</u>	<u>Number of our employees</u>
Management	14
Finance	12
Production	136
Research and development	4
Quality control	2
Procurement	4
Sales and marketing	19
Project management	<u>26</u>
Total	<u><u>217</u></u>

### Relationship with staff

Our Directors considered that we generally have maintained a good relationship with our employees. We had not experienced any significant problems with our employees or any disruption to our operations due to labour disputes, nor had we experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel that might adversely affect our operations during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we did not set up any labour union for our employees.

### Recruitment policies

We generally recruit our employees from the open market through placing recruitment advertisements and engaging employment agent.

During the Track Record Period, for employees recruited through the employment agent, the employment agent would bear the relevant costs of social insurance and housing funds and assigned the staff to our Group pursuant to which our Group reimbursed the relevant staff costs. We also assess the available human resources on a continuous basis and will determine whether any additional personnel are required to cope with the business development of our Group.

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The table below sets forth the terms of the service arrangement with the employment agent:

<u>Terms</u>	<u>Description</u>
Duration	one year
The employment agent's responsibility	The employment agent would be responsible for employment contract with the staff, paying salary and social insurance for the staff, and providing the staff to our Group
Our Group's responsibility	Our Group would be responsible for paying service fees to the employment agent
Social insurance	All losses and penalty arising from the social insurance and housing provident fund shall be borne by the employment agent
Termination	Our Group may terminate the service agreement if the employment agent fails to satisfy our Group's requirements. The employment agent may terminate the service agreement if our Group fails to pay on time and/or be in breach of the contract, relevant laws and regulations. In any event, the notice period for termination shall be no less than 60 days.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, there was no material breach of such service arrangement.

As advised by our PRC Legal Advisers, such service arrangement complied with the PRC laws and regulations.

### **Remuneration policy and training**

To retain suitable personnel for our Group, we determine the salary of our employees mainly based on their qualifications, relevant work experience, position and seniority. Our Group conduct employee review annually and the results of which are used as references to determine any salary adjustment and promotions. Our Group assesses the available human resources on a continuous basis and will determine whether any additional personnel is required to cope with our Group's business development.

### **Welfare contributions**

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to maintain social security insurance, endowment insurance, medical insurance, unemployment insurance, industrial injury insurance and maternity insurance for our employees in the PRC. During the Track Record Period, our Group did not make adequate contribution to social insurance fund and housing provident fund for our employees. The unpaid amount of contribution to the social insurance and housing provident funds for the Track Record Period was



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approximately RMB1.5 million and RMB0.5 million, respectively. We have commenced full contribution of social insurance fund and housing provident fund since December 2016. Up to the Latest Practicable Date, we had not received any request for making up the outstanding contribution nor had we been imposed any punishment as a result of such non-compliance. For further details, please refer to the paragraph headed “Non-compliance incidents” in this section.

Apart from above, we also provide training programmes to our relevant employees in respect of the machinery operation and work safety. Our Directors considered that our training programmes not only constantly upgrade our employees’ skills, but also maintain staff morale and service quality.

To ensure our service quality, we require our employees to possess relevant qualifications, licenses, training certificates or working permits as required under the relevant laws and regulations in the PRC. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that no unqualified worker was reported on the sites of any of our projects.

Our Directors endeavour to create a culture of togetherness and confirmed that there had not been any incidence of labour shortage and work stoppage during the Track Record Period and up to the Latest Practicable Date, which adversely affected our operations.

## INSURANCE

In addition to the insurance to our employees, we have insurance coverage for our vehicles, plant and machinery. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our total insurance premium incurred was approximately RMB42,000, RMB143,000, RMB58,000 and RMB51,000, respectively. As of the Latest Practicable Date, our Directors confirmed that we had not received any material insurance claims against us.

Taking into account the prevailing industry practice and our current operations, our Directors considered that our insurance coverage is adequate and consistent with industry norm, having regard to our current operations and the prevailing industry practice in the PRC. For the details of the risk relating to our insurance coverage, please refer to the section headed “Risk Factors — Our insurance coverage may not be sufficient to cover the risks related to our operations and losses” in this prospectus.

## PROPERTIES

As of the Latest Practicable Date, our Group owned and leased certain properties in the PRC.

### Owned property

As of the Latest Practicable Date, we owned one parcel of land with an aggregate site area of approximately 25,303 sq.m. in Changhong East Road, Henglin Town, Wujin District, Changzhou City, Jiangsu Province, the PRC, for industrial use, and building ownership right for various buildings erected thereon with a total gross floor area of approximately 23,827 sq.m.

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The above owned property has been mortgaged to a bank as securities for banking facilities up to RMB39.6 million from January 2018 to January 2021.

Our PRC Legal Advisers confirmed that our Group holds valid building ownership certificate with respect to our owned property. In so far as our Directors are aware, no circumstances existed as at the Latest Practicable Date which would render such building ownership certificate to be revoked or withdrawn as a result of non-compliance with any relevant laws and regulation of the PRC.

### Leased properties

As at the Latest Practicable Date, we leased seven properties in the PRC. The following table sets out the address, approximate gross floor area and the lease term of the properties leased by our Group:

Address	Particulars of occupancy	Approximate gross floor area	Lease term	Rent
No. 3 Standard factory, Dong Yuan Science and Innovation Park, No. 6 Meng Xi Road, Henglin Town, Xindongfan Village, Wujin District, Changzhou City, Jiangsu Province (江蘇省常州市武進區橫林鎮新東方村孟西路6號東淵科創園3號標準廠房)	The property is leased to our Group for office, production and warehouse facilities and other ancillary uses.	5,055.73 sq.m.	For a term of 10 years from 31 October 2013 to 30 September 2023	Annual rent of RMB575,040 for the first three years and an annual increment of RMB25,000 starting from the fourth year
Room 20701, Block No. 5, Xifeng Gongyuan North 1000 miles to the East between Western Avenue and Xifeng Road, Yanta District, Xi'an City, Shanxi Province (陝西省西安市雁塔區西灃路與西部大道十字向東1000米路北西灃公元5幢20701室)	The property is leased to our Group for staff quarters' use.	110.30 sq.m.	For a term of two years from 18 March 2018 to 17 March 2020	Monthly rent of RMB3,200
Room 909, Unit 2, 9/F, Block No.1, Yard No. 7 Si Ji Qing Road, Haidian District, Beijing City (北京市海澱區四季青路7號院1號樓9層2單元909室)	The property is leased to our Group for staff quarters' use.	136.48 sq.m.	For a term of three years from 1 May 2018 to 30 April 2021	Monthly rent of RMB12,000

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Address	Particulars of occupancy	Approximate gross floor area	Lease term	Rent
No. 1001, 10/F, Unit 1, Block No. 2, No. 2, 1st Weijianian Road, Jinniu District, Chengdu City, Sichuan Province (四川省成都市金牛區韋家碾一路2號2棟1單元10樓1001號)	The property is leased to our Group for staff quarters' use.	75.77 sq.m.	For a term of one year from 18 May 2019 to 18 May 2020	Monthly rent of RMB3,500
Room 301, No. 11 Tianjian Funong Shengshi Garden, No. 88 One Avenue, Furong Middle Road, Kaifu District, Changsha City, Hunan Province (湖南省長沙市開福區芙蓉中路一段88號天健芙蓉盛世花園11號棟301)	The property is leased to our Group for staff quarters' use.	152.04 sq.m.	For a term of one year from 15 October 2019 to 15 October 2020	Monthly rent of RMB3,500
Room 402, No. 4 Lane 2999 Caobao Road, Qibao Town, Minhang District, Shanghai City (上海市閔行區七寶鎮漕寶路2999弄4號402室)	The property is leased to our Group for staff quarters' use.	59.86 sq.m.	For a term of one year from 28 November 2019 to 27 November 2020	Monthly rent of RMB6,600
Room 2006, Haikang Building, Southern part of Meilin Road, Futian District, Shenzhen City, Guangdong Province (廣東省深圳市福田區梅林路南側海康大廈2006室)	The property is leased to our Group for staff quarters' use.	62.39 sq.m.	For a term of two years from 20 December 2019 to 20 December 2021	Monthly rent of RMB6,400

Our PRC Legal Advisers confirmed that, the lessors of the above leases have obtained the relevant title ownership certificates, the consent of the co-owners or the authorisation of the right-holders of the properties with respect to the properties leased to us.

Our Directors confirmed that none of the leased properties above is individually material to our Group in terms of rental expenses.

The above owned and leased properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Pursuant to Rule 5.01A of the Listing Rules, this prospectus is exempt from the requirement to include valuation on property interests of non-property activities if the carrying amount of a property interest is less than 15% of our total assets. A similar exemption applies under Section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), with respect to the

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requirement under section 342(1)(b) of, and paragraph 34(2) of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). As at the Latest Practicable Date, we had no single property interest of non-property activities with a carrying amount of 15% or more of our total assets, and on such basis, we are not required to include in this prospectus any property valuation report.

### ENVIRONMENTAL PROTECTION

We are subject to environmental regulations in the PRC. As a company involved in the access flooring manufacturing industry, we generate both wastage and waste water in our business operation.

According to the environmental assessment, both steel access flooring products and calcium sulfate access flooring products generate industrial waste water and household waste water. To reduce our environmental impact, we adopt two measures to handle both household and industrial wastage and wastewater. The industrial waste water of steel access flooring products and calcium sulfate access flooring products are recycled. As for household waste water, we arrange it to be discharged to the waste water treatment facilities (有動力污水處理裝置).

For the detailed standards required by the local government, please refer to the section headed “Regulatory Overview” in this prospectus which sets out further information about the laws and regulations in relation to environmental protection.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we incurred expenses in respect of the environmental compliance matters of approximately nil, RMB3,500, RMB2,600 and RMB1,700, respectively.

To fulfill our commitment, we plan to adopt environmental-friendly facilities in our expansion plan. For further details, please refer to the paragraph headed “Business strategies — Increase our production capacity and efficiency by expansion of our production sites” in this section.

For further details of the breach of or non-compliance with the applicable laws and regulations related to environmental protection during the Track Record Period and up to the Latest Practicable Date, please refer to the paragraph headed “Non-compliance incidents” in this section.

### HEALTH AND SAFETY

We are subject to the safety regulations of the PRC. Applicable laws, according to our PRC Legal Advisers, include but are not limited to the PRC Labour Law (中華人民共和國勞動法), the PRC Labour Contract Law (中華人民共和國勞動合同法), the Regulation of Insurance for Labour Injury (工傷保險條例) and the Unemployment Insurance Law (失業保險條例).

We have a set of procedure to prevent potential incidents of production. Our Group has adopted safety measures on: (i) safety training; (ii) management during production; and (iii) inspection.

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Our Group offers different trainings to enhance our workers' awareness on the production safety. We make use of case studies, promotional brochures, magazines, presentations and also engage professionals to offer respective trainings to our workers in order to enhance their awareness on the production safety. Assessment is conducted to ensure their compliance with the operation and safety regulations. For workers with special job duties, they shall obtain the relevant qualifications from the respective authorities. Our Group also conducts inspection on a regular basis and will help the employees to arrange for the renewal of their qualifications.

During our production process, our workers are required to follow our production safety management by: (i) avoiding behaviours that may lead to accidents; (ii) performing check prior to the use of machinery and equipment; and (iii) conducting constant supervision over the procedures.

For inspection, our workers who are responsible for production safety would: (i) perform their work on shift to ensure immediate support thereof; (ii) conduct an overall inspection on a monthly basis; and (iii) report to us about any safety incident in a prompt manner.

We also carry out equipment maintenance on a regular basis to ensure their safety operation. Our Directors believed that we have substantially complied with applicable safety regulations of the PRC and during the Track Record Period, there were no work safety related accidents or complaints which had materially and adversely affected our operations.

### CERTIFICATES, LICENCES, PERMITS, AWARDS AND APPROVALS

The table below sets out the details of the material certifications, licences, permits, awards and approvals of our Group as at the Latest Practicable Date:

No.	Name of certificate/ licence/ permit/ award/ approval	Date of issuance	Licence/ certificate number and nature	Issuing authority or organisation	Date of expiration
1.	Qualification certificate of construction enterprise (建築業企業資質證書)	13 March 2017	D232052749 (Grade II of professional contractor for decoration and construction work) (建築裝修裝飾工程專業承包貳級)	Housing and Urban-rural Development Department of Jiangsu Province (江蘇省住房和城鄉建設廳)	30 December 2020
2.	Jiangsu Famous Brand Certificate (江蘇名牌產品證書)	December 2017	SM201706415	Jiangsu Promotion Commission for Famous Brand Strategy (江蘇省名牌戰略推進委員會)	December 2020
3.	Quality management system certificate (質量管理體系認證證書)	6 February 2018	27818Q10017ROM (production of steel access floor, calcium sulfate floor) (鋼質活動地板、硫酸鈣地板的生產)	Shengtang Certification Nanjing Co., Ltd. (盛唐認證南京有限責任公司)	5 February 2021

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No.	Name of certificate/ licence/ permit/ award/ approval	Date of issuance	Licence/ certificate number and nature	Issuing authority or organisation	Date of expiration
4.	Environmental management system certificate (環境管理體系認證證書) ISO 14001:2015	6 February 2018	27818E10015ROM (production of steel access floor, calcium sulfate floor and their environmental management related activities) (鋼質活動地板、硫酸鈣地板的生產及其場所涉及的環境管理相關活動)	Shengtang Certification Nanjing Co., Ltd. (盛唐認證南京有限責任公司)	5 February 2021
5.	Occupational health and safety management system certification (職業健康安全管理體系認證證書) OHSAS18001:2007	6 February 2018	27818S10011ROM (production of steel access floor, calcium sulfate floor and their occupational health and safety management) (鋼質活動地板、硫酸鈣地板的生產及其場所涉及的職業健康安全管理相關活動)	Shengtang Certification Nanjing Co., Ltd. (盛唐認證南京有限責任公司)	5 February 2021
6.	Work safety licence (安全生產許可證)	2 July 2018	(Su) JZ Anxue card [2015] 040031 (construction work) (蘇)JZ安許證字[2015] 040031(建築施工)	Housing and Urban-rural Development Department of Jiangsu Province (江蘇省住房和城鄉建設廳)	19 July 2021
7.	Brand Enterprises of Anti-Static Equipments Manufacturing in China (中國防靜電裝備品牌企業)	January 2019	XH2019-04	Branch of Anti-Static Equipment Manufacturing of China Electronic Production Equipment Industry Association (中國電子儀器行業協會防靜電裝備分會)	December 2020
8.	Certificate of corporate credit rating (企業信用等級證書)	5 May 2019	Su united evaluation no. 6205020063 (AAA integrated credit rating) 蘇聯合評字6205020063號 (AAA綜合信譽信用等級)	Jiangsu Branch of Lianhe Union Credit Management Co., Ltd. (聯合信用管理有限公司江蘇分公司)	April 2020

## LEGAL COMPLIANCE

Save as disclosed in the paragraphs below, during the Track Record Period and up to the Latest Practicable Date, our Group had complied with the relevant laws and regulations in relation to our business in all material respects, and there were no material breaches or violations of the laws and regulations applicable to us that would have material adverse effect on our business or financial conditions taken as a whole.

As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was engaged in any litigation or claim or arbitration of material importance, and to the best knowledge of our Directors, to be pending or threatened against our Group or our Directors.

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To ensure that our Group continues to comply with the applicable laws, rules and regulations, we maintain records of our licences, permits, consents, qualifications, approvals, registrations and certifications which contain the relevant information such as expiry dates and renewal requirements. Our integrated department (綜合辦) is responsible for making submissions to the relevant organisations or authorities prior to the expiry of such licences, permits, consents, qualifications, approvals, registrations and certifications and checking that all applicable requirements are complied with in a timely manner. Our executive Directors will ensure our licences, permits, consents, qualifications, approvals, registrations and certifications are all valid.

**Non-compliance incidents**

During the Track Record Period, we failed to comply with certain applicable laws and regulations, a summary of which is set out as follows.

No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
1.	We did not make social insurance fund contributions and housing provident fund contributions in full as required by the relevant PRC laws and regulations for our employees during the Track Record Period.	According to the Social Insurance Law (《中華人民共和國社會保險法》) of the PRC (the “ <b>Social Insurance Law</b> ”), we are required to participate in the relevant social insurance contribution plans organised by the relevant local governmental bodies. We are required to make full contributions in respect of social insurance premium for our employees, covering pension insurance, medical insurance, unemployment insurance, work-related injury and maternity (where applicable).	Our Directors confirm that during the Track Record Period, some of our employees were reluctant to participate in the social insurance fund contribution plans and the housing provident fund contribution plans.	On 12 August 2019, we obtained a written confirmation from Changzhou Housing Provident Fund Management Wujin Branch Center (常州市住房公積金管理中心武進分中心) confirming that from December 2016 to 12 August 2019, we have been in compliance with the relevant regulations and that no administrative penalty was imposed on us.  On 12 August 2019, we obtained a written confirmation from Changzhou Housing Provident Fund Management Wujin Branch Center (常州市住房公積金管理中心武進分中心) confirming that from December 2016 to 12 August 2019, we have been in compliance with the relevant regulations and that no administrative penalty was imposed on us.  As advised by our PRC Legal Advisers, the Wujin Social Security Bureau and the Changzhou Housing Provident Fund Management Wujin Branch Center have the authority and are competent to issue the above confirmations.  Our Directors have assessed that the unpaid amount of contributions to the social insurance and housing provident funds were approximately RMB1,500,000 and RMB500,000, respectively.  As at the Latest Practicable Date, our Group had not received any orders or demands from the relevant government authorities requesting our Group to pay the unpaid social insurance and housing provident fund amounts.  Although our Substantial Shareholders agree to indemnify us against such non-compliance in the Deed of Indemnity for prudence sake, a provision for the unpaid amounts has been made in the financial statements of our Group in full. Our Directors considered that such amount of provisions is adequate and no additional provision had been made in the financial statements of our Group.	Our Directors are of the view that there would not be any material adverse impact on our Group as the written confirmations were issued by competent authorities and that we have been in compliance with the relevant regulations in relation to the social insurance and housing provident fund since December 2016. In addition, the unpaid amount of contributions to the social insurance and housing provident funds were not substantial and provision had been made in the financial statements of our Group and the chance of us being requested to settle the unpaid social insurance and housing provident fund is remote.	We have implemented the following measures to prevent future breach: (i) our administrative department would ensure that the number of employees matches with our payment of social insurance and housing provident funds and a written report would be produced each month for internal checking; and (ii) we will conduct an annual review on the compliance conditions and report to our Board.



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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
		<p>Based on the above legal requirements, we estimate that the maximum late charge that we may be subject due to our failure to make contributions to the social insurance plans in full amounted to approximately RMB844,500.</p> <p>As at the Latest Practicable Date, we had not received any notification from the relevant PRC governmental authorities alleging that we had not fully contributed to the social insurance fund and demanding payment of the same before a stipulated deadline.</p> <p>There is no specific or clear guidance or regulations regarding the Housing Provident Fund Regulations on the scope or standard for compulsory enforcement by the People's Court. Therefore, we are unable to estimate the maximum penalty for our failure to make contributions to the housing provident fund in full.</p>				

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
2.	<p>Prior to the commencement of the construction of calcium sulfate flooring products project (硫酸鈣防靜電活動地板廠區內的建設項目) (the "Project"), we failed to file the environmental impact assessment documents.</p> <p>We failed to file the application for environmental protection examination prior to the use of production facilities for commencement of production.</p> <p>Such non-compliance occurred during the period from October 2013 to September 2018.</p>	<p>According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) (the "Environmental Impact Assessment Law"), prior to the construction of production facilities relating to the Project, we are required to file the environmental impact assessment documents to the relevant environmental protection authority. The relevant environmental protection authority is entitled to impose a fine amounting to 1% to 5% of the aggregated investment amount of the construction project and the relevant environmental protection authority can also order us to reinstate to the original condition.</p> <p>According to the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) (the "Environmental Protection Regulations"), if we commence production prior to completing environmental protection examination, the relevant environmental protection authority is entitled to order us to do reapplication procedure within a prescribed time and impose a fine amounting to RMB200,000 to RMB1,000,000. If we fail to conduct the reapplication procedure within the prescribed time and commence the construction, the relevant environmental protection authority is entitled to impose a fine amounting to RMB1,000,000 to RMB2,000,000. If we cause serious environmental pollution and ecological damage, the relevant environmental protection authority is entitled to order us to cease operation.</p> <p>Based on above legal requirements, we estimate that the maximum penalty for such non-compliance is approximately RMB1,750,000.</p>	<p>Our Directors confirm that our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations and was under the impression that these requirements were not applicable to us as we were not a highly polluting enterprise.</p>	<p>On 9 August 2019, we obtained a written confirmation from Sub-Bureau of Changzhou Economic Development Zone of Changzhou Municipal Ecology and Environment Bureau (常州市生態環境局常州經濟開發區分局) ("Ecology and Environment Sub-Bureau") confirming that from 1 January, 2016 and up to the date of the confirmation, there had been no record of occurrence of serious environmental incidents and that no administrative penalty was imposed and received punishment.</p> <p>As advised by our PRC Legal Advisers, the Ecology and Environment Sub-Bureau is the competent authority to issue the above written confirmation.</p> <p>We have also obtained the approval from the Jiangsu Changzhou Economic Development Management Committee (江蘇常州經濟開發區管理委員會) in August 2018 and completed inspection examination on the Project.</p> <p>As advised by our PRC Legal Advisers, the Jiangsu Changzhou Economic Development Management Committee is the competent authority to be consulted on the Project and has the power to inspect and approve the Project.</p> <p>Based on the above reasons, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is relatively remote. As such, no provision has been made in the financial statements of our Group in relation to this.</p> <p>Our Substantial Shareholders would indemnify our Group in the Deed of Indemnity in the event that we are subject to any penalty.</p>	<p>Our Directors are of the view that there would not be material adverse impact on our Group given that we have obtained the approval on environmental assessment issued by Jiangsu Changzhou Economic Development Management Committee and obtained completion check up report. In addition, we had not received any orders or demands from the relevant government authorities as at the Latest Practicable Date.</p>	<p>We will ensure that our staff possess the knowledge about the laws and regulations relating to environmental protection. If necessary, we will engage external advisers to advise on the applicable laws and regulations before we construct new production facilities for new projects.</p>

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
3.	<p>In respect of four buildings located on No. 18, Changhong Dong Road, Hengjin Town, Changzhou City, Jiangsu Province, the PRC, we failed to obtain the construction works planning permit (建設工程規劃許可證). We failed to obtain construction works commencement permit (建築工程施工許可證) in respect of three buildings (the "Affected Buildings") prior to the commencement of the construction. We have also failed to process the inspection of the completed construction works prior to the delivery and use of the four buildings as mentioned above.</p> <p>The non-compliance occurred during the period from October 2009 to December 2017.</p>	<p>According to the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》) (the "Urban and Rural Planning Law"), with respect to construction works without obtaining the construction works planning permit, in case the construction can be remedied to conform to the relevant planning rules, the planning authority may order the developer to rectify the construction within a prescribed period of time and a fine up to 10% of the total construction cost may be imposed. Where the construction cannot be remedied to conform to relevant planning rules, the planning authority may order that such construction be demolished, or where demolition is not possible, forfeit the illegal property or illegal income derived from the property and a fine up to 10% of the construction cost may be imposed.</p> <p>According to the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) (the "Construction Permits Measures"), with respect to the commencement of construction works without obtaining the construction works commencement permit, the developer may be ordered to rectify the construction within a prescribed period of time and a fine up to 2% of the total construction cost may be imposed.</p> <p>According to the Regulations on Quality Management of Construction (《建築工程質量管理條例》) (the "Quality Management Regulations"), with respect to the delivery and use of buildings without processing the inspection of the completed construction works, the developer may be ordered to rectify the activity within a prescribed period of time and a fine up to 4% of the total construction cost may be imposed.</p>	<p>Our Directors confirm that our administrative department which was responsible for handling such matters was not familiar with the relevant laws and regulations.</p>	<p>On 10 April 2017, the Wujin District of Changzhou Municipal Urban Management and Administrative Enforcement Bureau (常州市武進區城市管理行政執法局) ("Wujin UMAE Bureau") issued an Administrative Punishment Hearing Notice (行政處罰聽證告知書) and imposed an administrative penalty of RMB429,474 (amounting to 5% of the construction cost) to us for our failure to obtain the construction works planning permit for the Affected Buildings before we commenced construction and requested us to rectify such breach within the prescribed period.</p> <p>On 20 April 2017, the Wujin UMAE Bureau issued a Notice of Exemption from Punishment (免於處罰決定書) to us confirming that in respect of the Affected Buildings that failed to obtain the construction works planning permit before we commenced construction, rectification measures had been implemented to ensure that the Affected Buildings conformed with the relevant planning rules and therefore, we were exempted from administrative penalties.</p> <p>As advised by our PRC Legal Advisers, the Wujin UMAE Bureau is the competent authority to be consulted in respect of the Affected Buildings and issuing the Notice of Exemption from Punishment.</p> <p>On 7 July 2017, the Management Committee of Jiangsu Changzhou Economic Development Zone (江蘇常州經濟開發區管理委員會) ("Management Committee") issued a Notice of Exemption from Punishment (免於處罰決定書) to us confirming that in respect of the Affected Buildings that failed to process the inspection of the completed construction works prior to the delivery and use, due to, among others, the Affected Buildings were in a good state and could fulfil their safety requirement under normal usage, and therefore we were exempted from administrative penalties. In addition, the Changzhou Housing Safety Management Examination Centre (常州市房屋安全管理鑑定中心) issued a housing safety examination report in May 2017 and confirmed that the Affected Buildings have satisfied fundamental safety requirements.</p> <p>On 15 September 2017, the Management Committee issued an Administrative Penalty Advance Notice (行政處罰事先告知書) to us about our failure to obtain the construction works planning permit prior to construction in respect of a building. The Management Committee imposed an administrative penalty of RMB2,695 (amounting to 7% of the construction cost). The administrative penalty was settled in September 2017.</p>	<p>Our Directors are of the view that there would not be material adverse impact on our Group given that as at the Latest Practicable Date, we had obtained the construction works planning permits and the real estate certificates for the Buildings.</p>	<p>We will ensure that our staff possess the knowledge about the laws and regulations relating to construction of buildings. If necessary, we will engage external advisers to advise on the applicable laws and regulations before we construct any new buildings for production.</p>

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
		Based on the above legal requirements, with respect to the Affected Buildings, we estimate that the maximum penalty that we may be subject to as a result of the above non-compliance is approximately RMB1,376,000.		<p>As advised by our PRC Legal Advisers, (i) the Management Committee is the competent authority to be consulted in respect of the Affected Buildings and issuing the Notice of Exemption from Punishment and (ii) the Changzhou Housing Safety Management Examination Centre is the competent authority to issue a housing safety report for the Affected Buildings.</p> <p>On 5 August 2019, the Jiangsu Changzhou Economic Development Zone General Law Enforcement Bureau (江蘇常州經濟開發區綜合執法局) issued an explanation (情況說明) confirming that in connection with a building which commenced construction before obtaining construction works planning permit, we had settled the administrative penalty in September 2017 and subsequently obtained the construction works planning permit and that save as disclosed above, we had no other non-compliance in relation to planning and construction regulations.</p> <p>On 7 August 2019, the Changzhou Wujin District Housing and Rural Planning Bureau (常州市武進區住房和城鄉建設局) issued a written confirmation that since 1 January 2016 to 1 October 2016, we have not been subject to any administrative penalties as a result of any non-compliance with the relevant laws and regulations governing local construction.</p> <p>On 12 August 2019, the Jiangsu Changzhou Economic Development Zone Construction Bureau (江蘇常州經濟開發區建設局) issued a written confirmation that since 1 October 2016 up to 30 April 2017, we have not been subject to any administrative penalties as a result of any non-compliance with the relevant laws and regulations governing local construction.</p>		

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
				<p>On 16 August 2019, the Sub-Bureau of Changzhou Natural Resources Bureau Changzhou Economic Development District (常州市自然資源局常州經濟開發區分局) issued a written confirmation confirming that during the period from 1 January 2016 to 16 August 2019, JiaChen Floor was not subject to any administrative penalty as a result of non-compliance with rules and regulations.</p> <p>As advised by our PRC Legal Advisers, Jiangsu Changzhou Economic Development General Law Enforcement Bureau (江蘇常州經濟開發區綜合執法局), Changzhou Wujin District Housing and Rural Planning Bureau (常州市武進區住房和城鄉建設局), Jiangsu Changzhou Economic Development District Bureau (江蘇常州經濟開發區建設局) and the Sub-Bureau of Economic Development District (常州市自然資源局常州經濟開發區分局) are the competent authorities to issue the above confirmations.</p> <p>As at the Latest Practicable Date, we had obtained the construction works planning permits and the real estate certificates for the Buildings.</p> <p>Based on the above reasons, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is relatively remote. As such, no provision has been made in the financial statements of our Group in such regard.</p> <p>The Substantial Shareholders would indemnify our Group in the Deed of Indemnity in the event that we are subject to any penalty.</p>		

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
4.	<p>In 2016, we used a supply contract entered into with a supplier in the amount of RMB6,000,000 to apply for bank acceptance bills (the "Relevant Bills") with the Changzhou Economic Development Zone Branch of the Agricultural Bank of China (中國農業銀行股份有限公司常州經濟開發區支行) (the "Endorsing Bank"). The supplier subsequently endorsed the Relevant Bills to us. The Relevant Bills endorsed were used to settle the purchase payment with certain small scale suppliers. As the Relevant Bills issued were not supported by the underlying transactions with the relevant supplier, such arrangement was not in compliance with the PRC Negotiable Instruments Law (中華人民共和國票據法), (the "Non-Compliant Bill Financing")</p> <p>Such non-compliance occurred during the period from September 2013 to April 2017.</p>	<p>According to the PRC Negotiable Instruments Law (《中華人民共和國票據法》), bank bills must be issued in support of actual underlying acceptance transactions.</p> <p>Pursuant to article 102 of the PRC Negotiable Instruments Law, if, among others, there is any forgery or modification of negotiable instruments, or any use of forged or modified negotiable instruments, the person who is in breach of the article will be subject to criminal liability.</p> <p>There is no specific or clear guidance or regulations regarding the scope and standard on the criminal liability and the administrative penalty that could be imposed under the PRC Negotiable Instruments Law for the Non-Compliant Bill Financing. Therefore, we are unable to estimate the maximum penalty for such non-compliance. Based on the written confirmation from the Wujin Changzhou Branch of the PBOC (中國人民銀行武進支行) as mentioned below, our PRC Legal Advisers are of the view that the possibility of us being subject to an administrative penalty imposed by the Wujin Changzhou Branch of the PBOC is relatively low.</p>	<p>Our Directors confirm that we used the Relevant Bills to settle the transactions with small scale suppliers because of administrative simplicity and the use of the Relevant Bills could ease administrative burden in obtaining a bank acceptance note for a transaction we made with each of our suppliers.</p>	<p>The Endorsing Bank issued a written confirmation on 11 April 2018 that (i) we had fully settled the Relevant Bills; (ii) they would not take legal actions against us, our Directors and senior management in relation to the Non-Compliant Bill Financing; and (iii) we had provided sufficient amount of guarantee for the Relevant Bills and settled the fees involved.</p> <p>The Wujin Changzhou Branch of the PBOC (中國人民銀行武進支行) issued a confirmation on 18 February 2019 that we were not subject to any administrative penalty during the period from 1 January 2016 to 11 February 2019.</p> <p>As informed by Wujin Changzhou Branch of the PBOC, the Wujin Changzhou Branch of the PBOC could only issue a written confirmation to confirm as of the date of the confirmation that the we were not subject to any administrative penalty.</p> <p>As advised by our PRC Legal Advisers, the Wujin Changzhou Branch of the PBOC is competent to issue the above confirmation.</p> <p>Based on the above reasons, our PRC Legal Advisers are of the view that the likelihood of any punishment being imposed on our Group is relatively remote. Accordingly, based on the above reasons, no provision has been made in the financial statements of our Group in this regard.</p> <p>Our Substantial Shareholders would indemnify our Group in the Deed of Indemnity in the event that we are subject to any penalty.</p> <p>Our Directors confirm that the main person who was responsible for handling the Relevant Bills was Ms. Huang Yuhua (黃宇華) ("Ms. Huang"), an accounting staff, who had left our Group in 2017. Our Directors confirm that Ms. Huang was not intentional in causing the Non-Compliant Bill Financing as Ms. Huang was not familiar with the business of our Company and therefore, did not follow the procedures and policies applicable to bill financing arrangements. Further, Ms. Huang was not familiar with the relevant laws and regulations and was under the impression that the Relevant Bills were not subject to any compliance of relevant laws and regulations.</p> <p>The total amount of interest saved from using the Non-Compliant Bill Financing was approximately RMB85,500.</p> <p>Our Directors confirm that as at the Latest Practicable Date, there were no outstanding Relevant Bills issued.</p>	<p>Our Directors are of the view that there would not be material adverse impact on our Group since we last issued the Relevant Bills in 2016 and all the issued Relevant Bills had been fully settled in 2017. As at the Latest Practicable Date, we had ceased the issuance of the Relevant Bills.</p>	<p>We stopped the Non-Compliant Bill Financing since November 2016. Since April 2017, we borrowed cash to utilise the credit facilities offered by banks instead of issuing bank acceptance bills.</p> <p>In addition, we have engaged an internal control consultant to review our internal control measures and the internal control consultant confirmed that non-compliance has been rectified. We will also engage external advisers to advise on the applicable laws and regulations to make sure that such non-compliance will not occur in future.</p>

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
				<p>With the advice of the internal control consultant, we have been taking all necessary actions since August 2018 to improve our internal control measures to prevent the occurrence of the Non-Compliant Bill Financing and have implemented the following measures:</p> <ul style="list-style-type: none"> <li>a) the adoption of written policies and procedures on internal control in relation to bill financing arrangements and circulation of such policies and procedures to our Directors and staff who are responsible for handling bill financing arrangements;</li> <li>b) the prohibition of issuing bank acceptance bills to use the credit facilities offered by banks;</li> <li>c) the requirement that details of all received bank acceptance bills must be properly recorded in our internal register;</li> <li>d) designated staff will ensure that each bank acceptance bill received from banks or customers is valid and properly recorded in our internal register;</li> <li>e) designated staff will perform physical check every month and the result will be submitted to our finance manager for approval;</li> <li>f) our finance manager will supervise the internal control procedures, conduct regular and surprise check on whether our internal register is accurately maintained and follow up on irregularities identified;</li> <li>g) the requirement that endorsement of bank acceptance bills should be our vendor;</li> <li>h) designated staff will monitor bank acceptance bill endorsements supported by appropriate vendor contracts and invoices to ensure that they are endorsed to our vendor;</li> <li>i) the engagement of an external adviser for not less than 12 months from Listing to (i) conduct periodic reviews and assessments of our Group's internal control measures; and (ii) report to our Board and the audit committee on the results of its reviews and assessments;</li> </ul>		

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
				<p>j) our Board and the audit committee may decide to impose penalties on the staff who breaches the internal control policies and procedures in relation to bill financing arrangements or the PRC Negotiable Instruments Law;</p> <p>k) an external adviser will be engaged to provide a regular training on internal control measures and compliance requirement to our Directors, senior management and staff; and</p> <p>l) the disclosure in our Company's annual report for the first year after Listing relating to any additional Non-Compliant Bill Financing identified (if any) during the internal and external reviews.</p> <p>In view of the above measures currently in place, our internal control consultant is of the view that the relevant internal control measures are sufficient and effective in preventing the recurrence of Non-Compliant Bill Financing in the future.</p>		



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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
5.	<p>During the Track Record Period, JiaChen Floor engaged 15 individuals (the "Individuals") to provide installation services. The Individuals did not apply to the Changzhou Wujin Taxation Bureau (常州市武進區國家稅務局) (the "Taxation Bureau") for issuance of invoices (the "Invoices") to us directly but applied through two other service providers who did not have transactions with us. The payees specified in the Invoices were not the Individuals providing services to us.</p> <p>The amount of service fees involved in the Invoices was RMB6,770,104 in total.</p> <p>Such non-compliance occurred in January 2017.</p>	<p>According to Notice on handling false invoices on value added tax 《國家稅務總局關於納稅人取得虛開的增值稅專用發票處理問題的通知》(the "Notice"), any taxpayer using false invoices to apply for tax deduction will be subject to a maximum penalty representing five times of the amount of deductions.</p> <p>Any taxpayer using false invoice cannot claim tax deduction.</p> <p>As advised by our PRC Legal Advisers, the maximum penalties that could be potentially imposed by the relevant governmental authorities for such non-compliance would be a penalty of not more than five times of the amount of the value added tax avoided.</p> <p>Based on the above legal requirements, we estimate that the maximum penalty that we may be subject to for such non-compliance is approximately RMB986,000.</p>	<p>To the best knowledge of our Directors, the Individuals applied the Invoices through other service providers was to simplify the administrative procedures of applying the Invoices by themselves and to obtain their fees as soon as possible.</p>	<p>In January 2018, we returned the Invoices to the two service providers and the two service providers applied to the Taxation Bureau for cancellation.</p> <p>13 Individuals applied to the Taxation Bureau and issued invoices in their own capacity to us.</p> <p>We have made relevant tax adjustment in 2016 accordingly. Further, we were not involved in using false invoices to evade tax as the content of the Invoices applied by the two service providers matched with the services provided by the Individuals.</p> <p>Based on communication with the officers of the Taxation Bureau in December 2018, we would not be considered as breaching the laws relating to the administration of invoices and the Notice, and that the Taxation Bureau would not normally take actions against our Directors, shareholders or senior management.</p> <p>As advised by our PRC Legal Advisers, the likelihood of any material impact having on our business operations as a result of the Invoices is relatively remote.</p> <p>On 6 August 2019, the Changzhou Economic Development Zone Taxation Bureau of National Taxation Bureau (國家稅務總局常州經濟開發區稅務局) issued a written confirmation that upon conducting searches on their system, since 1 January 2016 to 6 August 2019, we have been in compliance with the rules and regulations governing taxation and were not subject to any administrative penalties.</p> <p>As advised by our PRC Legal Advisers, the Changzhou Economic Development Zone Taxation Bureau of National Taxation Bureau has the authority and is competent to issue the above confirmation.</p> <p>Our Substantial Shareholders would indemnify our Group in the Deed of Indemnity in the event that we are subject to any penalty.</p>	<p>Our Directors are of the view that there would not any material adverse impact on our Group as we have made relevant tax adjustment in 2016 and no provision was required to be made.</p>	<p>We have implemented the following policies to prevent future breach: (i) we will enter into engagement contracts with the individual service providers after obtaining approval of our Directors; and each of these service providers is required to issue invoices to us in accordance with the applicable laws and regulations governing invoices; and (ii) our administrative department will conduct an annual review on the compliance conditions in respect of hiring of individual service providers and report to our Board.</p>

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No.	Non-compliance incident(s)	Relevant laws and regulations and maximum penalty	Reason(s) for non-compliance	Rectification actions	Any impact on our Group	Internal control measures to prevent future breach and ensure ongoing compliance
6.	<p>During the Track Record Period, JiaChen Floor advanced certain interest-free loans to seven corporate entities (the "Borrowers") for their temporary working capital needs (the "Relevant Advances").</p> <p>Such arrangement was not in compliance with the General Lending Provisions (《貸款通則》).</p> <p>Six of these Borrowers were our five largest suppliers during the Track Record Period.</p> <p>Such non-compliance occurred during the period from January 2016 to June 2018.</p>	<p>Pursuant to the General Lending Provisions (《貸款通則》), enterprises in the PRC are not allowed to extend loans to each other without the permission from the PBOC, and the PBOC may impose a fine on the lender who engages in inter-company lending activities in the amount ranging from one time to five times of the illegal income derived from such activities and issue an order to terminate such activities.</p> <p>According to the Provisions of the Supreme People's Court on Certain Issues Concerning Application of Law in Trial of Cases Involving Private Lending (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "Provisions of the Supreme People's Court"), (i) except under the circumstances as set out in Article 52 of the Contract Law (《合同法》) or Article 14 of the Provisions, the people's court shall support a claim for the validity of a private loan agreement signed as required for production or business operation among legal persons and other organisations; and (ii) the people's court shall support the claim by the lender for the payment of the interests under the loan agreements where the annual interest rate agreed by the parties to the loan agreements does not exceed 24%.</p> <p>Based on the above legal requirements, as we did not receive any illegal interest derived from the Relevant Advances under the General Lending Provisions, we will not be subject to any penalty as a result of such non-compliance.</p>	<p>Our Directors confirm that the advances were made for providing temporary liquidity to the Borrowers for the purpose of production and operation. We were not familiar with the relevant laws and regulations governing inter-company lending activities.</p>	<p>Given that (i) the Relevant Advances provided by JiaChen Floor to the Borrowers did not fall within the circumstances as set out in Article 52 of the Contract Law (《合同法》) or Article 14 of the Provisions of the Supreme People's Court; (ii) the Relevant Advances had been interest-free; (iii) the Relevant Advances had already been fully settled; and (iv) the Relevant Advances were based on the actual needs of the Borrowers for its production and we had never received any notice of claim or penalty relating thereto, our PRC Legal Advisers are of the view that the Relevant Advances were valid and the likelihood of any punishment being imposed on our Group is relatively remote.</p> <p>Our Substantial Shareholders would indemnify our Group in the Deed of Indemnity against any losses and penalties which our Group may suffer as a result of the failure of our Group to comply with relevant laws, rules or regulations concerning the non-compliance incidents related to inter-company lending activities.</p>	<p>Our Directors are of the view that there would not be material adverse impact on our Group, the likelihood of imposing administrative penalty on us is relatively remote based on the reasons set out above.</p> <p>We will not make any such inter-company lending activities in the future.</p> <p>Accordingly, no provision was made in our financial statements.</p>	<p>We will ensure that our staff possess the knowledge about the laws and regulations relating to inter-company lending activities. We will not make any such inter-company lending activities in the future.</p>

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### RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Our Directors believed that corporate governance and risk management are crucial to the development and success of our business. Therefore, we have adopted corporate governance measures and risk management measures in various aspects of our business operations. We have adopted certain internal control policies to manage and minimise financial and other risks to ensure timely and accurate preparation and reporting of financial information and to monitor compliance with laws by the senior management personnel of our Group in the performance of their duties.

Our Group has maintained an internal control system into its organisational structure. In preparation of the Listing, we have engaged an independent external consulting firm as our internal control consultant in September 2017 to undertake a review on our internal control system on internal control environment, risk assessment, information and communication, monitoring activities, financial close reporting process, revenue and receipts, procurement and payments, cost of services and payment, bank and cash management, fixed assets management, human resources and payroll management, insurances, taxation, contract sum estimation and accounting, contract cost budgeting, provisioning, work safety, health and environmental management, information technology general controls and compliance procedures of certain rules and regulation such as Chapter 13 (Continuing Obligations), Chapter 14 (Notifiable Transactions), Chapter 14A (Connected Transaction), Appendix 14 (Corporate Governance) and Appendix 16 (Financial Information) of the Listing Rules and Part XIVA of the SFO (Disclosure of Inside Information). Our internal control consultant mainly engages in providing a broad range of corporate governance and risk advisory, internal audit, and internal controls regulatory compliance services to its clients including listed companies and companies preparing for listing in Hong Kong.

Our internal control consultant has completed a follow up review in June 2019 on the enhanced internal control measures and our enhanced internal control measures regarding the non-compliance incidents as identified in the paragraph headed “Non-compliance incidents” in this section and confirmed that such non-compliance incidents had been rectified and we have strengthen our corporate governance and internal control measures to prevent the recurrence of such non-compliance incidents in future.

After the consideration of our remedial actions and results of the reviews by our internal control consultant, the nature and reasons for the historical non-compliance incidents, the written confirmations of the relevant competent government authorities, our Directors are of the view that these enhanced internal control measures are adequate and effective for our Group’s operations and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and the suitability of our Company for listing under Rule 8.04 of the Listing Rules. In addition, after making enquiries of the management of our Company, reviewing the enhanced internal control procedures of our Group and discussing with our Group’s internal control consultant regarding our Group’s internal control system, the Sponsor, who is not an expert in internal control, is not aware of any reasons to disagree with our Directors’ view that our Group’s enhanced internal control measures are adequate and effective under the Listing Rules. Based on the above, the Sponsor is of the view that our Directors have the competency,

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integrity and willingness to manage our Company's business in a law-abiding manner and the aforementioned non-compliance incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and the suitability of our Company for listing under Rule 8.04 of the Listing Rules.

The following sets out the key risks for our business and the mitigating internal control procedures thereof:

### **Risk control**

Our risk register has identified certain risks that require management, including inappropriate and inconsistent practices, failure to detect unethical behaviours, wrongdoings or potential frauds and unauthorised access to confidential information. In order to control such risk, our Group has endorsed staff handbook and Company's policies which require all Directors and employees of our Group to observe.

### **Regulatory risk management**

Upon Listing, our Group may be exposed to the risks of non-compliance with the Listing Rules. We have assigned designated personnel to update the context of Company policies at least annually and to distribute to all Directors and employees new amendments of the Listing Rules. We have appointed Dakin Capital Limited as our compliance adviser to advise us on compliance matters in relation to the Listing Rules. All Directors and employees will be required to attend training to refresh their understanding of staff handbook and Company's policies at least annually. Our Group will also retain a legal adviser to advise us on compliance matters with applicable laws and regulations of Hong Kong and the PRC.

### **Operational risk management**

Our senior management are responsible for overseeing our operation and assessing the operational risks of our business. They are responsible for implementing our internal policies and procedures. Our senior management monitor our business operation from time to time and will report any irregularities discovered to our executive Directors.

### **Internal control measures on intellectual property rights**

To manage and minimise the risk of infringing third parties' intellectual property rights during the course of our business, in December 2017, our Group formulated the intellectual property management system in relation to intellectual property, patent, trademark and copyright and implement a reward and disciplinary mechanism to promote the awareness of our employees on intellectual property.

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### **Internal control measures on cash settlement**

Our Directors believed that corporate governance and risk management are crucial to the development and success of our business. During the Track Record Period, some procurement expenses and operating expenses exceeding RMB10,000 were settled by cash and we did not proceed such settlement via bank transfer as required in our cash management system. In avoidance of the incidents of cash reconciliation discrepancies and misuse of capital, our internal control consultant provided three recommendations to our Company: (i) update the current approval system for cash settlement; (ii) execute the cash settlement policy in a stringent manner and formulate the approval system thereof; and (iii) confirm the identity of the cash payees in a stringent manner.

In response to the recommendations, our Group modified the cash management system in September 2018 as follows: (i) prior approval of the general manager must be obtained for any cash settlement for procurement expenses exceeding RMB10,000 together with the stamped receipts issued by the relevant payee; and (ii) for procurement expenses exceeding RMB30,000 shall be proceeded by bank transfer instead of cash.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that there were no incidents of cash reconciliation discrepancies and misappropriation of cash by our employees which result in a material adverse impact on our business and operations.

### **Credit risk management**

Our Group is exposed to credit risk which may cause financial loss to our Group if our counterparties failed to discharge an obligation. In order to minimise the credit risk, our Group has policies and procedures for determination of credit limits and credit approvals and other monitoring procedures.

In addition, our executive Directors take into account the length of business relationship, past reputation, financial strength and repayment history of our customers to monitor payments. Our Group's settlement of payment is monitored by our finance department and the payment terms must be approved by our Directors. For overdue balances, our executive Directors and senior management will be alerted and appropriate follow-up actions will be taken. When the accounts trade receivable balances remain unsettled after the expected payment date, they will be classified as overdue. During the Track Record Period, our Group did not make any provision for doubtful debts relating to accounts receivable.

### **Foreign exchange risk management**

Our Directors confirmed that our Group did not hedge the foreign exchange risk. To minimise the exchange risk, we closely monitor the movements in the exchange rates of U.S. dollar and RMB and adopt procedures such as keeping updates on foreign currencies and reporting to our management team.

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### **Market risk management**

Our Group is exposed to general market risks related to changes in global macroeconomic environment, government housing policies and movements in market variables and interest rates, and other market changes. Our executive Directors and senior management are responsible for identifying and assessing potential market risks and from time to time formulating policies to mitigate these market risks. Such risk has been included in our Group's risk register.

### **Hedging policy**

Our Directors confirmed that we did not enter into any hedging contracts during the Track Record Period and up to the Latest Practicable Date and our Group did not have any hedging policy. Our Directors confirmed that we did not engage in any hedging activities during the Track Record Period but we will monitor from time to time to consider if there is such a need in future.

### **Indemnity given by our Substantial Shareholders**

Our Substantial Shareholders have given indemnities in favour of our Group on a joint and several basis against all claims, actions, demands, legal proceedings, enforcement of judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by our Company and/or other members of our Group as a result of directly or indirectly or in connection with, or in consequence of any non-compliance with any applicable laws, rules or regulations by any member of our Group. For more details of the Deed of Indemnity, please refer to the section headed "Statutory and General Information — F. Other information — 1. Tax and other indemnity" in Appendix IV to this prospectus.

Our Directors and our PRC Legal Advisers confirmed that, save as disclosed herein, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material aspects with the relevant PRC laws and regulations and had obtained all material permits, licences and approvals required for the purpose of conducting business activities and operations of our business in the PRC.

Our Directors confirmed that we had not experienced any failure in applying for renewal of all material requisite approval, consents, registrations, licenses and permits since our establishment as at the Latest Practicable Date, and we currently do not expect to have any material difficulty in renewing the same when they expire, if applicable. Our Group tracks the validity and renewal status of our licences and permits on an on-going basis in order to ensure that we possess valid licences and permits required for our business operations. Our Group will continue to seek advice from our PRC Legal Advisers from time to time to ensure due compliance of the applicable PRC laws and regulations in respect of our business operations.

## DIRECTORS AND SENIOR MANAGEMENT

### GENERAL

The table below sets out certain information concerning our Directors and members of senior management:

Name	Age	Date of joining our Group	Current position in our Company	Date of appointment as Director	Key role and responsibilities	Relationship with our Directors and senior management
<i>Directors</i>						
Mr. Shen Min (沈敏), whose former name was Shen Xiaodu (沈筱度)	61	15 April 1991	Chairman of our Board and executive Director	7 July 2017	Overall strategic planning and corporate policies as well as overseeing the operations of our Group	Spouse of Ms. Zhang, father of Mr. Shen MH and uncle of Ms. Zhang Lingyan
Ms. Zhang Yaying (章亞英)	56	30 September 1991	Executive Director	7 July 2017	Overseeing the raw material purchasing of our Group	Spouse of Mr. Shen, mother of Mr. Shen MH and aunt of Ms. Zhang Lingyan
Mr. Shen Minghui (沈明暉)	35	30 May 2003	Executive Director	7 July 2017	Overseeing the general matters of our Group	Son of Mr. Shen and Ms. Zhang and cousin of Ms. Zhang Lingyan
Mr. Chen Shiping (陳仕平)	58	18 September 2009	Chief executive officer and executive Director	19 June 2019	Overall daily management and operation of our Group	None
Mr. Ma Ving Lung (馬詠龍)	50	13 December 2019	Independent non-executive Director	13 December 2019	Providing independent advice to the Board	None
Ms. Shi Dongying (施冬英)	45	13 December 2019	Independent non-executive Director	13 December 2019	Providing independent advice to the Board	None
Mr. Yu Chun Kau (余振球)	47	23 December 2019	Independent non-executive Director	23 December 2019	Providing independent advice to the Board	None
Name	Age	Date of joining our Group	Current position in our Group	Date of appointment for current position	Key role and responsibilities	Relationship with our Directors and senior management
<i>Senior management</i>						
Mr. Chen Shiping (陳仕平)	58	18 September 2009	General manager of JiaChen Floor	September 2009	Overall daily management and operation of our Group	None
Mr. Li Wen Tao (李文韜)	37	19 June 2019	Company secretary	19 June 2019	Company secretarial affairs	None
Ms. Zhang Lingyan (章玲燕)	40	26 February 1999	Office manager of general office and supervisor of JiaChen Floor	December 2017 (as supervisor of JiaChen Floor); September 2009 (as office manager of general office of JiaChen Floor)	General administration matters	Niece of Mr. Shen and Ms. Zhang and cousin of Mr. Shen MH

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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS

Our Board is responsible for and has general powers over the management and conduct of our business. It consists of seven Directors, including four executive Directors and three independent non-executive Directors.

#### Executive Directors

**Mr. Shen Min** (沈敏), whose former name was Shen Xiaodu (沈筱度), aged 61, is the founder of our Group, the chairman of our Board and an executive Director. He joined our Group since April 1991. He is a director of a number of subsidiaries of our Group and also a member of the remuneration committee. Mr. Shen was appointed as our Director on 7 July 2017 and was re-designated as our executive Director and the chairman of our Board on 19 June 2019. He is responsible for the overall strategic planning and corporate policies as well as overseeing the operations of our Group. He is also a director and legal representatives of a number of subsidiaries of our Group. Mr. Shen brings to our Group more than 28 years of experience in the access flooring manufacturing industry.

Mr. Shen established 武進縣崔橋計算機配件廠 (Wujin District Cui Qiao Computer Parts Factory\*) in April 1991 (which was subsequently renamed as 常州市佳辰機房設備廠 (Changzhou Jiachen Machinery Plant Factory\*) in September 1994 and changed its name to Jiachen Machinery Plant in December 2004) and was responsible for its overall development. It was subsequently converted to a joint-stock co-operative enterprise in July 1997 and to a limited company in December 2004. In September 2009, he established JiaChen Floor, our principal operating subsidiary. Mr. Shen studied business administration in 中國管理軟件學院 (China Management Software Institute\*) from September 2006 to July 2010 and obtained a graduation diploma in July 2010.

Mr. Shen was a supervisor of 常州永固膠業有限公司 (Changzhou Yonggu Glue Industry Co Ltd\*) (“**Changzhou Yonggu**”), a company established in the PRC. The scope of business of Changzhou Yonggu before its deregistration was selling and distribution of chemical products. The business licence of Changzhou Yonggu was revoked and Changzhou Yonggu was dissolved by deregistration by resolution of dissolution due to cessation of business on 7 June 2017.

Mr. Shen confirmed that Changzhou Yonggu was solvent at the time of the deregistration and there is no wrongful act on his part leading to the above dissolution of Changzhou Yonggu and he is not aware of any actual or potential claim has been or will be made against him as a result of dissolution of Changzhou Yonggu.

Mr. Shen is the spouse of Ms. Zhang, the father of Mr. Shen MH, and the uncle of Ms. Zhang Lingyan.



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## DIRECTORS AND SENIOR MANAGEMENT

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**Ms. Zhang Yaying** (章亞英), aged 56, is an executive Director. Ms. Zhang joined our Group since September 1991. She was appointed as our Director on 7 July 2017 and was re-designated as our executive Director on 19 June 2019. She is also a director of a number of subsidiaries of our Group. She has been the deputy general manager of JiaChen Floor since September 2009 and is responsible for overseeing the raw material purchasing. She was the deputy general manager of Jiachen Machinery Plant since September 1991 and was responsible for raw material purchasing until December 2016. Ms. Zhang brings to our Group more than 28 years of experience in the access flooring manufacturing industry. Ms. Zhang studied business administration in 中國管理軟件學院 (China Management Software Institute\*) from September 2008 to July 2012 and obtained a graduation diploma in July 2012.

Ms. Zhang is the spouse of Mr. Shen, the mother of Mr. Shen MH, and the aunt of Ms. Zhang Lingyan.

**Mr. Shen Minghui** (沈明暉), aged 35, is an executive Director. Mr. Shen MH joined our Group since May 2003. He was appointed as our Director on 7 July 2017 and was re-designated as our executive Director on 19 June 2019. He is responsible for overseeing the general matters of our Group. He has been the deputy general manager of JiaChen Floor since September 2009. He is the supervisor of Changzhou Jintai, Changzhou Jingang and a director of a number of subsidiaries of our Group. Mr. Shen MH was a deputy general manager of Jiachen Machinery Plant from May 2003 to August 2009 and was responsible for supervising the manufacturing and production of the products. Mr. Shen MH attended 西南大學 (Xinan University\*) to study marketing from March 2013 to July 2015 and obtained a graduation diploma in July 2015.

Mr. Shen MH is the son of Mr. Shen and Ms. Zhang and the cousin of Ms. Zhang Lingyan.

**Mr. Chen Shiping** (陳仕平), aged 58, joined our Group in September 2009 and is currently our chief executive officer, an executive Director and the general manager of our Group. He was appointed as our executive Director on 19 June 2019. He is also a member of our nomination committee. He is responsible for the overall daily management and operation of our Group. Mr. Chen has over 20 years of experience in access flooring manufacturing industry. Mr. Chen was the head of manufacturing plant of 常州三井高田汽配廠 (Changzhou San Jing Gao Tian Automobile Parts Factory\*) from August 1984 to September 1999. He then joined 無錫英特地板公司 (Wuxi Ying Te Flooring Co., Ltd.\*) as a deputy general manager from October 1999 to August 2009.

Mr. Chen studied business administration in 中國管理軟件學院 (China Management Software Institute\*) from September 2005 to July 2009 and obtained a graduation diploma in July 2009. Mr. Chen was a shareholder and supervisor of 泰州市固瑞特新材料有限公司 (Taizhou Guruite New Material Co Ltd\*) (“**Taizhou Guruite**”), a company established in the PRC. The scope of business of Taizhou Guruite before its deregistration was manufacturing of graphene materials. As confirmed by Mr. Chen, Taizhou Guruite was dissolved by deregistration by resolution of dissolution on 22 March 2019 due to cessation of business.

Mr. Chen confirmed that Taizhou Guruite was solvent at the time of deregistration and there is no wrongful act on his part leading to the above dissolution of Taizhou Guruite and he is not aware of any actual or potential claim has been or will be made against him as a result of dissolution of Taizhou Guruite.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Independent Non-executive Directors

**Mr. Ma Ving Lung (馬詠龍)**, aged 50, joined our Board as an independent non-executive Director in December 2019. He is the chairman of the audit committee and a member of the nomination committee. He is primarily responsible for providing independent advice to our Board.

Mr. Ma graduated from York University, Ontario, Canada in November 1995 with a bachelor degree (with honours) in administrative studies. He has been a member of American Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants since July 2000 and October 2000, respectively, and a fellow member of the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants since September 2010 and July 2017, respectively.

Mr. Ma has been the qualified accountant of Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818) since August 2007. He was the company secretary and qualified accountant of Shanxi Changcheng Microlight Equipment Co., Ltd., a company listed on GEM of the Stock Exchange (stock code: 8286) during the period from June 2002 to March 2005. He was the financial controller, company secretary, authorized representative, member of audit committee and qualified accountant of Vitop Bioenergy Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1178) (now known as Huiyin Holdings Group Limited) during the period from August 2000 to April 2002.

Mr. Ma was an independent non-executive director of Hengli Commercial Properties (Group) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169) (now known as Wanda Hotel Development Company Limited) from November 2007 to July 2013.

Mr. Ma was a director of Shepherd Images Limited (忠柏影像有限公司) (“**Shepherd Image**”), a company incorporated in Hong Kong on 30 January 2007. As confirmed by Mr. Ma, the scope of business of Shepherd Image immediately before its deregistration was advertising photography. Shepherd Image was dissolved by deregistration pursuant to section 291AA(9) of the Predecessor Companies Ordinance on 3 July 2009 due to cessation of business.

Mr. Ma confirmed that Shepherd Image was solvent at the time of deregistration and there is no wrongful act on his part leading to the above dissolution of Shepherd Image and he is not aware of any actual or potential claim has been or will be made against him as a result of dissolution of Shepherd Image.

**Mr. Yu Chun Kau (余振球)**, aged 47, was appointed as an independent non-executive Director on 23 December 2019. He is primarily responsible for providing independent advice to our Board. He is a member of the audit committee and chairman of the remuneration committee.

Mr. Yu has over 20 years of experience in the finance and management industry. From August 1994 to July 2002, he worked at the KPMG with his last position as a manager. From July 2002 to November 2003, he worked as a financial controller at China Finance Investment Holdings Limited (formerly known as First Dragoncom Agro-Strategy Holdings Limited at the time of employment), a company listed on the Main Board of the Stock Exchange (stock code:875). From December 2003 to June 2006, he worked as an assistant director at Kerry Beverages Limited. From June 2006 to

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## DIRECTORS AND SENIOR MANAGEMENT

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February 2008, he served as the chief financial officer at the Brigantine Group. From February 2008 to June 2010, he was an executive director, chief financial officer and company secretary at China Risun Group Limited (formerly known as China Risun Coal Chemicals Group Limited at the time of employment), a company currently listed on the Main Board of the Stock Exchange (stock code: 1907).

Mr. Yu was also the chief financial officer (from June 2010 to December 2012), an executive director (from May 2011 to November 2012) and company secretary (from November 2011 to December 2012) at Sitoy Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1023). From September 2013 to December 2016, he was the vice president, chief financial officer and company secretary at Cosmo Lady (China) Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2298). He is currently an independent non-executive director of Ruifeng Power Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2025) since December 2017. He is currently a chief financial officer of a company engaged in pharmaceutical business, which is a subsidiary of a company listed on the Main Board of the Stock Exchange, and an independent non-executive director of Forward Fashion (International) Holdings Company Limited, the issued shares of which are being applied for listing on the Main Board of the Stock Exchange.

Mr. Yu graduated from The Chinese University of Hong Kong with a degree in bachelor of business administration with first class honours in December 1994. In June 2005, he also obtained a degree in master of corporate governance from The Open University of Hong Kong. He was admitted as a fellow member of The Association of Chartered Certified Accountants in November 2002. He was admitted as a fellow member and was registered as a certified public accountant (practising) of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in July 2005 and in October 2002, respectively. In March 2007, he was admitted as a senior international finance manager in the International Financial Management Association. In April 2015, he was also admitted as a fellow member of The Institute of Chartered Accountants in England and Wales. In September 2016, he was admitted as both a fellow member of The Hong Kong Institute of Chartered Secretaries and as a fellow member of The Institute of Chartered Secretaries and Administrators.

**Ms. Shi Dongying (施冬英)**, aged 45, joined our Board as an independent non-executive Director in December 2019. She is the chairlady of the nomination committee and a member of each of the audit committee and the remuneration committee. She is primarily responsible for providing independent advice to our Board.

Ms. Shi graduated from 中央廣播電視大學 (Zhongyang Broadcast and Television University<sup>\*</sup>) and obtained a bachelor degree in accountancy in January 2014. She obtained intermediate qualification in Accountancy Profession in May 2009 and was registered as a non-practising member of The Chinese Institute of Certified Public Accountants in March 2014.

Ms. Shi has been the deputy chief executive of Nantong Composite Material Co., Ltd since November 2015 and is responsible for overall management and administration. Starting from May 2016, she is the executive director, compliance officer, authorised representative and chairman of risk management committee of MEIGU Technology Holding Group Limited (stock code: 8349), a company listed on GEM of the Stock Exchange. She was the head of the accounting department of 南通三鑫電子科技股份有限公司 (Nantong Sancon Electric Technology Corporation<sup>\*</sup>) from March 2006 to October 2015 and the accountant of 海門棉麻加工廠 (Haimen Cotton & Hemp Processing Plant<sup>\*</sup>) from August 1993 to May 2005.

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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed in the paragraph headed “Board of Directors” in this section and the section headed “Statutory and General Information” in Appendix IV to this prospectus, none of our Directors held any directorship in any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus, and there is no other matter that needs to be brought to the attention of our Board and Shareholders in connection with the above Directors and there is no information which is required to be disclosed pursuant to any of the requirements under Rule 13.51(2) of the Listing Rules.

### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business.

**Mr. Chen Shiping** (陳仕平), is the general manager of JiaChen Floor. For details of his biography, please refer to the paragraph headed “Board of Directors — Executive Directors” in this section.

**Ms. Zhang Lingyan** (章玲燕), aged 40, has been the office manager of general office of JiaChen Floor since September 2009 and is responsible for general administration matters. She is also the supervisor of JiaChen Floor since December 2017. Prior to that, she was the assistant treasurer of Jiachen Machinery Plant from February 1999 to August 2009 where she was responsible for financial matters.

Ms. Zhang Lingyan obtained a certificate of accounting profession issued by 常州市武進區財政局 (Changzhou Wujin District Finance Bureau\*) in September 2004 and a certificate of registration of associate constructor issued by 江蘇省住房和城鄉建設部 (Jiangsu Province Ministry of Housing and Urban-Rural Development\*) in October 2014.

Ms. Zhang Lingyan graduated from 常州物資學校 (Changzhou Resources School\*) and obtained a certificate in financial accounting in July 2004. She graduated with a high diploma in accounting and a bachelor’s degree in civil engineering from 西南大學 (Xinan University\*) in July 2013 and in January 2016, respectively.

Ms. Zhang Lingyan is the niece of Mr. Shen and Ms. Zhang and the cousin of Mr. Shen MH.

### COMPANY SECRETARY

**Mr. Li Wen Tao** (李文韜), aged 37, joined our Group in June 2019 as our company secretary. Mr. Li is an associate of Institute of the Chartered Accountants in England and Wales since February 2013 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since May 2011.

Mr. Li is currently a partner of Nova, CPA & Company and also a senior manager of Progressive Consultation Limited which is engaged in providing consultancy services to listed and private companies since January 2013. He was an auditor of Ng Chi Ho Dennis Certified Public Accountant (Practising) during the period from January 2008 to December 2012.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Li obtained his Bachelor of Business Administration (Major in Accountancy) from Hong Kong Lingnan University in November 2004.

### AUDIT COMMITTEE

We have established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system of our Group, oversee the audit process, provide advice and comments to our Board and perform other duties and responsibilities as may be assigned by the Board.

The audit committee consists of three members, namely Mr. Ma Ving Lung, Ms. Shi Dongying and Mr. Yu Chun Kau. The chairman of the audit committee is Mr. Ma Ving Lung who is the independent non-executive Director with the appropriate professional qualifications.

### REMUNERATION COMMITTEE

We have established a remuneration committee with written terms of reference in compliance with 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 establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

The remuneration committee consists of three members, namely Mr. Yu Chun Kau, Ms. Shi Dongying and Mr. Shen. The chairman of the remuneration committee is Mr. Yu Chun Kau.

### NOMINATION COMMITTEE

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee, among other things, are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to our Board regarding appointment of Directors and candidates to fill vacancies on our Board.

The nomination committee consists of three members, namely Ms. Shi Dongying, Mr. Ma Ving Lung and Mr. Chen. The chairman of the nomination committee is Ms. Shi Dongying.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of salaries, bonuses and other benefits in kind such as contributions to pension plans.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for the three years ended 31 December 2018 and the six months ended 30 June 2019 was RMB416,000, RMB972,000, RMB852,000 and RMB421,000, respectively.

As confirmed by our Directors, save as disclosed in this paragraph, the “Statutory and General Information” in Appendix IV and the “Accountants’ Report” in Appendix I to this prospectus, 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 the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

None of our Directors had waived or agreed to waive any remuneration during the Track Record Period.

Pursuant to the existing arrangements that are currently in force as at the date of this prospectus, the aggregate amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending 31 December 2019 is estimated to be RMB900,000.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and will, following the Listing, receive recommendation from the remuneration committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

Save as disclosed in this paragraph, the “Statutory and General Information” in Appendix IV and the “Accountants’ Report” in Appendix I to this prospectus, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

For additional information on our Directors’ remuneration during the Track Record Period as well as information on the five highest paid individuals, please refer to the Accountants’ Report set out in Appendix I to this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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### CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Group will comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules after Listing.

### BOARD DIVERSITY POLICY

We recognise and embrace the benefits of having a diverse Board to enhance our Board's performance and to achieve a sustainable and balanced development. Our Board has adopted a board diversity policy which sets out the approach to achieve and maintain its diversity. The board diversity policy provides that selection of Board candidates should be based on a range of different considerations, including but not limited to professional experience, skills, gender, age, cultural and educational background, ethnicity and length of service. When identifying potential candidates to our Board, the nomination committee and our Board will, among others, (i) consider the current level of representation of women on our Board and the senior management when making recommendations for nominees as well as succession planning to our Board and senior management; (ii) consider the criteria that promotes diversity by making references to the code of practices on employment published by the Equal Opportunities Commission from time to time; and (iii) communicate the board diversity policy to the nomination committee and encourage a cooperative approach to ensure diversity on our Board. Our Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of our Board. All Board appointments will be based on meritocracy having due regard for the benefits of diversity on our Board. The ultimate selection of Board candidates will be based on merit and potential contribution to our Board with reference to the board diversity policy as a whole.

Our Board comprises seven members, including four executive Directors and three independent non-executive Directors. Our Directors obtained diplomas in various disciplines, including business administration and accounting. They also have a balanced mix of professional experience and industry background, including experience and industry background in manufacturing, accounting and financial management. Furthermore, their ages range widely from 35 to 61. Two out of seven of the existing members of our Board are female. After Listing, the nomination committee will review the board diversity policy and its implementation from time to time to ensure its continued effectiveness. We will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis after Listing.

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## DIRECTORS AND SENIOR MANAGEMENT

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### WAIVER GRANTED BY THE STOCK EXCHANGE

#### Management presence

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please refer to the section headed “Waiver from Strict Compliance with the Listing Rules — Management presence in Hong Kong” in this prospectus.

#### COMPLIANCE ADVISER

Our Company has appointed Dakin Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (3) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares under Rule 13.10 of the Listing Rules.

The term of the appointment 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 our financial results for the first full financial year commencing after the Listing Date.



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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), Mr. Shen, through Jiachen Investment, will own 37.76% of Shares, Ms. Zhang, through Xinchen Investment, will own 23.14% of Shares and Mr. Shen MH, through Yilong Investment, will own 13.15% of Shares, respectively, in the enlarged issued share capital of our Company.

### OUR CONTROLLING SHAREHOLDERS

As Mr. Shen and Ms. Zhang are spouses, Mr. Shen, Jiachen Investment, Ms. Zhang and Xinchen Investment will be our Controlling Shareholders under the Listing Rules holding in aggregate 60.90% of Shares. For further details of the background of Mr. Shen and Ms. Zhang, please refer to the section headed “Directors and Senior Management” in this prospectus.

### OUR SUBSTANTIAL SHAREHOLDERS

Mr. Shen, Jiachen Investment, Ms. Zhang, Xinchen Investment, Mr. Shen MH and Yilong Investment will be our Substantial Shareholders after Listing. Save as mentioned above, there is no other person who will, immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme), be directly or indirectly interested in 10% or more of the Shares in issue. For further details of the background of Mr. Shen MH, please refer to the section headed “Directors and Senior Management” in this prospectus.

### OTHER BUSINESS INTERESTS OF OUR CONTROLLING SHAREHOLDERS

Mr. Shen and Ms. Zhang are interested in the following companies (the “**Excluded Businesses**”), which are not members of our Group:

<u>Excluded Businesses</u>	<u>Principal business scope</u>	<u>Equity interests held by Mr. Shen and Ms. Zhang</u>
Jia Shen Le	Business trading and reselling of flooring products ( <i>Note: It did not commence business since its establishment</i> )	100% owned by Mr. Shen
Jiachen Machinery Plant	Manufacturing and selling of computer room facilities and decorative paper	84.77% owned by Mr. Shen and 15.23% owned by Ms. Zhang

Mr. Shen owns 100% equity interest in Jia Shen Le. As Jia Shen Le did not have any business operation since the date of its establishment and up to the Latest Practicable Date, our Directors are of the view that Jia Shen Le did not and would not compete, or is not expected to compete, directly or indirectly, with our Group and it is in the interest of our Group to dispose of this dormant subsidiary.

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## **RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS**

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Save as disclosed above, our Controlling Shareholders and/or their associates do not have any competing business with our Group.

Mr. Shen and Ms. Zhang own 84.77% and 15.23% of equity interest in Jiachen Machinery Plant, respectively. Mr. Shen is an executive director of Jiachen Machinery Plant. To the best knowledge of our Directors, he does not involve in the management and day-to-day business operations of Jiachen Machinery Plant. Jiachen Machinery Plant is managed by a separate management team independent of our Group.

Our Directors consider that it will not be in the best interest of our Group to include Jiachen Machinery Plant in our Group for the following reasons: (i) the business of our Group and that of Jiachen Machinery Plant are different and there is a clear delineation between our business and the business of Jiachen Machinery Plant in terms of scale of operation, business model, target customers and expertise required; (ii) the business of Jiachen Machinery Plant does not compete directly with the existing business of our Group; and (iii) our Group's current business plan is to focus on expanding our access flooring business and our Directors are of the view that our resources should be concentrated on effective implementation of our strategy.

### **Undertakings**

Our Substantial Shareholders have given certain undertakings in respect of our Shares (including those as required by Rules 10.07(1) and Note (3) to Rule 10.07(2) of the Listing Rules) to our Company, the Stock Exchange, the Sponsor, the Joint Bookrunners and the Underwriters. For further details, please refer to the section headed "Underwriting — Undertakings by our Substantial Shareholders" in this prospectus.

## **INDEPENDENCE FROM OUR SUBSTANTIAL SHAREHOLDERS**

Our Directors consider that we are capable of carrying our business independent of our Substantial Shareholders and their respective close associates following the Listing.

### **Management independence**

Our Board comprises four executive Directors and three independent non-executive Directors. Save as disclosed in the section headed "Directors and Senior Management" in this prospectus, there is no other relationship among our Directors. Our Directors are of the view that our Company is capable of maintaining management independence as:

- our Group's strategies, management, operations and affairs are formulated, led, managed and/or supervised by our Board and not by any individual Director. All major and important corporate actions of our Company are and will be fully deliberated and determined by our Board collectively and objectively as a collective body;
- pursuant to the terms of the service contracts entered into between our Company and the executive Directors, every executive Director is required to devote substantially the whole of his/her time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to our Group;

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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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- in the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by our Board, the interested Director(s) shall abstain from voting at the relevant meeting of our Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Articles and/or the Listing Rules;
- we have three independent non-executive Directors who are not associated with our Substantial Shareholders or their respective close associates. Resolutions of our Board approving any matters in which any of the executive Directors has a potential conflict of interest and/or material interest will only be considered and approved by the independent non-executive Directors (as under the Listing Rules, the interested Directors will then be prohibited from voting on the resolution(s) and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolution(s) is/are approved). The independence of our Board's decisions in respect of any matters in which any of our Group's executive Directors has a potential conflict of interest and/or material interest is and can be ensured;
- our Company has established corporate governance procedures in safeguarding the interests of the Shareholders and enhancing Shareholders' value. Each Director is fully aware of his/her fiduciary duty to our Group, and will abstain from voting on any matter where there is or may be a conflict of interest as required under and in accordance with the applicable Articles and the Listing Rules; and
- our Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group is operated independently from the influence of the Substantial Shareholders and their respective close associates.

### **Operational independence**

Our Group has its own organisational structure made up of divisions including management and administration, finance and accounting, sales and marketing, production, design and development, quality control and other divisions. Each division has a clear delineation of duties and functions as determined by our Board to promote efficiency, effectiveness and quality in the development of our Group's business.

As confirmed by our Directors, we have independent access to sources of suppliers or materials necessary for the operation of its business as well as customers which are all Independent Third Parties. All our operating subsidiaries of our Company hold the licences necessary for the operation of our Group's business in their own names.

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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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### Financial independence

We have established a financial system (including bank accounts) that operate independently.

During the Track Record Period, there were certain amounts due to Mr. Shen and certain of the banking facilities granted to our Group were secured by guarantees and collateral security provided by our Substantial Shareholders and certain third parties. For details, please refer to notes 29 and 30 to the Accountants' Report in Appendix I to this prospectus.

As at the Latest Practicable Date, all loans, advances and balances due to Mr. Shen had been fully settled and all loans guaranteed by our Substantial Shareholders had been repaid. The loans were secured by assets of our Group. Upon Listing, our Group will have independent access to third-party financing without relying on loans, advances and guarantees from our Substantial Shareholders, our Directors and their respective close associates. Our Directors are of the view that our Group is able to obtain external financing on normal commercial terms and conditions for our business operations as and when required and is not financially dependent on our Substantial Shareholders, our Directors, related parties or any of their respective associates in the operation of our business.

### DEED OF NON-COMPETITION

All our Substantial Shareholders have entered into the Deed of Non-Competition in favour of our Company pursuant to which each of the covenantors has undertaken to us (for itself and for the benefit of each of our subsidiaries) that with effect from the Listing Date, they would not and would procure that none of their associates (except for any members of our Group) shall, except through their interests in our Company, whether as principal or agent and whether undertaken directly or indirectly, either on their own account or in conjunction with or on behalf of any person, corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, among other things, carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, directly or indirectly, any business which is, directly or indirectly, in any respect in competition with or similar to or is likely to be in competition with the business of our Group in the PRC or such other places as our Group may conduct or carry on business from time to time including but not limited to the manufacturing and sale of access flooring products and provision of related installation services (the "**Restricted Business**").

Each of our Substantial Shareholders has further undertaken to our Company (for itself and for the benefit of each of our subsidiaries) that, with effect from the Listing Date, in the event that any of them and/or any of their associates (except any members of our Group) is offered or becomes aware of any future business opportunity that may, directly or indirectly, compete with the Restricted Business (the "**Competing Business Opportunity**") directly or indirectly to engage or become interested in a Restricted Business, they:

- shall promptly notify our Company in writing and refer such Competing Business Opportunity to our Company for consideration and provide such information as reasonably required by our Company in order to enable it to come to an informed assessment of such Competing Business Opportunity; and

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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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- shall not, and shall procure their associates (other than members of our Group) not to, invest or participate in the Competing Business Opportunity unless the Competing Business Opportunity has been rejected by our Company and in respect of Competing Business Opportunity, the principal terms on which our Substantial Shareholders or their respective associates shall invest or participate are no more favourable than those made available to our Company.

Each of our Substantial Shareholders has further undertaken to our Company (for itself and for the benefit of each of our subsidiaries) that with effect from the Listing Date, they shall not and shall procure that none of their associates (except for any members of our Group) shall directly or indirectly:

- at any time induce or attempt to induce any director, manager or employee or consultant of any member of our Group to terminate his or her employment or consultancy (as applicable) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as applicable); or
- at any time employ any person who has been a director, manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept orders from or do business with any person with whom any members of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or to reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

The above undertakings do not apply where our Substantial Shareholders and/or their respective associates have interests in the shares or any securities of a company that engages in the Restricted Business whose shares are listed on a recognised stock exchange provided that (a) the total number of shares held by the Substantial Shareholders and/or their respective associates in aggregate shall not exceed 10% of the issued shares of that class of our Company in question, (b) our Substantial Shareholders and their respective associates are not entitled to appoint a majority of the directors of that company, and (c) at any time there should exist at least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by our Substantial Shareholders and their respective associates in aggregate.

Further, all of our Substantial Shareholders have undertaken that they will use their best endeavours and will procure their associates (except for members of our Group) to use their best endeavours to procure that their respective employees and any company under their control, whether individually or jointly, directly or indirectly (except for those within our Group), to observe the restrictions and undertakings contained in the Deed of Non-Competition.

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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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Our Substantial Shareholders represented and warranted that, as of the date of the Deed of Non-Competition, none of them or any of the persons or companies in their control is currently interested or engaged, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise through our Group or is otherwise engaged in any business which is in competition or material competition to those of our Group.

Under the Deed of Non-Competition, our Substantial Shareholders further undertake to and covenant with our Company that during the period for which the Deed of Non-Competition is in force:

- they shall allow, and shall procure the relevant associates (excluding members of our Group) shall allow our independent non-executive Directors to review, at least on an annual basis, whether our Substantial Shareholders are in compliance with the Deed of Non-Competition;
- they shall provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- our Company shall disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-Competition either through the annual report, or by way of announcement to the public; and
- they shall provide our Company with a confirmation annually for inclusion by our Company in the annual report, in respect of their compliance with the terms of the Deed of Non-Competition.

The undertakings given by each of our Substantial Shareholders under the Deed of Non-Competition shall lapse and our Substantial Shareholders shall be released from the restrictions imposed on them upon the occurrence of the earliest of any of the following events or circumstances:

- the day on which our Shares cease to be listed on the Stock Exchange;
- the day on which our relevant Substantial Shareholder and/or his/its associates cease to hold, taken together, 10% or more of the issued share capital of our Company or otherwise our relevant Substantial Shareholder ceases to be a substantial shareholder of our Company; or
- the day on which our relevant Substantial Shareholder beneficially owns or is interested in the entire issued share capital of our Company.

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## RELATIONSHIP WITH CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES

To further protect the interests of the minority Shareholders of our Company, our Company will adopt the following corporate governance measures to manage any potential conflicts of interest:

- our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-Competition by our Substantial Shareholders;
- each of our Substantial Shareholders undertakes to provide all information requested by us which is necessary for fulfilment of the Deed of Non-Competition, including the annual review by the independent non-executive Directors;
- our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance with the Deed of Non-Competition in our Company's annual reports; and
- our Substantial Shareholders will make an annual declaration in relation to compliance with the Deed of Non-Competition in the annual report of our Company.

Further, any transaction that is proposed between our Group and our Substantial Shareholders and/or their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

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## CONTINUING CONNECTED TRANSACTIONS

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We have entered into the following transactions with five connected persons (as defined under the Listing Rules) which will continue following the Listing. Although these transactions shall constitute continuing connected transactions under the Listing Rules upon Listing, they are fully exempted from the reporting, announcement and independent Shareholders' approval requirements applicable under Chapter 14A of the Listing Rules.

### FULLY EXEMPTED CONTINUING CONNECTED TRANSACTIONS

#### Employment contract with Ms. Zhang Lingyan (章玲燕)

Ms. Zhang Lingyan (章玲燕) is a supervisor and the office manager of the general office of JiaChen Floor, niece of Mr. Shen and Ms. Zhang, cousin of Mr. Shen MH and therefore, a connected person of our Company under the Listing Rules.

Ms. Zhang Lingyan has been an employee of JiaChen Floor since September 2009. On 10 May 2019, Ms. Zhang Lingyan entered into a written employment contract ("**Ms. Zhang's Employment Contract**") with JiaChen Floor pursuant to which Ms. Zhang Lingyan was employed by JiaChen Floor as its office manager of general office with effect from 1 June 2019. We expect Ms. Zhang Lingyan will continue to be employed by JiaChen Floor at the same position upon, and following, the Listing. The term of employment under Ms. Zhang's Employment Contract will end on 31 May 2022. For the three years ended 31 December 2018, the aggregate salary paid to Ms. Zhang Lingyan was RMB45,000, RMB60,000 and RMB60,000, respectively. Our Directors estimate that the annual salary payable to Ms. Zhang Lingyan will not exceed RMB60,000, RMB60,000 and RMB60,000 for the years ending 31 December 2019, 2020 and 2021, respectively, as determined by our Directors with reference to the contractual amount payable under Ms. Zhang's Employment Contract.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5% with annual aggregated value below HK\$3,000,000, the transaction constitutes a *de minimis* continuing connected transaction, which is fully exempted from the independent Shareholders' approval, annual review and all disclosure requirements applicable under Chapter 14A of the Listing Rules.

#### Employment contract with Ms. Liu Hui (劉會)

Ms. Liu Hui (劉會) ("**Ms. Liu**") is the spouse of Mr. Shen MH, daughter-in-law of Mr. Shen and Ms. Zhang and therefore, a connected person of our Company under the Listing Rules.

Ms. Liu has been an employee of JiaChen Floor since September 2009. On 1 June 2019, Ms. Liu entered into a written employment contract ("**Ms. Liu's Employment Contract**") with JiaChen Floor, pursuant to which Ms. Liu was employed by JiaChen Floor as its purchasing manager. We expect Ms. Liu will continue to be employed by JiaChen Floor at the same position upon, and following, the Listing. The term of employment under Ms. Liu's Employment Contract will end on 31 May 2022. For the three years ended 31 December 2018, the aggregate salary paid to Ms. Liu was RMB45,000, RMB60,000 and RMB60,000, respectively. Our Directors estimate that the annual salary payable to Ms. Liu will not exceed RMB60,000, RMB60,000 and RMB60,000 for the years ending 31 December 2019, 2020 and 2021, respectively, as determined by our Directors with reference to the contractual amount payable under Ms. Liu's Employment Contract.



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## CONTINUING CONNECTED TRANSACTIONS

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Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5% with annual aggregated value below HK\$3,000,000, the transaction constitutes a *de minimis* continuing connected transaction, which is fully exempted from the independent Shareholders' approval, annual review and all disclosure requirements applicable under Chapter 14A of the Listing Rules.

### **Employment contract with Ms. Shen Aidi (沈愛娣)**

Ms. Shen Aidi (沈愛娣) (“**Ms. Shen**”) is the niece of Mr. Shen and Ms. Zhang, and the cousin of Mr. Shen MH and therefore, a connected person of our Company under the Listing Rules.

Ms. Shen has been an employee of JiaChen Floor since November 2014. On 31 October 2018, Ms. Shen entered into a written employment contract (“**Ms. Shen's Employment Contract**”) with JiaChen Floor, pursuant to which Ms. Shen was employed by JiaChen Floor as its quality inspector. We expect Ms. Shen will continue to be employed by JiaChen Floor at the same position upon, and following, the Listing. The term of employment under Ms. Shen's Employment Contract will end on 31 October 2020. For the three years ended 31 December 2018, the aggregate salary paid to Ms. Shen was RMB42,000, RMB42,000 and RMB42,000, respectively. Our Directors estimate that the annual salary payable to Ms. Shen will not exceed RMB42,000 and RMB42,000 for the years ending 31 December 2019 and 2020, respectively, as determined by our Directors with reference to the contractual amount payable under Ms. Shen's Employment Contract.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5% with annual aggregated value below HK\$3,000,000, the transaction constitutes a *de minimis* continuing connected transaction, which is fully exempted from the independent Shareholders' approval, annual review and all disclosure requirements applicable under Chapter 14A of the Listing Rules.

### **Employment contract with Mr. Wu Haijiang (吳海江)**

Mr. Wu Haijiang (吳海江) (“**Mr. Wu**”) is the spouse of Ms. Zhang Lingyan, the supervisor of JiaChen Floor and therefore, a connected person of our Company under the Listing Rules.

Mr. Wu has been an employee of JiaChen Floor since November 2015. On 31 October 2018, Mr. Wu entered into a written employment contract (“**Mr. Wu's Employment Contract**”) with JiaChen Floor pursuant to which Mr. Wu was employed by JiaChen Floor as its purchasing clerk. We expect Mr. Wu will continue to be employed by JiaChen Floor at the same position upon, and following, the Listing. The term of employment under Mr. Wu's Employment Contract will end on 31 October 2021. For the three years ended 31 December 2018, the aggregate salary paid to Mr. Wu was RMB39,000, RMB42,000 and RMB42,000, respectively. Our Directors estimate that the annual salary payable to Mr. Wu will not exceed RMB42,000, RMB42,000 and RMB42,000 for the years ending 31 December 2019, 2020 and 2021, respectively, as determined by our Directors with reference to the contractual amount payable under Mr. Wu's Employment Contract.

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## CONTINUING CONNECTED TRANSACTIONS

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Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5% with annual aggregated value below HK\$3,000,000, the transaction constitutes a *de minimis* continuing connected transaction, which is fully exempted from the independent Shareholders' approval, annual review and all disclosure requirements applicable under Chapter 14A of the Listing Rules.

### **Employment contract with Mr. Liu Wenkui (劉文奎)**

Mr. Liu Wenkui (劉文奎) (“**Mr. Liu**”) is the father-in-law of Mr. Shen MH and therefore, a connected person of our Company under the Listing Rules.

On 1 October 2017, Mr. Liu entered into a written employment contract (“**Mr. Liu's Employment Contract**”) with JiaChen Floor pursuant to the terms of which Mr. Liu was employed by JiaChen Floor as its gatekeeper. We expect Mr. Liu will continue to be employed by JiaChen Floor at the same position upon, and following, the Listing. The term of employment under Mr. Liu's Employment Contract will end on 30 September 2020. For the three years ended 31 December 2018, the aggregate salary paid to Mr. Liu was nil, RMB9,600 and RMB38,400, respectively. Our Directors estimate that the annual salary payable to Mr. Liu will not exceed RMB38,400 and RMB38,400, for the years ending 31 December 2019 and 2020, respectively, as determined by our Directors with reference to the contractual amount payable under Mr. Liu's Employment Contract.

Since the applicable percentage ratios (other than the profits ratio) for this transaction are less than 5% with annual aggregated value below HK\$3,000,000, the transaction constitutes a *de minimis* continuing connected transaction, which is fully exempted from the independent Shareholders' approval, annual review and all disclosure requirements applicable under Chapter 14A of the Listing Rules.

### **Confirmations from our Directors**

Our Directors are of the view that the continuing connected transactions disclosed above have been entered into in the ordinary and usual course of business of our Company, and the terms therein (including the salary and the proposed annual caps) are on normal commercial terms or better to our Company, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the Capitalisation Issue and the completion of the Global Offering (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme), the following persons will have or be deemed or taken to have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or are, 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:

Name of Shareholder	Nature of interest	As at the date of the submission of application for Listing		Immediately following the completion of the Capitalisation Issue and the Global Offering <sup>(Note 2)</sup>	
		Number of Shares <sup>(Note 1)</sup>	Approximate percentage of shareholding	Number of Shares <sup>(Note 1)</sup>	Approximate percentage of shareholding
Jiachen Investment <sup>(Note 3)</sup>	Beneficial owner	5,100	50.35%	377,625,000	37.76%
Mr. Shen <sup>(Notes 3 and 5)</sup>	Interest in a controlled corporation	5,100	50.35%	377,625,000	37.76%
	Interest of spouse	<u>3,125</u>	<u>30.85%</u>	<u>231,375,000</u>	<u>23.14%</u>
		8,225	81.20%	609,000,000	60.90%
Xinchen Investment <sup>(Note 4)</sup>	Beneficial owner	3,125	30.85%	231,375,000	23.14%
Ms. Zhang <sup>(Notes 4 and 5)</sup>	Interest in a controlled corporation	3,125	30.85%	231,375,000	23.14%
	Interest of spouse	<u>5,100</u>	<u>50.35%</u>	<u>377,625,000</u>	<u>37.76%</u>
		8,225	81.20%	609,000,000	60.90%
Yilong Investment <sup>(Note 6)</sup>	Beneficial owner	1,776	17.53%	131,475,000	13.15%
Mr. Shen MH <sup>(Note 6)</sup>	Interest in a controlled corporation	1,776	17.53%	131,475,000	13.15%
Ms. Liu Hui <sup>(Note 7)</sup>	Interest of spouse	1,776	17.53%	131,475,000	13.15%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme).

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## SUBSTANTIAL SHAREHOLDERS

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- (3) Jiachen Investment is wholly-owned by Mr. Shen. By virtue of the SFO, Mr. Shen is deemed to be interested in all of the Shares held by Jiachen Investment.
- (4) Xincheng Investment is wholly-owned by Ms. Zhang. By virtue of the SFO, Ms. Zhang is deemed to be interested in all of the Shares held by Xincheng Investment.
- (5) Mr. Shen and Ms. Zhang are spouses. By virtue of the SFO, Mr. Shen is deemed to be interested in all of the Shares which are held by Ms. Zhang and Ms. Zhang is deemed to be interested in all of the Shares held by Mr. Shen.
- (6) Yilong Investment is wholly-owned by Mr. Shen MH. By virtue of the SFO, Mr. Shen MH is deemed to be interested in all of the Shares held by Yilong Investment.
- (7) Mr. Shen MH and Ms. Liu Hui are spouses. By virtue of the SFO, Ms. Liu Hui is deemed to be interested in all of the Shares which are held by Mr. Shen MH.

Save as disclosed above and in the section headed “Statutory and General Information — D. Further information about our Directors” in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the completion of the Global Offering and assuming that the options which may be granted under the Share Option Scheme are not exercised, have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or are, 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.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

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## SHARE CAPITAL

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### 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 Capitalisation Issue and completion of the Global Offering:

<b>Authorised Share Capital</b>	<b>Nominal value</b>
5,000,000,000 Shares of HK\$0.01 each	HK\$ 50,000,000

Assuming the options granted under the Share Option Scheme are not exercised, the issued share capital of our Company immediately following the Global Offering and the Capitalisation Issue will be as follows:

<i>Credited as fully paid, upon completion of the Global Offering and the Capitalisation Issue</i>	<i>HK\$</i>
10,130 Shares in issue as of the date of this prospectus	101.3
749,989,870 Shares to be issued pursuant to the Capitalisation Issue	7,499,898.70
<u>250,000,000</u> Shares to be issued pursuant to the Global Offering	<u>2,500,000</u>
<u>1,000,000,000</u> Total	<u>10,000,000</u>

### ASSUMPTION

The above tables assume that the Global Offering has become unconditional. It takes no account of any Shares (a) which may be issued and allotted under the Share Option Scheme; or (b) which may be allotted and repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKINGS

The Shares are ordinary Shares in the share capital of our Company and rank *pari passu* in all respects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus (save for entitlements to the Capitalisation Issue).

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The 250,000,000 Offer Shares represent 25% of the issued share capital of our Company upon Listing (without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

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## SHARE CAPITAL

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### CAPITALISATION ISSUE

Pursuant to the written resolutions of all our Shareholders passed on 19 December 2019, conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors were authorised to allot and issue a total of 749,989,870 Shares, credited as fully paid, at par to our Shareholders whose names appear on the register of members of our Company at close of business on 19 December 2019 in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted) to their then respective shareholdings by way of capitalisation of the sum of HK\$7,499,898.70 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank equally in all respects with our existing Shares.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of Shares, namely ordinary Shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by Shareholders' ordinary resolution (i) increase its share capital; (ii) consolidate and divide its share capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by Shareholders' special resolution. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum of Association and the Articles of Association, all or any of the special rights attached to the Share or any class of Shares may 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. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law—2. Articles of Association—(a) Shares — (ii) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

### SHARE OPTION SCHEME

On 19 December 2019, we conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Statutory and general information — E. Share Option Scheme" in Appendix IV to this prospectus.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares, securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements or options which might require such Shares, securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme); and
- (ii) the nominal amount of the share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders.

This mandate to issue Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further information about our Company — 4. Resolutions in writing of all our Shareholders passed on 19 December 2019” in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following completion of the Global Offering and the Capitalisation Issue.

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## SHARE CAPITAL

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This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further information about our Company — 6. Repurchase of our Shares” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further information about our Company — 4. Resolutions in writing of all our Shareholders passed on 19 December 2019” in Appendix IV to this prospectus.



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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with our audited consolidated financial information for the Track Record Period and the accompanying notes (“Financial Information”), included in the Accountants’ Report in Appendix I to this prospectus. Our Financial Information and consolidated financial statements have been prepared in accordance with HKFRS, which may differ in certain respects from generally accepted accounting principles in other countries. Potential investors should also read the entire Accountants’ Report in Appendix I to this prospectus and should not rely merely on the information contained in this section.*

*The discussion and analysis in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in the section headed “Risk Factors” in this prospectus.*

*Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this prospectus may be due to rounding.*

*Our financial year begins on 1 January and ends on 31 December. All references to “FY2016”, “FY2017”, “FY2018”, “6M2018” and “6M2019” mean the financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, respectively.*

### OVERVIEW

We are principally engaged in the manufacturing and sales of access flooring products and provide related installation services with our headquarters based in Changzhou City, Jiangsu Province, the PRC. Our products mainly consist of (i) steel access flooring products; and (ii) calcium sulfate access flooring products.

Our presence in the access flooring manufacturing industry is established in the PRC. We have been awarded ISO 9001:2015 (Quality Management), ISO 14001:2015 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Assessment) certificates. With our commitment to quality control, our market recognition and service quality are further underpinned. We have been awarded the “Well-known Trademark of Changzhou City” (常州市知名商標證書) by the Recognition Committee of Well-known Trademark of Changzhou City (常州市知名商標認定委員會) in 2011. “Jiangsu Famous Brand Certificate” (江蘇名牌產品證書) by the Jiangsu Promotion Commission for Famous Brand Strategy (江蘇省名牌戰略推進委員會) in 2017, and the accreditation of AAA Credit Enterprise (企業信用等級證書AAA綜合信譽信用等級) by Jiangsu Branch of Lianhe Credit Information Service Co., Ltd. (聯合信用管理有限公司江蘇分公司) for the period from 2016 to 2018.

We had recorded a growth in both of our revenue and net profits attributable to owners of our Company during the Track Record Period. Our revenue amounted to approximately RMB159.6 million, RMB216.4 million, RMB248.8 million and RMB124.9 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our increase in revenue from FY2016 to FY2018 represents a CAGR of approximately 24.9%. Our net profits

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## FINANCIAL INFORMATION

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attributable to owners of our Company were approximately RMB19.2 million, RMB20.5 million, RMB24.6 million and RMB7.0 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our increase in net profits attributable to owners of our Company from FY2016 to FY2018 represents a CAGR of approximately 13.3%.

### BASIS OF PRESENTATION

Prior to the Reorganisation as detailed in Note 2(a) of the Accountants' Report set out in Appendix I to this prospectus, 50.99%, 31.25% and 17.76% of the registered capital of JiaChen Floor were directly held by Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively. Ms. Yan, as a strategic Pre-IPO investor through Crystal Breeze Ventures, made a capital contribution to JiaChen Floor for 1.27% interest of its enlarged registered capital, as further detailed in Notes 2(a)(vii) and (ix) of the Accountants' Report set out in Appendix I to this prospectus, and the shareholdings of the enlarged issued capital of JiaChen Floor held by Mr. Shen, Mrs. Shen and Mr. Shen MH were diluted to 50.34%, 30.85% and 17.54%, respectively, before completion of the equity swap as part of the Reorganisation. For further details, please refer to Note 2(a)(viii) of the Accountants' Report set out in Appendix I to this prospectus.

Immediately after the Reorganisation, as detailed in Note 2(a) of the Accountants' Report set out in Appendix I to this prospectus, 50.34%, 30.85%, 17.54% and 1.27% of the issued capital of the Company have been indirectly owned by Mr. Shen, Mrs. Shen, Mr. Shen MH and Ms. Yan, respectively, and 99.01%, 0.50%, 0.31% and 0.18% of the registered capital of JiaChen Floor have been held indirectly by the Company, Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively. There has been a continuation of the benefits and risks regarding the 99.01% of the registered capital of JiaChen Floor that were indirectly obtained by the Company from the common beneficial owners of JiaChen Floor and the Company, who are Mr. Shen, Mrs. Shen, Mr. Shen MH and Ms. Yan, in the Reorganisation. Both the Company and JiaChen Floor have been under common control by Mr. Shen, Mrs. Shen and Mr. Shen MH before and after the Reorganisation. Throughout the Track Record Period, JiaChen Floor, which is the key operating entity of our Group, has been under the same control by Mr. Shen, Ms. Zhang and Mr. Shen MH, who constituted the board of directors of each of JiaChen Floor and the Company, immediately before and after the Reorganisation.

Rui Xing Holdings and Victor Best Investment have been accounted for as subsidiaries of our Company and have been consolidated in our Group's consolidated financial statements since 15 March 2018 when our Company acquired all the issued capital of Rui Xing Holdings from Crystal Breeze Ventures under the equity swap agreement dated 15 March 2018, as further detailed in Note 2(a)(ix) of the Accountants' Report set out in Appendix I to this prospectus. Since their respective dates of incorporation, Rui Xing Holdings and Victor Best Investment have not carried out any other significant business transactions other than making the capital contribution to JiaChen Floor for 1.27% of the registered capital of JiaChen Floor on 23 January 2018, as referred to in Note 2(a)(viii) of the Accountants' Report set out in Appendix I to this prospectus, as part of the Reorganisation.

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## FINANCIAL INFORMATION

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The results of the non-listing businesses undertaken by Jia Li Si, Jiachen Machinery Plant and Jia Shen Le (the “**Carved-out Businesses**”), which were former subsidiaries of JiaChen Floor, were carved out and excluded in the Historical Financial Information at the beginning of and throughout the Track Record Period since the Carved-out Businesses are distinct, dissimilar businesses and operations which are not related to the manufacturing and sales of steel access flooring products and calcium sulfate access flooring products of our Group (the “**Listing Businesses**”), have separate management personnel and separate accounting records and have been financed separately as if they were autonomous. During the Track Record Period, as detailed in Notes 2(a)(i) and (ii) of the Accountants’ Report set out in Appendix I to this prospectus, the Carved-out Businesses were transferred to Mr. Shen, one of our Controlling Shareholders.

During the Track Record Period and up to the date of the Accountants’ Report in Appendix I to this prospectus, the Listing Businesses of our Group are conducted by JiaChen Floor, apart from which, our Company and its other subsidiaries (together, the “**Non-Operating Companies**”) have not carried out any significant business transactions, other than those involved in the Reorganisation, since their respective dates of incorporation/establishment and during the Track Record Period. The Non-Operating Companies, which do not meet the definition of a business, are inserted as holding companies of a total of 99.01% equity interests in JiaChen Floor. Accordingly, for the purpose of the Accountants’ Report in Appendix I to this prospectus, the Historical Financial Information has been prepared based on that of JiaChen Floor, using the principles of merger accounting. JiaChen Floor, being the key operating company within our Group during the Track Record Period, has become an indirect 99.01%-owned subsidiary of our Company, resulting in the Reorganisation and at the date of the Accountants’ Report in Appendix I to this prospectus. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or respective dates of incorporation/establishment, whichever is the shorter period. The consolidated statement of financial position of our Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 have been prepared to present the assets and liabilities of the companies now comprising our Group using the existing book values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or their respective dates of incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. All intra-group transactions and balances have been eliminated between the companies now comprising our Group.

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## FINANCIAL INFORMATION

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### **KEY FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

Our financial conditions, results of operations and the period to period comparability of our financial results are affected by a number of factors, including those set out below and in the section headed “Risk Factors” in this prospectus:

#### **Market demand of access flooring products in the PRC**

During the Track Record Period, approximately 92.4%, 91.8%, 90.9% and 95.4% of our revenue amounted to approximately RMB147.5 million, RMB198.7 million, RMB226.0 million and RMB119.1 million, respectively are derived from the PRC. Market demand of our access flooring products and installation services depends on a number of factors, including the investments in office buildings, proportion of office buildings adopting access flooring, the market condition and trend in the access flooring manufacturing industry. In the event that the floor space of office buildings and investments in office buildings in the PRC decrease, the demand of our products and services may fall and our results of operations and profitability may be adversely affected.

#### **Our projects are non-recurring in nature**

Our business is mainly contract-based and non-recurring in nature, which we do not have long-term commitments with our customers and the number of customers may vary year to year. As at the Latest Practicable Date, we had 59 projects on hand with a total initial contract sum of approximately RMB191.5 million, approximately RMB31.6 million was recognised as revenue during the Track Record Period, it is estimated that approximately RMB58.5 million and RMB75.9 million to be recognised as revenue for the six months ending 31 December 2019 and the year ending 31 December 2020, respectively. Upon completion of these projects, we cannot assure that we will be awarded with new projects, nor can we guarantee that we will be able to win the tender of our existing customers. In the event that we are not able to develop new customers or secure new projects from our existing customers, our results of operations and profitability may be adversely affected.

#### **We determine the tender price based on our estimation of the time and costs involved, which may not be accurate. Any material deviation may lead to losses in our projects**

We determine the tender price based on our estimated project costs plus a mark-up margin. We have to maintain the competitiveness of our pricing while maximising our profit margin. If we perceive the competition on a particular project, we may submit a more competitive tender price with a lower mark-up margin, thereby reducing our profitability. If the mark-up margin set by us is too low, we may not be able to cover the financial impact of any unfavourable circumstances during project implementation. On the other hand, if we try to cater for the unfavourable circumstances and set a significant mark-up margin, our tender may become uncompetitive. There is no assurance that we will always be able to price our tenders competitively, and failing to do so may cause us to lose the tenders, there by resulting in a decrease in the number of projects awarded to us, which in turn would adversely affect our business and results of operations.

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Most of our contracts with customers have a fixed and pre-determined contract sum throughout the contract period without any price adjustment mechanisms to accommodate any fluctuations in costs. As there is no assurance that the costs estimated for our tenders are accurate, we have to bear the risk of cost fluctuations accordingly. Cost overrun may result from inaccurate estimation of costs, disputes with parties involved in the project, changes in the regulatory requirements and government policies, inflation and unforeseen problems and other circumstances. Any of these may also give rise to delays in completion of works or even unilateral termination of contracts by our customers due to unsatisfactory performance. If we are unable to control our costs within our estimates or recover the extra costs, our profit margin and results of operations may be adversely affected.

According to the CIC Report, the average price of cold-rolled sheet and cement, being the key raw materials to production of our Group's product, recorded a CAGR of approximately 2.6% and 10.2% during the period from 2014 to 2018. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our Group's raw materials used on our profits before tax during the Track Record Period while the fluctuations in the following sensitivity analysis are assumed to be 5.0%, 10.0% and 15.0% for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 assuming all other variables remained constant.

<b>Hypothetical fluctuations</b>	<b>+/-5%</b>	<b>+/-10%</b>	<b>+/-15%</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease/increase in profit before tax			
For the year ended 31 December 2016	-/+4,709	-/+9,417	-/+14,126
For the year ended 31 December 2017	-/+6,152	-/+12,305	-/+18,457
For the year ended 31 December 2018	-/+7,339	-/+14,679	-/+22,018
For the six months ended 30 June 2019	-/+3,621	-/+7,241	-/+10,862

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as the actual effect of such hypothetical fluctuations.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified various accounting policies that are significant to the preparation of our financial information. These significant accounting policies are essential for understanding our financial conditions and results of operations which are disclosed in Note 4 of the Accountants' Report set out in Appendix I to this prospectus. In the application of our accounting policies, our Directors are required to make judgements, estimates and assumptions that affect our revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates can result in outcomes that could require a material adjustment to our revenues, expenses, assets or liabilities in the future. The estimates and underlying assumptions are reviewed by our management on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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The key assumptions concerning the future and other key sources to estimate uncertainty as at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities within the next financial year, are set out in Note 5 of the Accountants' Report set out in Appendix I to this prospectus.

The following includes our critical accounting policies, estimates and judgements applied in the preparation of our financial information:

### ***Revenue recognition***

#### *(i) Revenue from contracts with customers*

Revenue is recognised when or as the control of the access flooring products, installation services or repair services is transferred to the customer at the amount of promised consideration to which our Group is entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value-added-tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the access flooring products, installation services or repair services may be transferred over time or a point in time. Control of the access flooring products, installation services or repair services is transferred over time if our Group's performance:

- (i) provides the benefits received and consumed simultaneously by our customer;
- (ii) creates or enhances an asset that our customer controls as our Group performs; or
- (iii) 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.

If control of the access flooring products, installation services or repair services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, which is measured based on direct measurements of the value of the access flooring products, installation services or repair services transferred by our Group to our customer. Otherwise, revenue is recognised at a point in time when our customer obtains control of the access flooring products, installation services or repair services.

A contract asset is our Group's right to consideration in exchange for access flooring products, installation services or repair services that our Group has transferred to a customer, and it should be presented separately. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as contract assets and subsequently amortised when the related revenue is recognised. A contract asset becomes a receivable when receipt of the consideration is conditional only on the passage of time.

Contract assets are assessed for impairment under the same approach adopted for impairment of financial assets carried at amortised cost.

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A contract liability is our Group's obligation to supply access flooring products and/or to render the installation services to a customer for which our Group has received consideration from our customer.

The following is a description of the accounting policy for the revenue streams of our Group.

Our Group obtains revenue mainly from supplying access flooring products and/or providing installation services to the customers under the contracts entered into by our Group and the customers.

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. To the extent the transaction price includes variable consideration, i.e. as a result of contract modifications, our Group estimates the amount of variable consideration that should be included in the transaction price based on the expected value to which our Group expects to be entitled. Variable consideration is included in the transaction price if, in our Group's judgement, it is highly probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are largely based on an assessment of our Group's anticipated performance and all information (historical, current and forecasted) that is reasonably available.

When determining the transaction price, our Group considers factors such as whether there is any financing component. Our Group considers whether the payment schedule is commensurate with our Group's performance and whether the delayed payment is for finance purpose. Our Group considers that there is no significant financing arrangement with our customers.

Our Group has contracts bundled with two performance obligations, comprising supply of access flooring products and provision of installation services, of which, the promises to transfer access flooring products and installation services are capable of being distinct and separately identifiable. Accordingly, our Group allocates the transaction price based on the relative standalone selling prices of the access flooring products and installation services. The control of the access flooring products and installation services are transferred to a customer over time only when the promised access flooring products are installed onto the properties controlled by our contract customers. For those access flooring products which are delivered to but are not yet installed onto the site properties controlled by that customers, our Group bears all their risks and retains their control, the customers do not receive and consume the benefits of these uninstalled access flooring products or the value of assets under control of the customers are not enhanced and in accordance with the terms of the contracts, these uninstalled access flooring products are not yet transferred to and not yet accepted by our customers, and accordingly, these uninstalled access flooring products, which are still under control by our Group, are continued to be recognised as inventories of our Group at the reporting period end.

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The progress towards complete satisfaction of performance obligations of contracts with bundled promises for supply of the access flooring products and installation services are measured using the output method based on direct measurements of the quantities of access flooring products having been delivered and installed onto our customers' properties by reference to the progress status reports acknowledged either by our customers, or their agents, and the installation reports issued by the third-party suppliers of installation services, which install our Group's access flooring products onto the properties controlled by the customers. Our management considers that the output method would faithfully depict our Group's performance towards complete satisfaction of these performance obligations under HKFRS 15.

More specifically, revenue is recognised as follows:

- (1) Revenue from a contract with bundled performance obligations of supply of access flooring products and installation services are recognised when the control of the access flooring products and installation services are transferred to the customer over time, as our Group's performance of these contract obligations can either create or enhance the value of the site properties of the customer or the customer simultaneously receives and consumes the benefits when our Group performs over time, and is based on the direct measurement of the quantities of access flooring products having been delivered to and installed onto the customer's properties by reference to progress status reports acknowledged either by the customer or its agent, and the installation reports issued by the third-party suppliers of the installation services, which install our Group's access flooring products onto the customer's properties.
- (2) Revenue from a sales contract with a single performance obligation of supply of access flooring products is recognised when control of the access flooring products is transferred to and accepted by the customer, which is taken at the point in time when (i) the customer accepts the delivery and takes physical possession of the access flooring products delivered by our Group under a domestic sales contract; or (ii) the access flooring products are delivered and loaded onto board of the vessels and the bill of lading is passed to the customer under an export sales contract.
- (3) Revenue from a contract with single performance obligation of providing installation services is recognised when the installation services are rendered by our Group and accepted by the customer by reference to the completion report certified by the customer.
- (4) Income from provision of after-sales repair services is recognised when the after-sales repair services are rendered by our Group and accepted by the customer, in accordance with the terms of the contract made with the customer. During the Track Record Period, no after-sales repair service was rendered by our Group.



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Our Group's rights to consideration for the promised access flooring products and installation services transferred by our Group to the customers under a contract but not yet billed, as the rights to receipt of consideration are still conditional on something other than on passage of time, are recognised as contract assets, and when our Group's rights to receipt of consideration from the customers become unconditional, the rights to consideration for contract obligations performed are transferred to trade receivables. Contract assets also include retention monies, representing 3% to 10% of the contract price, retained by the customers and will be due for settlement only at the end of specified product assurance warranty period, usually within one to two years, and after physical inspection by the customers as their satisfaction to the quality of access flooring products and/or installation services transferred by our Group, in accordance with terms of the underlying contracts. The payment terms differ from contracts to contracts and are based on commercial negotiations made between our Group and the customers. Most of the payments are payable according to the specified milestone stage of performance of the contracts and with a credit term ranging from 60 to 365 days, based on our Group's evaluation on the creditworthiness of the customers. The payments are commensurate with our Group's performances and under the contracts, retention monies retained by the customers are intended for protection against non-performance. Other than the factoring arrangement for trade receivables in respect of Customer I, as referred to Note 22(a) of the Accountants' Report set out in Appendix I to this prospectus, to which our Group has allowed a credit period of 365 days from invoice date and from which our Group earns interest which is recognised as it accrues using the effective interest rate method (see (ii) below) on the trade receivables of Customer I over the credit period of 365 days at rates same as the prevailing interest rates of the related factored bank loans, our Group does not intend to give a financing to its other customers and our Group makes efforts to collect the receivables and timely monitors the credit risk.

Our Group does not have any variable consideration such as discounts, refunds, rebates, credits, penalties, performance bonus or royalties. Also, the contract modification rarely occurs, and the contract price finally confirmed by a customer upon completion of the project does not vary significantly from the original price. Trade receivables and contract assets expected to be recovered in one year or less, or within the time frame of our Group's normal business operating cycle, are classified as current asset.

There is no material incremental cost of obtaining contracts of our Group.

Cost of sales incurred comprised costs of access flooring products manufactured, including the direct materials, direct labour, depreciation and other manufacturing overheads, costs of delivery of the access flooring products to the contract customers' premise(s) or location(s) designated by the customers, costs of installing the access flooring products onto the properties of the customers and transportation costs for delivering the access flooring products to the sites designated by the customers, if applicable, under the terms of the contracts.

Our Group records contract liability for non-refundable advance payment from customers before transferring the access flooring products to the customers and, if applicable, before installing the floor products to the properties of the customers since there is still performance obligation to complete. The contract liabilities are recognised as revenue when control of the access flooring products and/or the installation services are transferred to the customers.

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*(ii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(iii) Government grant/subsidy income*

Government grant/subsidy income is recognised in the consolidated statement of financial position initially when there is reasonable assurance that it will be received and that our Group will comply with the conditions attached to it. Government grant/subsidy income that compensates the Company for expenses incurred is recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grant/subsidy income that compensates our Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### ***Inventories***

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in which the reversal occurs.

### ***Impairment of assets***

*(i) Impairment of financial assets at amortised costs and contract assets*

The adoption of HKFRS 9 has fundamentally changed our Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires our Group to record an allowance for ECLs for all financial assets not held at fair value through profit or loss ("FVTPL").

Our Group has these types of financial assets and contract assets subject to the expected credited loss model in accordance with HKFRS 9:

- Contract assets and trade and bills receivables
- Financial assets included in deposits and other receivables

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When determining whether the credit risk of a financial asset has increased significantly since its initial recognition and when estimating ECL, our Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on our Group's historical experience and informed credit assessment and including forward-looking information.

The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial asset's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to our Group.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset or contract asset. The maximum period considered when estimating ECLs is the maximum contractual period over which our Group is exposed to credit risk. For trade receivables and contract assets, our Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Our Group has established a provision matrix that is based on our Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment on contract assets, trade and bills receivables or other financial assets included in deposits and other receivables is measured as either 12-month ECL or its lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If significant increase in credit risk of a receivable or contract asset has occurred since initial recognition, impairment is measured as lifetime ECLs. If these balances are considered to be of low credit risk, impairment provision recognised, if any, is limited to 12-month ECL. The 12-month ECLs of these balances during the Track Record Period are zero.

### Measurements of ECLs

ECLs are a probability-weighted estimate of credit loss. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that our Group expects to receive).

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### Definition of default

Our Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that a financial asset, receivable or contract asset that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including our Group, in full.

Our Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, our Group may also consider a financial asset to be in default when internal or external information indicates that our Group is unlikely to receive the outstanding contractual amounts in full.

### Credit-impaired financial assets and contract assets

At each reporting date, our Group assesses on a forward-looking basis whether financial assets carried at amortised costs or contract assets are credit-impaired. A financial asset or contract asset of our Group 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 or contract asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or past due event;
- the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- it is becoming probable that the debtor will enter into bankruptcy or other financial reorganisation.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets or contract assets to become credit-impaired.

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Depending the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on a shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since its recognition. Any change in the ECL amount is recognised as an impairment credit or charge in profit or loss. Our Group recognises an impairment credit or charge for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investment in debt securities that are measured at fair value through other comprehensive income (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

### Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when our Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

### *(ii) Impairment of non-financial assets (other than contract assets)*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- land use rights;
- property, plant and equipment;
- right-of-use assets;
- intangible assets; and
- goodwill (if any).

If any such indication exists, the asset's recoverable amount is estimated.

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— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimate used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### ***Contract assets***

Upon entering into a contract with a customer, our Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide service to the customer. A contract asset is recognised when our Group has the right to consideration in exchange for goods or services that our Group has transferred to a customer when that right is conditional on something other than the passage of time (for example, our Group's future performance). A contract asset becomes a trade receivable when receipt of the consideration is conditional only on the passage of time.

The contract assets relate to unbilled work in progress and retention monies receivable and have substantially the same characteristics as the trade receivables for the same type of contracts. Impairment policy for trade receivables as detailed in Note 4 (j)(i) of the Accountants' Report set out in Appendix I to the prospectus also applies to contract assets.

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### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before our Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when our Group performs under the contract.

### *HKFRS 15 “Revenue from Contracts with Customers”*

HKFRS 15 “Revenue from Contracts with Customers”, together with Amendments to HKFRS 15 “Clarification to HKFRS 15”, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services transferred to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The principal operating activities of our Group are the manufacturing and supply and/or installation of steel access flooring products and calcium sulfate access flooring products and the performance obligations are recognised in accordance with Note 4(t)(i) of the Accountants’ Report set out in Appendix I to this prospectus.

HKFRS 15 is mandatorily effective for accounting period beginning on or after 1 January 2018 and, as earlier adoption is permitted, has been early adopted since 1 January 2014, being the same date of early adoption of HKFRS 16 “Leases”, and has been applied consistently in the preparation of the Historical Financial Information throughout the Track Record Period.

Apart from reclassifications for certain items in consolidated financial statements, there was no significant impact on our Group’s performance upon adoption of HKFRS 15 when compared to that of HKAS 18 or HKAS 11, as appropriate.

Under HKFRS 15, a receivable is recognised only if our Group has an unconditional right to consideration. If our Group recognises the related revenue (see Note 4(t)(i) of the Accountants’ Report set out in Appendix I to this prospectus) before unconditionally entitled to the consideration for the promised goods and services in contract, then the entitlement to the consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when the customer pays non-refundable consideration, or is conditionally required to pay non-refundable consideration and the amount is already due, before our Group recognises the related revenue. Before adoption of HKFRS 15, in the statement of financial position, contract assets were presented under “Trade receivables” and contract liabilities were presented under “Accruals and other payables”.

Under HKFRS 15, the transportation costs are classified and included in the cost of sales as they constitute contract costs to fulfill the performance obligation of sales of goods to customers. Before adoption of HKFRS 15, transportation costs were treated as distribution costs.

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### SUMMARY OF RESULTS OF OPERATIONS

The following consolidated statements of profit or loss and other comprehensive income for the Track Record Period, are extracted from, and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>6M2018</b>	<b>6M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
<b>Revenue</b>	159,603	216,360	248,785	112,670	124,888
Cost of sales	<u>(122,398)</u>	<u>(162,616)</u>	<u>(188,619)</u>	<u>(86,339)</u>	<u>(94,046)</u>
<b>Gross profit</b>	37,205	53,744	60,166	26,331	30,842
Other revenue and other net income	1,539	410	876	295	734
Selling and distribution expenses	(3,008)	(5,149)	(5,217)	(2,943)	(2,605)
Impairment of contract assets and trade receivables	(386)	(3,312)	(2,722)	(2,369)	(3,192)
Impairment of other receivables	—	—	—	—	(323)
Administrative expenses	<u>(9,491)</u>	<u>(18,230)</u>	<u>(18,306)</u>	<u>(7,824)</u>	<u>(12,741)</u>
<b>Profit from operations</b>	25,859	27,463	34,797	13,490	12,715
Finance costs	<u>(3,031)</u>	<u>(3,680)</u>	<u>(4,814)</u>	<u>(2,408)</u>	<u>(3,757)</u>
<b>Profit before taxation</b>	22,828	23,783	29,983	11,082	8,958
Income tax	<u>(3,466)</u>	<u>(3,125)</u>	<u>(5,132)</u>	<u>(1,381)</u>	<u>(1,899)</u>
<b>Profit and total comprehensive income for the year/period</b>	<u>19,362</u>	<u>20,658</u>	<u>24,851</u>	<u>9,701</u>	<u>7,059</u>
<b>Attributable to:</b>					
Owners of our Company	19,168	20,451	24,605	9,605	6,989
Non-controlling interests	<u>194</u>	<u>207</u>	<u>246</u>	<u>96</u>	<u>70</u>
<b>Profit and total comprehensive income for the year/period</b>	<u>19,362</u>	<u>20,658</u>	<u>24,851</u>	<u>9,701</u>	<u>7,059</u>



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### PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

During the Track Record Period, our Group recorded revenue of approximately RMB159.6 million, RMB216.4 million, RMB248.8 million and RMB124.9 million respectively; and for the same periods, our Group recorded profit and total comprehensive income for the year/period of approximately RMB19.4 million, RMB20.7 million, RMB24.9 million and RMB7.1 million, respectively.

The following discussion is based on our historical results of operations and may not be indicative of our future operating performance.

### REVENUE

We generate revenue primarily from the sales of access flooring products manufactured by us. Our products mainly consist of (i) steel access flooring products; and (ii) calcium sulfate access flooring products. In addition to supply of products to our customers, they would generally engage us for the sales of access flooring products with installation services. Please refer to the section headed “Business — Our products and services” in this prospectus for further details.

During the Track Record Period, our revenue recorded a growth by approximately 35.6% from FY2016 to FY2017, and approximately 15.0% from FY2017 to FY2018. With reference to the CIC Report, from 2014 to 2018, the revenue in the access flooring manufacturing industry increased from approximately RMB4,948.4 million to approximately RMB6,336.4 million, demonstrating a CAGR of approximately 6.4%. According to the CIC Report, we were the third largest player in access flooring manufacturing industry with a market share of approximately 3.6% in terms of revenue in the PRC in 2018. Our Directors believed that our Group captured the industry growth and recorded a growth in revenue during the Track Record Period. Besides, the total floor space for newly completed high-end office buildings in Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province increased at a CAGR of approximately 46.7% between 2014 and 2018, increasing from approximately 1.1 million sq.m. in 2014 to approximately 5.1 million sq.m. in 2018. And our revenue derived from these four areas amounted to approximately RMB85.0 million, RMB110.4 million, RMB157.9 million and RMB87.8 million respectively during the Track Record Period. Our revenue derived from these four areas from FY2016 to FY2018 represent an increase at a CAGR of approximately 36.3%. Revenue derived from these four areas accounted for approximately 53.3%, 51.0%, 63.5% and 70.3% of our total revenue during the Track Record Period.

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## FINANCIAL INFORMATION

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### Revenue by product type

The following table sets out a breakdown of our revenue by types of our major products during the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Steel access flooring products	139,507	87.4	185,617	85.8	204,319	82.1	90,593	80.4	109,594	87.8
Calcium sulfate access flooring products	20,096	12.6	30,743	14.2	44,466	17.9	22,077	19.6	15,294	12.2
Total	<u>159,603</u>	<u>100.0</u>	<u>216,360</u>	<u>100.0</u>	<u>248,785</u>	<u>100.0</u>	<u>112,670</u>	<u>100.0</u>	<u>124,888</u>	<u>100.0</u>

*Note:* The revenue shown above includes revenue derived from our provision of installation services of the respective product.

### Steel access flooring products

Our revenue derived from sales of steel access flooring products increased by approximately 33.1% from approximately RMB139.5 million for FY2016 to approximately RMB185.6 million for FY2017, and further increased by approximately 10.1% to approximately RMB204.3 million for FY2018. We then recorded revenue derived from sales of steel access flooring products of approximately RMB109.6 million for 6M2019. Our revenue derived from sales of steel access flooring products representing approximately 87.4%, 85.8%, 82.1% and 87.8% of our total revenue for the corresponding periods.

### Calcium sulfate access flooring products

Our revenue derived from sales of calcium sulfate access flooring products had an increasing trend from FY2016 to FY2018. Our revenue from sales of calcium sulfate access flooring products increased by approximately 53.0% from approximately RMB20.1 million for FY2016 to approximately RMB30.7 million for FY2017, and further increased by approximately 44.6% to approximately RMB44.5 million for FY2018. We then recorded revenue derived from sales of calcium sulfate access flooring products of approximately RMB15.3 million for 6M2019. Our revenue derived from sales of calcium sulfate access flooring products representing approximately 12.6%, 14.2%, 17.9% and 12.2% of our total revenue for the corresponding periods.

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The following table sets out a breakdown of the sales volume and average unit selling price of our access flooring products during the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>	<i>million sq.m.</i>	<i>RMB/sq.m.</i>
	<i>(unaudited)</i>									
Steel access flooring products	1.23	113.5	1.51	122.9	1.68	121.9	0.76	118.6	0.91	120.3
Calcium sulfate access flooring products	<u>0.13</u>	158.9	<u>0.19</u>	164.9	<u>0.26</u>	171.7	<u>0.14</u>	156.1	<u>0.09</u>	168.5
Total	<u>1.36</u>		<u>1.70</u>		<u>1.94</u>		<u>0.90</u>		<u>1.00</u>	

During the Track Record Period, fluctuations in the sales volume of our access flooring products were mainly due to different product mix in demand by our customers, which is mainly subject to the market demand and the needs of the relevant customers. Our Directors considered that both product specifications and technical requirements are the major factors affecting the product and/or service price. Based on the market needs, we usually adopt a cost-plus pricing policy that takes various factors into consideration, such as the production cost, price of raw materials, suppliers of installation services, purchase volume of the customers, background of the customers and competition.

### Revenue by service type

We offer our products and services either on sales of access flooring products or sales of access flooring products with installation services to accommodate various needs of our customers. We engage suppliers of installation services to perform the relevant installation services. The following table sets out a breakdown of our revenue by types of products and services provided during the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	<i>(unaudited)</i>									
Sales of access flooring products with installation services <i>(Note)</i>	134,901	84.5	188,931	87.3	186,546	75.0	90,159	80.0	103,515	82.9
Sales of access flooring products	<u>24,702</u>	<u>15.5</u>	<u>27,429</u>	<u>12.7</u>	<u>62,239</u>	<u>25.0</u>	<u>22,511</u>	<u>20.0</u>	<u>21,373</u>	<u>17.1</u>
Total	<u>159,603</u>	<u>100.0</u>	<u>216,360</u>	<u>100.0</u>	<u>248,785</u>	<u>100.0</u>	<u>112,670</u>	<u>100.0</u>	<u>124,888</u>	<u>100.0</u>

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*Note:* Our Directors confirmed that, during the Track Record Period, there were ten installation only services provided which amounted to approximately RMB0.4 million, RMB0.3 million, RMB36,000 and RMB0.9 million, respectively. For illustration purpose, as the amounts are not material, such installation only services are grouped into our sales of access flooring products with installation services.

Our revenue was mainly derived from the bundle contracts comprising our sales of access flooring products with installation services, which contributed approximately 84.5%, 87.3%, 75.0% and 82.9% for FY2016, FY2017, FY2018 and 6M2019, respectively. Our revenue from the sales of access flooring products contributed approximately 15.5%, 12.7%, 25.0% and 17.1% for FY2016, FY2017, FY2018 and 6M2019, respectively. The decrease in our sales of access flooring products with installation services from approximately RMB188.9 million for FY2017 to approximately RMB186.5 million for FY2018 was mainly due to decrease in the volume of calcium sulfate access flooring products for sales of access flooring products with installation services, which generally have higher unit selling price as compared to our steel access flooring products.

During the Track Record Period, most of our projects were bundled with two elements, comprising sales of access flooring products with installation services. Our revenue from these projects is recognised over time when the access flooring products are installed onto the properties. For the sales of access flooring products, they are derived from our PRC and overseas customers and our revenue from these contracts is recognised at a point of time when the control of the access flooring products is transferred to our customers.

### Revenue by geographical location

The following table sets out a breakdown of our revenue by geographical location of our customers for the periods indicated:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
PRC	147,517	92.4	198,717	91.8	226,046	90.9	102,032	90.6	119,111	95.4
Thailand	2,011	1.3	1,995	0.9	2,674	1.1	1,234	1.1	1,617	1.3
Malaysia	2,730	1.7	2,469	1.1	3,075	1.2	1,439	1.3	1,169	0.9
Taiwan	1,506	0.9	3,238	1.5	2,956	1.2	1,653	1.5	741	0.6
Hong Kong	2,271	1.4	1,885	0.9	1,867	0.7	515	0.5	498	0.4
Singapore	1,221	0.8	5,136	2.4	9,247	3.7	4,985	4.4	235	0.2
Others <i>(Note)</i>	2,347	1.5	2,920	1.4	2,920	1.2	812	0.6	1,517	1.2
<b>Total</b>	<b>159,603</b>	<b>100.0</b>	<b>216,360</b>	<b>100.0</b>	<b>248,785</b>	<b>100.0</b>	<b>112,670</b>	<b>100.0</b>	<b>124,888</b>	<b>100.0</b>

*Note:* Others include Bangladesh, Cambodia, Dubai, Egypt, Ethiopia, Ghana, India, Indonesia, Japan, Korea, Kuwait, Maldives, Mexico, Oman, Panama, Philippines, Qatar, Romania, Saudi Arabia, Sri Lanka, Turkey and Vietnam.

During the Track Record Period, our customers are mainly located in the PRC. For overseas markets, our revenue is mainly derived from Thailand, Malaysia, Taiwan, Hong Kong and Singapore and so on during the Track Record Period.

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During the Track Record Period, our products were mainly applied in the PRC, to a lesser extent, exported to overseas markets such as Thailand, Malaysia, Taiwan, Hong Kong and Singapore, etc. Revenue from the PRC contributed approximately RMB147.5 million, RMB198.7 million, RMB226.0 million and RMB119.1 million respectively during the Track Record Period, which accounted for approximately 92.4%, 91.8%, 90.9% and 95.4% of our total revenue for the corresponding periods. Revenue from overseas markets contributed approximately 7.6%, 8.2%, 9.1% and 4.6% during the Track Record Period.

### Revenue from contracts with customers by types of performance obligations

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sales of access flooring products	151,504	94.9	205,922	95.2	238,202	95.7	107,565	95.5	118,444	94.8
Provision of installation services	8,099	5.1	10,438	4.8	10,583	4.3	5,105	4.5	6,444	5.2
Total	<u>159,603</u>	<u>100.0</u>	<u>216,360</u>	<u>100.0</u>	<u>248,785</u>	<u>100.0</u>	<u>112,670</u>	<u>100.0</u>	<u>124,888</u>	<u>100.0</u>

During the Track Record Period, our revenue from contracts with customers by types of performance obligations was mainly derived from sales of access flooring products, which contributed approximately 94.9%, 95.2%, 95.7% and 94.8% of our total revenue for the corresponding periods. The increase in the revenue from sales of access flooring products from approximately RMB151.5 million for FY2016 to approximately RMB205.9 million for FY2017 was mainly attributable to the sales of calcium sulfate access flooring products, which generally have higher unit selling price, increased by approximately RMB10.6 million or 53.0% from FY2016 to FY2017. The revenue from sales of access flooring products was further increased to approximately RMB238.2 million for FY2018 from approximately RMB205.9 million for FY2017, which was mainly attributable to the revenue derived from contracts from sales of access flooring products increased by approximately RMB34.8 million or 126.9%.

Our revenue from provision of installation services accounted for approximately 5.1%, 4.8%, 4.3% and 5.2% of our total revenue for FY2016, FY2017, FY2018 and 6M2019, respectively. The increase in provision of installation services from approximately RMB8.1 million for FY2016 to approximately RMB10.4 million for FY2017 was mainly attributable to the increased sales volume to approximately 1.7 million sq.m. for FY2017 from approximately 1.4 million sq.m. for FY2016 resulting from the increased bundle contracts awarded.

## FINANCIAL INFORMATION

### COST OF SALES

The following table sets out a breakdown of our cost of sales by nature for the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Raw materials consumed	94,171	77.0	123,045	75.7	146,789	77.8	66,878	77.5	72,414	77.0
Transportation costs	8,617	7.1	11,714	7.2	12,278	6.5	5,797	6.7	6,244	6.6
Installation costs	6,856	5.6	9,266	5.7	9,463	5.0	4,582	5.3	5,551	5.9
Staff costs	3,310	2.7	5,647	3.5	6,609	3.5	3,265	3.8	3,355	3.6
Water, fuel and electricity	2,853	2.3	4,289	2.6	5,049	2.7	2,379	2.7	2,626	2.8
Depreciation of property, plant and equipment	3,582	2.9	3,643	2.2	3,699	2.0	1,843	2.1	1,904	2.0
Other factory overheads	2,465	2.0	4,365	2.7	4,085	2.2	1,271	1.5	1,628	1.7
Amortisation of right-of-use assets	544	0.4	647	0.4	647	0.3	324	0.4	324	0.4
Total	<u>122,398</u>	<u>100.0</u>	<u>162,616</u>	<u>100.0</u>	<u>188,619</u>	<u>100.0</u>	<u>86,339</u>	<u>100.0</u>	<u>94,046</u>	<u>100.0</u>

### Raw materials consumed

We use a variety of raw materials in our production process, which primarily comprises steel (including galvanised sheets), cement, packaging material, aluminum head, fibre, welding pipe and other materials such as gesso, overlaying and gypsum powder. Our raw materials consumed represented approximately 77.0%, 75.7%, 77.8% and 77.0% of our total cost of sales for the Track Record Period.

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Steel	74,130	78.7	88,515	71.9	100,062	68.2	45,390	67.9	51,972	71.8
Cement	5,488	5.8	6,703	5.4	11,513	7.8	4,687	7.0	5,259	7.3
Packaging material	2,107	2.2	5,611	4.6	6,706	4.6	3,244	4.8	3,484	4.8
Aluminum head	1,127	1.2	5,459	4.4	7,407	5.0	3,260	4.9	2,859	3.9
Fibre	1,072	1.2	2,523	2.1	4,119	2.8	2,206	3.3	2,316	3.2
Welding pipe	2,142	2.3	2,889	2.3	2,575	1.8	1,199	1.8	1,230	1.7
Others — individually insignificant	8,105	8.6	11,345	9.3	14,407	9.8	6,892	10.3	5,294	7.3
	<u>94,171</u>	<u>100.0</u>	<u>123,045</u>	<u>100.0</u>	<u>146,789</u>	<u>100.0</u>	<u>66,878</u>	<u>100.0</u>	<u>72,414</u>	<u>100.0</u>

During the Track Record Period, there was generally a decreasing trend in the portion of steel consumed to the total raw materials used. Such decrease was mainly due to the decrease in the thickness of steel plates we used to manufacture our steel access flooring products. And there was an increasing trend in the portion of cement consumed to the total raw materials used which is used to fill the steel structure of our steel access flooring products.

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### **Transportation costs**

Our transportation costs represented the expenses incurred for delivery of our products to our customer's designated sites by third-party logistics service providers. During the Track Record Period, our transportation costs amounted to approximately RMB8.6 million, RMB11.7 million, RMB12.3 million and RMB6.2 million respectively.

### **Installation costs**

Our installation costs mainly represented the installation fees charged by suppliers of installation services for provision of installation services of our access flooring products at designated sites, for further details about the arrangements, please refer to section headed "Business— Suppliers and raw materials — Engagement of suppliers of installation services" in this prospectus.

### **Staff costs**

Our staff costs in cost of sales primarily represented salaries and other staff benefits provided to staff directly involved in the production and manufacturing.

### **Water, fuel and electricity**

Water, fuel and electricity represented the utility expenses incurred in the production and manufacturing.

### **Other factory overheads**

Other factory overheads represented expenses related to repair and maintenance, replacement of parts of machinery and consumables.

### **Depreciation of property, plant and equipment**

Depreciation in our cost of sales mainly represented the depreciation of our property, plant and equipment directly used in the production and manufacturing.

### **Amortisation of right-of-use assets**

Amortisation in our cost of sales primarily included the amortisation of the right-of-use assets which represented our Group's rights to use a leased factory building located in the PRC.

## FINANCIAL INFORMATION

### GROSS PROFIT AND GROSS PROFIT MARGIN

During the Track Record Period, we recorded gross profit of approximately RMB37.2 million, RMB53.7 million, RMB60.2 million and RMB30.8 million, respectively, and gross profit margin of approximately 23.3%, 24.8%, 24.2% and 24.7%, respectively.

The following table sets out a breakdown of our gross profit and gross profit margin by types of major products for the periods indicated:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Steel access flooring products	31,652	22.7	44,068	23.7	48,387	23.7	21,277	23.5	27,145	24.8
Calcium sulfate access flooring products	5,553	27.6	9,676	31.5	11,779	26.5	5,054	22.9	3,697	24.2
Total	<u>37,205</u>	23.3	<u>53,744</u>	24.8	<u>60,166</u>	24.2	<u>26,331</u>	23.4	<u>30,842</u>	24.7

Our gross profit from steel access flooring products accounted for majority of our gross profit for the respective periods. Our gross profit margin of our access flooring products is a combined result of gross profit margin of individual contracts we undertook, which is in turn affected by various factors, including but not limited to the tender or quotation price, scale, project specifications and other estimated costs, that vary project to project. For detail of the pricing policy, please refer to the section headed “Business — Customers — Pricing policy and tender strategy” in this prospectus.

The following table sets out a breakdown of our gross profit and gross profit margin from contracts with customers by types of performance obligations:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sales of access flooring products	35,962	23.7	52,572	25.5	59,046	24.8	25,808	24.0	29,948	25.3
Provision of installation services	1,243	15.3	1,172	11.2	1,120	10.6	523	10.2	894	13.9
Total	<u>37,205</u>	23.3	<u>53,744</u>	24.8	<u>60,166</u>	24.2	<u>26,331</u>	23.4	<u>30,842</u>	24.7



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During the Track Record Period, our gross profit from sales of access flooring products accounted for majority of our gross profit of approximately RMB36.0 million, RMB52.6 million, RMB59.0 million and RMB29.9 million, respectively, and gross profit margin of approximately 23.7%, 25.5%, 24.8% and 25.3%, respectively. Our gross profit from sales of access flooring products increased to approximately RMB52.6 million for FY2017 from approximately RMB36.0 million for FY2016, which was mainly due to the gross profit of calcium sulfate access flooring products which had higher gross profit margin increased by approximately RMB4.1 million or 74.2%.

During the Track Record Period, our gross profit from provision of installation services accounted for approximately RMB1.2 million, RMB1.2 million, RMB1.1 million and RMB0.9 million, respectively, and gross profit margin of approximately 15.3%, 11.2%, 10.6% and 13.9%, respectively. The decrease in the gross profit margin of provision of installation service from approximately 15.3% for FY2016 to approximately 11.2% for FY2017 was mainly due to the cost of installation services increased while the price remained stable.

### OTHER REVENUE AND OTHER NET INCOME

The following table sets out a breakdown of our other revenue and other net income for the Track Record Period:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>6M2018</b>	<b>6M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Other revenue:					
Bank interest income	71	114	104	68	56
Other interest income	—	—	—	—	233
Other net income:					
Government subsidies	251	402	238	180	59
Scrap sales	370	376	559	191	379
Net gain/(loss) on disposal of property, plant and equipment	157	(651)	(37)	(23)	(7)
Exchange gain/(loss), net	261	(219)	(112)	(227)	14
Sundry income	429	388	124	106	—
	1,539	410	876	295	734

Our other revenue and other net income mainly included (i) government subsidies, which were received from the local government authorities in the PRC and there were no conditions attached to the grants and subsidies received by our Group; (ii) bank interest income, which mainly represented the bank interest income from our deposits placed with banks in the PRC; (iii) other interest income, which represented the interest income received from our customer to reimburse the interest expense

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## FINANCIAL INFORMATION

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derived from the factoring agreements entered into between the Group and the bank; (iv) scrap sales, which primarily represented the income from sales of scrap materials; and (v) net gain/(loss) on disposal of property, plant and equipment, which primarily represented the gain/(loss) on disposal of obsolete equipment and motor.

### SELLING AND DISTRIBUTION EXPENSES

The following table sets out a breakdown of our selling and distribution expenses during the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Staff costs	1,956	65.1	2,939	57.1	3,202	61.4	1,681	57.1	1,617	62.1
Service expenses	340	11.3	152	2.9	310	5.9	245	8.3	338	13.0
Travel and entertainment expenses	175	5.8	1,064	20.7	786	15.1	538	18.3	240	9.2
Motor vehicle expenses	37	1.2	306	5.9	316	6.1	170	5.8	116	4.5
Rental expenses	149	5.0	263	5.1	200	3.8	97	3.3	114	4.4
Depreciation and amortisation	186	6.2	184	3.6	204	3.9	102	3.5	100	3.8
Transportation expenses	61	2.0	73	1.4	85	1.6	39	1.3	42	1.6
Advertisement expenses	103	3.4	118	2.3	56	1.1	53	1.8	29	1.1
Others	<u>1</u>	<u>0.0</u>	<u>50</u>	<u>1.0</u>	<u>58</u>	<u>1.1</u>	<u>18</u>	<u>0.6</u>	<u>9</u>	<u>0.3</u>
	<u>3,008</u>	<u>100.0</u>	<u>5,149</u>	<u>100.0</u>	<u>5,217</u>	<u>100.0</u>	<u>2,943</u>	<u>100.0</u>	<u>2,605</u>	<u>100.0</u>

Our selling and distribution expenses mainly included (i) staff costs, which primarily represented our sales and marketing staff's salaries and wages and contributions to defined contribution retirement plans, which represented our Group's contributions to defined contribution retirement plans for our sales and marketing staff; (ii) travel and entertainment expenses, which represented the costs incurred for sales and marketing activities; (iii) service expenses, which primarily included expenses for tendering and trading platform services; (iv) advertisement expenses, mainly represented expenses for placing advertisements on outdoor advertising display board; (v) depreciation and amortisation, which mainly represented the depreciation expenses of furniture and fixtures used in our sales offices and motor vehicles used by our staff for conducting sales and marketing activities and amortisation of our right-of-use assets; (vi) rental expenses, which mainly represented the rental expenses of our sales offices; (vii) motor vehicle expenses, which mainly included the fuel expenses and toll road fees incurred in the sales and marketing activities; (viii) transportation expenses, which represented expenses incurred by our sales and marketing staff; and (ix) others, which mainly include office expenses, etc. As a percentage of total revenue, our selling and distribution expenses accounted from approximately 1.9%, 2.4%, 2.1% and 2.1% of our revenue during the Track Record Period, respectively.

## FINANCIAL INFORMATION

### IMPAIRMENT OF CONTRACT ASSETS AND TRADE RECEIVABLES

The impairment losses in respect of contract assets, trade and bills receivables are recorded using an allowance account unless our Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly. In order to determine the impairment losses for the portfolio of contract assets and trade receivables at each reporting period end, our Group uses a provision matrix. The provision matrix is based on its historical observed default rates, adjusted for subsequent settlements and forward-looking economic and market conditions. At each of the reporting period end, the historical observed default rates and the forward-looking estimates are updated.

Our impairment of contract assets and trade receivables increased from approximately RMB0.4 million for FY2016 to RMB3.3 million for FY2017, then decreased to approximately RMB2.7 million for FY2018, which generally in line with our increasing trend in contract assets and trade receivables. Our impairment of contract assets and trade receivables increased from approximately RMB2.4 million for 6M2018 to approximately RMB3.2 million of 6M2019, which was primarily due to the slight increase in the gross carrying amount of our contract assets and trade and bills receivables. However, it is noted that our Group's customers are mainly large property developers and stated-owned enterprises with high credit rating and good payment history with our Group which also contributed to the assessment of our impairment of contract assets and trade receivables. For details, please refer to Notes 21(a)(vi) and 22(b) of the Accountants' Report set out in Appendix I to this prospectus.

### ADMINISTRATIVE EXPENSES

The following table sets out a breakdown of our administrative expenses during the Track Record Period:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Listing expenses	—	—	4,338	23.8	4,085	22.3	1,302	16.6	4,939	38.7
Research and development costs	6,172	65.0	7,850	43.1	8,282	45.2	3,318	42.4	4,698	36.9
Staff costs	1,150	12.1	1,962	10.8	2,310	12.6	1,290	16.5	1,162	9.1
Service expenses	322	3.4	1,071	5.9	415	2.3	240	3.1	482	3.8
Directors' emoluments	416	4.4	972	5.3	852	4.7	480	6.1	421	3.3
Depreciation and amortisation	324	3.4	462	2.5	579	3.2	297	3.8	397	3.1
Other tax expenses	262	2.8	320	1.8	290	1.6	122	1.6	124	1.0
Travel and entertainment expenses	129	1.4	433	2.4	343	1.9	254	3.2	35	0.3
Others	716	7.5	822	4.4	1,150	6.2	521	6.7	483	3.8
	<u>9,491</u>	<u>100.0</u>	<u>18,230</u>	<u>100.0</u>	<u>18,306</u>	<u>100.0</u>	<u>7,824</u>	<u>100.0</u>	<u>12,741</u>	<u>100.0</u>

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Our administrative expenses mainly included (i) research and development costs, which mainly represented our costs incurred on product development, mainly including raw materials consumed and staff costs; (ii) staff costs, which primarily represented our general administration staff's salaries and wages and other staff benefits and contributions to defined contribution retirement plans, which represented our Group's contributions to defined contribution retirement plans for our general administration staff; (iii) Directors' emoluments, which primarily represented salaries and wages, contributions to pension schemes and other benefits provided to our Directors; (iv) service expenses, which mainly represented expenses for professional services including audit fee and legal services fee, consultation services, valuation services, software services and network services; (v) travel and entertainment expenses, which mainly represented the expenses incurred by our management for visiting our existing and/or potential customers and suppliers; (vi) other tax expenses, which mainly included land use tax and property tax; (vii) depreciation and amortisation, which were depreciation expenses of property, plant and equipment and right-of-use assets; and amortisation of intangible assets and land use rights; (viii) Listing expenses, which were recognised based on the amount of works performed by the professional parties in the relation to the Listing and our Group commenced its preparation of the Listing application in 2017; and (ix) others, which mainly include office expenses, insurance expenses and motor vehicle expenses, etc. As a percentage of total revenue, our administrative expenses accounted for approximately 5.9%, 8.4%, 7.4% and 10.2% of our total revenue during the Track Record Period, respectively. Excluding the Listing expenses, our administrative expenses accounted for approximately 5.9%, 6.4%, 5.7% and 6.2% of our revenue during the respective periods.

### FINANCE COSTS

Our finance costs during the Track Record Period mainly represented interest expenses on interest-bearing borrowings as set out below:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>6M2018</u>	<u>6M2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Interest on bank borrowings	1,185	1,593	3,073	1,909	3,619
Interest on other borrowings	94	676	468	248	—
Implicit interest on loans from related parties and amounts due to Shareholders and Directors	1,439	1,208	216	172	—
Loss on derecognition of financial assets upon factoring without recourse	—	—	899	—	67
Unwinding of finance costs on lease liabilities	313	203	158	79	71
	<u>3,031</u>	<u>3,680</u>	<u>4,814</u>	<u>2,408</u>	<u>3,757</u>

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### INCOME TAX EXPENSE

During the Track Record Period, our income tax expense comprised our current tax recognised for the year. The following table sets out a breakdown of our income tax expense during the Track Record Period:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>6M2018</b>	<b>6M2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Current tax:					
PRC Corporate Income Tax					
- Charge for the year/period	3,902	3,622	6,788	2,949	2,697
	3,902	3,622	6,788	2,949	2,697
Deferred tax:					
- Origination and reversal of temporary differences	(436)	(497)	(1,656)	(1,568)	(798)
	3,466	3,125	5,132	1,381	1,899

Our Group was not subject to any income tax in the Cayman Islands, BVI and Hong Kong during the Track Record Period. Our Group's revenue during the Track Record Period was principally derived in the PRC and, therefore, our Group was subject to the PRC Corporate Income Tax. The provision for PRC Corporate Income Tax has been calculated at the applicable tax rates on our estimated assessable profits as determined in accordance with the relevant income tax rules and regulations of the PRC. Our major operating subsidiary, namely JiaChen Floor, had been first recognised as a "New and High Technology Enterprise" in 2015 and subject to a preferential tax rate of 15% for three years since 2015. For the years ended 31 December 2016 and 2017, JiaChen Floor was therefore subject to a preferential tax rate of 15% for FY2016 and FY2017. During the process of renewing the status of "New and High Technology Enterprise" in FY2018, due to the inadvertent input error made by the responsible staff, the description of technical field in the application document was inaccurate which did not meet the criteria of "New and High Technology Enterprise" and our Group ceased to be recognised as a "New and High Technology Enterprise". As such, subsequent to 31 December 2017 and during the year ended 31 December 2018 and the six months ended 30 June 2019, our Group was subject to Corporate Income Tax at the standard rate of 25%. We re-applied for such status for JiaChen Floor in June 2019, and the application was approved in November 2019. During the Track Record Period, in accordance with the then applicable notice "Cai Shui 2015 Notice 119" and the new notice "Cai Shui 2018 Notice 99", for each of the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019, 50%, 50%, 75% and 75% of our Group's qualifying research and

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development expenses were allowed, respectively, as additional deductions for the purposes of the corporate income tax calculations. Therefore, our effective tax rate, which is calculated based on income tax expenses divided by profit before income tax, was approximately 15.2%, 13.1%, 17.1% and 21.2% for the Track Record Period.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### FY2016 compared to FY2017

##### *Revenue*

Our total revenue increased by approximately RMB56.8 million to approximately RMB216.4 million for FY2017 from approximately RMB159.6 million for FY2016, primarily driven by (i) the increase in our revenue derived from the sales of steel access flooring products to approximately RMB185.6 million for FY2017 from approximately RMB139.5 million for FY2016; and (ii) the increase in our revenue derived from the sales of calcium sulfate access flooring products to approximately RMB30.7 million for FY2017 from approximately RMB20.1 million for FY2016. Our revenue derived from Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province increased by approximately RMB25.4 million from approximately RMB85.0 million in FY2016 to approximately RMB110.4 million in FY2017 which is generally in line with the increased total floor space for newly completed high-end office buildings in these four areas at a CAGR of approximately 46.7% between 2014 to 2018 as stated in the CIC Report.

Our revenue from the sales of steel access flooring products increased by approximately RMB46.1 million, primarily attributable to the increased sales volume to approximately 1.5 million sq.m. for FY2017 from approximately 1.2 million sq.m. for FY2016, as well as the increased average unit selling price to approximately RMB122.9 per sq.m. for FY2017 from approximately RMB113.5 per sq.m. for FY2016, mainly resulting from the increase in our sales of access flooring products with installation services performed for our customers.

Our revenue from the sales of calcium sulfate access flooring products increased by approximately RMB10.6 million, primarily attributable to the increased sales volume to approximately 0.2 million sq.m. for FY2017 from approximately 0.1 million sq.m. for FY2016, as well as the increased average unit selling price to approximately RMB164.9 per sq.m. for FY2017 from approximately RMB158.9 per sq.m. for FY2016, mainly due to the increased penetration rate due to its high performance.

##### *Cost of sales*

Our cost of sales increased by approximately RMB40.2 million, or approximately 32.9% to approximately RMB162.6 million for FY2017 from approximately RMB122.4 million for FY2016, which was primarily driven by (i) the increase in our raw materials consumed to approximately RMB123.0 million for FY2017 from approximately RMB94.2 million for FY2016 which was in line with the increase in our revenue; (ii) the increase in transportation costs to approximately RMB11.7 million for FY2017 from approximately RMB8.6 million for FY2016 which was in line with the

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increase in our revenue; and (iii) the increase in installation costs to approximately RMB9.3 million for FY2017 from approximately RMB6.9 million for FY2016, resulting from the increased use of suppliers of installation services due to the increase in the portion of revenue derived from our sales of access flooring products with installation services from 84.5% in FY2016 to 87.3% in FY2017.

### *Gross profit and gross profit margin*

Our gross profit increased to approximately RMB53.7 million for FY2017 from approximately RMB37.2 million for FY2016, mainly attributable to the increase in gross profit from the sales of steel access flooring products to approximately RMB44.1 million for FY2017 from approximately RMB31.7 million for FY2016 and the increase in gross profit from the sales of calcium sulfate access flooring products to approximately RMB9.7 million for FY2017 from approximately RMB5.6 million for FY2016 resulting from the increased sales derived from our new projects. Our gross profit margin slightly increased to approximately 24.8% for FY2017 from approximately 23.3% for FY2016, mainly attributable to the increase in gross profit margin from the sales of calcium sulfate access flooring products to approximately 31.5% for FY2017 from approximately 27.6% for FY2016. Since the price of our key raw materials, including steel and cement, hit the bottom in 2015 and started to bounce back in 2016, our Group manufactured more finished goods in 2016. As such, our cost of sales for FY2017 increased by a lesser extent than our revenue for FY2017 as compared with the respective amount in FY2016 as our Group utilised the inventory of calcium sulfate flooring products manufactured in FY2016 which was at a lower cost as compared to those manufactured in FY2017.

### *Other revenue and other net income*

Our other revenue and other net income decreased to approximately RMB0.4 million for FY2017 from approximately RMB1.5 million for FY2016, primarily attributable to the loss on disposal of property, plant and equipment of approximately RMB0.7 million for FY2017 while the gain on disposal of property, plant and equipment of approximately RMB0.2 million was recognised for FY2016.

### *Selling and distribution expenses*

Our selling and distribution expenses increased to approximately RMB5.1 million for FY2017 from approximately RMB3.0 million for FY2016, primarily attributable to (i) the increase in our staff costs to approximately RMB2.9 million for FY2017 from approximately RMB2.0 million for FY2016, mainly resulting from the increase in the number of sales and marketing staff; and (ii) the increase in our travel and entertainment expenses to approximately RMB1.1 million for FY2017 from approximately RMB0.2 million for FY2016, which was in line with the increase in our revenue for the same period.

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### *Administrative expenses*

Our administrative expenses increased to approximately RMB18.2 million for FY2017 from approximately RMB9.5 million for FY2016, mainly attributable to (i) the increase in Listing expenses by approximately RMB4.3 million for FY2017 that our Group commenced its preparation of its listing application; (ii) the increase in our staff costs to approximately RMB2.0 million for FY2017 from approximately RMB1.2 million for FY2016 due to the increase in average headcount to cater the need from our increasing business activities; (iii) the increase in research and development costs to approximately RMB7.9 million for FY2017 from approximately RMB6.2 million for FY2016; and (iv) the increase in service expenses to approximately RMB1.1 million for FY2017 from approximately RMB0.3 million for FY2016, mainly resulting from the professional service fee increased by approximately RMB0.4 million and an one-off pipe network service fee of approximately RMB0.1 million.

### *Finance costs*

Our finance costs increased to approximately RMB3.7 million for FY2017 from approximately RMB3.0 million for FY2016, which was in line with the increase in our bank borrowings and other borrowings during FY2017.

### *Income tax expenses*

Our income tax expenses decreased by approximately 9.8% from approximately RMB3.5 million for FY2016 to approximately RMB3.1 million for FY2017. The decrease was mainly due to the increase in the amount of the qualifying research and development expense for tax deduction purpose from approximately RMB6.2 million for FY2016 to approximately RMB7.9 million for FY2017. Our effective tax rate decreased from approximately 15.2% for FY2016 to approximately 13.1% for FY2017.

### *Profit and total comprehensive income for the year*

As a result of the above, our profit and total comprehensive income for the year amounted to approximately RMB20.7 million for FY2017 as compared to approximately RMB19.4 million for FY2016.

## **FY2017 compared to FY2018**

### *Revenue*

Our total revenue increased by approximately RMB32.4 million from approximately RMB216.4 million in FY2017 to approximately RMB248.8 million in FY2018, primarily driven by (i) the increase in our revenue derived from the sales of steel access flooring products to approximately RMB204.3 million for FY2018 from approximately RMB185.6 million for FY2017; and (ii) the increase in our sales in calcium sulfate access flooring products to approximately RMB44.5 million for FY2018 from approximately RMB30.7 million for FY2017. Our revenue derived from Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province increased from approximately RMB110.4 million in FY2017 to approximately RMB157.9 million in FY2018 which is generally in line with the increased total floor space for newly completed high-end office buildings in these four areas at a CAGR of approximately 46.7% between 2014 to 2018 as stated in CIC Report.



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Our revenue from the sales of steel access flooring products increased by approximately RMB18.7 million, or approximately 10.1%, from approximately RMB185.6 million for FY2017 to approximately RMB204.3 million for FY2018, primarily attributable to the increased sales volume from approximately 1.5 million sq.m. in FY2017 to approximately 1.7 million sq.m. in FY2018.

Our revenue from the sales of calcium sulfate access flooring products increased by approximately RMB13.7 million, or approximately 44.6%, from approximately RMB30.7 million for FY2017 to approximately RMB44.5 million for FY2018, primarily attributable to (i) the increase in sales volume of our calcium sulfate access flooring products from approximately 0.2 million sq.m. in FY2017 to approximately 0.3 million sq.m. in FY2018 respectively, resulting from the growth of sales demand of the calcium sulfate access flooring products; and (ii) the increase in average unit selling price of our calcium sulfate access flooring products from approximately RMB164.9 per sq.m. in FY2017 to approximately RMB171.7 per sq.m. in FY2018, resulting from the increased recognition by the market due to its high performance.

### *Costs of sales*

Our cost of sales increased by approximately RMB26.0 million, or approximately 16.0% from approximately RMB162.6 million for FY2017 to approximately RMB188.6 million for FY2018, which was primarily driven by the increase in our cost of raw materials incurred for our production mainly as a result of the increase in sales volume of both of our steel access flooring products and calcium sulfate access flooring products from FY2017 to FY2018.

### *Gross profit and gross profit margin*

Our gross profit increased to approximately RMB60.2 million for FY2018 from approximately RMB53.7 million for FY2017, mainly attributable to the increase in gross profit for the sales of steel access flooring products to approximately RMB48.4 million for FY2018 from approximately RMB44.1 million for FY2017 and the increase in gross profit from the sales of calcium sulfate access flooring products to approximately RMB11.8 million for FY2018 from approximately RMB9.7 million for FY2017. Our gross profit margin for steel access flooring products remained at approximately 23.7%. And the Group adopts a cost-plus pricing policy and was able to pass on the increase in cost of raw materials for steel access flooring products to our customers. Our gross profit margin for calcium sulfate access flooring products decreased from approximately 31.5% for FY2017 to approximately 26.5% for FY2018 mainly due to the absence of the effect that the inventory sold in FY2017 was manufactured in FY2016 with lower cost which drove up the gross profit margin of calcium sulfate access flooring products for FY2017.

### *Other revenue and other net income*

Our other revenue and other net income increased from approximately RMB0.4 million for FY2017 to approximately RMB0.9 million for FY2018 primarily attributable to the loss on disposal of property, plant and equipment decreased by approximately RMB0.6 million and the increase in the sales of scrap materials by approximately RMB0.2 million.

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### *Selling and distribution expenses*

Our selling and distribution expenses increased from approximately RMB5.1 million for FY2017 to approximately RMB5.2 million for FY2018, primarily attributable to the increase in staff costs from approximately RMB2.9 million for FY2017 to approximately RMB3.2 million for FY2018 due to the increase in the number of sales and marketing staff.

### *Administrative expenses*

Our administrative expenses amounted to approximately RMB18.2 million for FY2017, and slightly increased by approximately RMB0.1 million, or 0.4% to approximately RMB18.3 million for FY2018 mainly due to the combined effect of (i) the increase in research and development costs from approximately RMB7.9 million for FY2017 to approximately RMB8.3 million for FY2018; (ii) the increase in staff costs from approximately RMB2.0 million for FY2017 to approximately RMB2.3 million for FY2018 due to increase in average handout to accommodate the need from our increasing business activities; and (iii) the decrease in service expenses from approximately RMB1.1 million for FY2017 to approximately RMB0.4 million for FY2018.

### *Finance costs*

Our finance costs increased by approximately RMB1.1 million from approximately RMB3.7 million for FY2017 to approximately RMB4.8 million for FY2018, which was due to the increase in the interest on bank borrowings.

### *Income tax expenses*

Our income tax expenses increased by approximately 64.2% from approximately RMB3.1 million for FY2017 to approximately RMB5.1 million for FY2018. The increase was mainly due to the increase in profit before taxation from approximately RMB23.8 million for FY2017 to approximately RMB30.0 million for FY2018 and the decrease in the effect of preferential income tax amounted to approximately RMB2.4 million. Our effective tax rate increased from approximately 13.1% for FY2017 to approximately 17.1% for FY2018 mainly due to the Listing expenses of approximately RMB4.1 million recognised for FY2018 and which was non-deductible in nature for calculation of taxable profit.

### *Profit and total comprehensive income for the year*

As a result of the above, our profit and total comprehensive income for the year increased by approximately RMB4.2 million, or approximately 20.3% from approximately RMB20.7 million for FY2017 to approximately RMB24.9 million for FY2018.

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### 6M2018 compared to 6M2019

#### *Revenue*

Our total revenue increased by approximately RMB12.2 million from approximately RMB112.7 million in 6M2018 to approximately RMB124.9 million in 6M2019, primarily driven by the increase in our revenue derived from the sales of steel access flooring products by approximately RMB19.0 million from approximately RMB90.6 million for 6M2018 to approximately RMB109.6 million for 6M2019. The increase was mainly derived from Beijing, Guangdong Province, Jiangsu Province and Zhejiang Province from approximately RMB70.7 million for 6M2018 to approximately RMB87.8 million for 6M2019.

Our revenue from the sales of steel access flooring products increased by approximately RMB19.0 million, or approximately 21.0%, from approximately RMB90.6 million for 6M2018 to approximately RMB109.6 million for 6M2019, primarily attributable to the increased sales volume from approximately 0.8 million sq.m. in 6M2018 to approximately 0.9 million sq.m. in 6M2019; and the increase in average unit selling price of the steel access flooring products from approximately RMB118.6 per sq.m. in 6M2018 to approximately RMB120.3 per sq.m. in 6M2019.

Our revenue from the sales of calcium sulfate access flooring products decreased by approximately RMB6.8 million, or approximately 30.7%, from approximately RMB22.1 million for 6M2018 to approximately RMB15.3 million for 6M2019, primarily attributable to the decrease in sales volume in 6M2019; partially offset by the increase in average unit selling price of the calcium sulfate access flooring products from approximately RMB156.1 per sq.m. in 6M2018 to approximately RMB168.5 per sq.m. in 6M2019. The decrease in the sales volume of calcium sulfate access flooring products was mainly due to the decrease in sales order from our overseas customers.

#### *Costs of sales*

Our cost of sales increased by approximately RMB7.7 million, or approximately 8.9% from approximately RMB86.3 million for 6M2018 to approximately RMB94.0 million for 6M2019, which was primarily driven by (i) the increase in our cost of raw materials incurred for our production mainly as a result of the increase in sales volume of our access flooring products from 6M2018 to 6M2019.

#### *Gross profit and gross profit margin*

Our gross profit increased to approximately RMB30.8 million for 6M2019 from approximately RMB26.3 million for 6M2018, mainly attributable to the increase in gross profit for the sales of steel access flooring products to approximately RMB27.1 million for 6M2019 from approximately RMB21.3 million for 6M2018; partially offset by the decrease in gross profit for the sales of calcium sulfate access flooring products to approximately RMB3.7 million for 6M2019 from approximately RMB5.1 million for 6M2018.

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Our gross profit margin for steel access flooring products increased from approximately 23.5% for 6M2018 to approximately 24.8% for 6M2019, which mainly attributable to the increase in the average unit selling price from approximately RMB118.6 per sq.m. for 6M2018 to approximately RMB120.3 per sq.m. for 6M2019 and the decrease in the thickness of steel plates we used. Our gross profit margin for calcium sulfate access flooring products increase from approximately 22.9% for 6M2018 to approximately 24.2% for 6M2019 mainly attributable to the increase in the average unit selling price of our calcium sulfate access flooring products from approximately RMB156.1 per sq.m. in 6M2018 to approximately RMB168.5 per sq.m. in 6M2019. It is also noted that there were projects of calcium sulfate access flooring products with a relatively high gross margin profit commenced in 2019.

### *Other revenue and other net income*

Our other revenue and other net income increased from approximately RMB0.3 million for 6M2018 to approximately RMB0.7 million for 6M2019 primarily attributable to (i) the increase in scrap sales by approximately RMB0.2 million; and (ii) the net exchange gain in 6M2019 of approximately RMB14,000, while we recorded a net exchange loss of approximately RMB0.2 million in 6M2018.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased from approximately RMB2.9 million for 6M2018 to approximately RMB2.6 million for 6M2019, primarily attributable to the decrease in travel and entertainment expenses from approximately RMB0.5 million for 6M2018 to approximately RMB0.2 million for 6M2019 as our sales staff focus on developing large customers for 6M2019.

### *Administrative expenses*

Our administrative expenses amount to approximately RMB7.8 million for 6M2018, and increased by approximately RMB4.9 million, or 62.8% to approximately RMB12.7 million for 6M2019 mainly due to (i) the increase in Listing expenses from approximately RMB1.3 million for 6M2018 to approximately RMB4.9 million for 6M2019; and (ii) the increase in research and development costs from approximately RMB3.3 million for 6M2018 to approximately RMB4.7 million for 6M2019.

### *Finance costs*

Our finance costs increased by approximately RMB1.4 million from approximately RMB2.4 million for 6M2018 to approximately RMB3.8 million for 6M2019, which was due to the increase in the interest on bank borrowings.

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### *Income tax expenses*

Our income tax expenses increased by approximately 37.5% from approximately RMB1.4 million for 6M2018 to approximately RMB1.9 million for 6M2019. The increase was mainly due to the increase in tax effect of non-deductible expenses from approximately RMB0.8 million for 6M2018 to approximately RMB1.3 million for 6M2019 mainly due to the increase in the impairment of trade receivables and contract assets and operating lease. As such, our effective tax rate also increased from approximately 12.5% for 6M2018 to approximately 21.2% for 6M2019.

### *Profit and total comprehensive income for the period*

As a result of the above, our profit and total comprehensive income for the period decreased by approximately RMB2.6 million, or approximately 27.2%, from approximately RMB9.7 million for 6M2018 to approximately RMB7.1 million for 6M2019.

## LIQUIDITY AND CAPITAL RESOURCES

We financed our operations primarily through the following means, including (i) capital contribution from our Shareholders; (ii) net cash inflow from our operating activities; and (iii) proceeds from loans and borrowings.

Our working capital requirements mainly comprised payments for (i) our raw materials consumed; (ii) staff costs; (iii) selling and distribution expenses; (iv) administrative expenses; and (v) finance costs.

During the Track Record Period, we did not experience any liquidity shortage and were able to repay our bank loans when they became due. We managed our liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring our forecasted and actual cash flows and matching the maturity profiles of our assets and liabilities. For further details of our liquidity management, please refer to the paragraph headed “Liquidity management policy” in this section.

In the future, we may need additional cash resources as a result of changing business conditions or other developments. We expect that our working capital and other liquidity requirements will primarily be satisfied through a combination of (i) net cash inflow from our operating activities; (ii) banking facilities made available to us; and (iii) proceeds from Listing.

However, our ability to fund our working capital needs, repay our indebtedness depends on our future operating performance and cash flow, which are in turn subject to the prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. If our existing cash resources are insufficient to meet our requirements, we may seek to obtain extra credit facilities, or sell or issue equity securities, which might result in dilution to our Shareholders.

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### Liquidity management policy

We prepare cash flows budgets and performing variance analyses on a monthly basis. We closely monitor our liquidity position to ensure we have sufficient funds to meet obligations when they become due. In order to timely monitor operating cash flow and working capital sufficiency, we have implemented a budgeting and forecasting process. Our accounting manager is responsible for preparing the monthly cash flow forecast report, which includes the short-term receivable forecast, amounts of trade and other payables by aging, and outstanding and available banking facilities. Our Directors are responsible for reviewing the actual and budget variance analysis on a monthly basis for monitoring the cash inflow and outflow. Our Directors believed that the measures in place is sufficient to enable us to closely monitor the variances to our cost budget and prevent any significant cash flow shortfall in advance by taking necessary mitigation actions in a timely manner. A number of measures have been put in place by our Directors to further improve profitability, control operating costs and contain capital expenditures in order to improve our Group's operating performance and alleviate its liquidity risk:

- (a) as at 31 October 2019, our Group had unutilised banking facilities of approximately RMB9.0 million, which can be used to cover any shortfall liquidity;
- (b) no future cash outflow is expected from contract liabilities which were included in our Group's current liabilities; and
- (c) management has become more cost conscious and is reducing unnecessary expenditures to improve its operating cash flows.

As confirmed by our Directors, when there is a potential shortfall in our cash position being identified, we will strive to negotiate for early settlement from our customers and/or request a longer credit period from our suppliers in order to mitigate the mismatches of trade receivable turnover days and trade payable turnover days.

We have an internal control system to monitor the ageing analysis of both trade receivables and payables at the end of each month. The ageing analysis of both trade receivables and payables will be submitted to the management for review and approval regularly. For the trade receivables past due, our Directors confirmed that material overdue payments are monitored and evaluated continuously on a case-by-case basis with appropriate follow-up actions to be implemented based upon our customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. Follow-up actions to recover overdue trade receivables include (i) active communications with the customers' appropriate personnel such as the relevant department responsible for processing payments; (ii) review the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts; and (iii) seeking legal advices when necessary.

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### CASH FLOWS

Our cash and cash equivalents amounted to approximately RMB2.1 million, RMB13.0 million, RMB16.2 million and RMB14.1 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. The following table sets out a summary of our cash flows during the Track Record Period:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>6M2018</u>	<u>6M2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating cash flow before changes in working capital	30,854	36,476	42,828	18,489	18,789
Net cash generated from/(used in) operating activities	21,551	(40,668)	20,002	940	(13,533)
Net cash (used in)/generated from investing activities	(12,814)	1,759	(538)	943	(2,592)
Net cash (used in)/generated from financing activities	<u>(6,850)</u>	<u>49,731</u>	<u>(16,271)</u>	<u>(2,189)</u>	<u>14,091</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	1,887	10,822	3,193	(306)	(2,034)
<b>Cash and cash equivalents at beginning of year/period</b>	<u>253</u>	<u>2,140</u>	<u>12,962</u>	<u>12,962</u>	<u>16,155</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>2,140</u></u>	<u><u>12,962</u></u>	<u><u>16,155</u></u>	<u><u>12,656</u></u>	<u><u>14,121</u></u>

#### Net cash generated from/(used in) operating activities

During the Track Record Period, our cash generated from operating activities mainly consisted of the income received from the sales of our products and provision of installation services, while our cash used in operating activities mainly consisted of the payments for the purchases of our raw materials, expenses relating to operating activities and income tax.

Net cash from operating activities reflects our profit before taxation adjusted for: (i) non-cash items, which primarily comprised our impairment of contract assets and trade receivables, depreciation of property, plant and equipment; (ii) the effects of changes in our working capital, which mainly comprised our inventories, contract assets, trade and other receivables, amount due to a related party, amount due from a shareholder and director, trade and bills payables, and other payables and contract liabilities; and (iii) items not related to operating activities, principally including our interest income and finance costs.

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## FINANCIAL INFORMATION

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In FY2016, our net cash generated from operating activities was approximately RMB21.6 million, mainly comprising our operating profit before changes in working capital of approximately RMB30.9 million and net negative adjustments for changes in working capital of approximately RMB8.9 million. Our net negative adjustments for changes in working capital were primarily reflected by (i) the increase in inventories of approximately RMB21.5 million; (ii) the increase in contract assets, trade and other receivables of approximately RMB12.3 million; (iii) the decrease in amount due to a related party of approximately RMB4.8 million; (iv) the increase in amount due from a shareholder and director of approximately RMB0.3 million; partially offset by (v) the increase in trade and bills payables of approximately RMB17.3 million; and (vi) the increase in other payables and contract liabilities of approximately RMB12.6 million.

In FY2017, our net cash used in operating activities was approximately RMB40.7 million, mainly comprising our operating profit before changes in working capital of approximately RMB36.5 million and net negative adjustments for changes in working capital of approximately RMB70.3 million. Our net negative adjustments for changes in working capital were primarily reflected by (i) the increase in contract assets, trade and other receivables of approximately RMB90.9 million due to the increase in our revenue and some of our customers required a longer period for quality and quantity check and we allowed longer credit period to some of our customers which are large property developers or state-owned enterprises; (ii) the decrease in trade and bills payables of approximately RMB20.4 million due to our reduction in payment cycle in order to maintain a good relationship with our suppliers to get timely and sufficient supply of raw materials; partially offset by (iii) the decrease in inventories of approximately RMB29.9 million mainly due to the increase in revenue that utilise our access flooring products manufactured in 2016; (iv) the decrease in amount due from a shareholder and director of approximately RMB0.3 million; and (v) the increase in accruals and other payables and contract liabilities of approximately RMB10.8 million mainly due to the increase in accrued installation services and value-added-tax payable and the increase in the advance considerations received from our customers for the goods or services to be transferred by our Group.

In FY2018, our net cash generated from operating activities was approximately RMB20.0 million, mainly comprising our operating profit before changes in working capital of approximately RMB42.8 million and net negative adjustments for changes in working capital of approximately RMB18.8 million. Our net negative adjustments for changes in working capital were primarily reflected by (i) the increase in contract assets, trade and other receivables of approximately RMB44.0 million; (ii) the decrease in other payables and contract liabilities of approximately RMB2.5 million; partially offset by (iii) the decrease in inventories of approximately RMB12.6 million; and (iv) the increase in trade and bills payables of approximately RMB15.1 million.

In 6M2018, our net cash generated from operating activities was approximately RMB0.9 million, mainly comprising our operating profit before changes in working capital of approximately RMB18.5 million and net negative adjustments for changes in working capital of approximately RMB14.8 million. Our net negative adjustments for changes in working capital were primarily reflected by (i) the increase in contract assets, trade and other receivables of approximately RMB18.8 million; (ii) the decrease in other payable and contract liabilities of approximately RMB4.8 million; partially offset by (iii) the decrease in inventories of approximately RMB8.6 million; and (iv) the increase in trade and bills payables of approximately RMB0.2 million.



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In 6M2019, our net cash used in operating activities was approximately RMB13.5 million, mainly comprising our operating profit before changes in working capital of approximately RMB18.8 million and net negative adjustments for changes in working capital of approximately RMB27.4 million. Our net negative adjustments for changes in working capital were primarily reflected by (i) the increase in contract assets, trade and other receivables of approximately RMB11.1 million; (ii) the decrease in trade and bills payables of approximately RMB16.8 million; (iii) the increase in inventories of approximately RMB0.9 million; and partially offset by (iv) the increase in other payables and contract liabilities of approximately RMB1.3 million. Our Group has adopted certain internal control policies to manage our cash flow regarding the collection of receivables and the settlement of payables. Our Group has been taking all necessary actions to improve and closely monitor our payment collection and settlement cycle with the advice of our internal control consultant.

For further details of our liquidity management, please refer to the paragraph headed “Liquidity management policy” in this section.

### **Net cash (used in)/generated from investing activities**

During the Track Record Period, our cash used in investing activities mainly consisted of (i) payment for acquisition of property, plant and equipment; (ii) payment of a deposit for acquisition of land use rights; (iii) payment for acquisition of land use rights; and (iv) payment for acquisition of other intangible assets, while our cash generated from investing activities mainly represented (v) proceeds from disposal of property, plant and equipment; (vi) refund of a deposit for acquisition of land use rights; (vii) withdrawal of restricted bank deposits; and (viii) interest received.

In FY2016, our net cash used in investing activities was approximately RMB12.8 million, which was mainly comprising our (i) payment for acquisition of property, plant and equipment of approximately RMB5.8 million; (ii) payment of a deposit for acquisition of land use rights of approximately RMB9.6 million; and partially offset by (iii) proceeds from disposal of property, plant and equipment of approximately RMB0.9 million; and (iv) withdrawal of restricted bank deposits of approximately RMB1.5 million.

In FY2017, our net cash generated from investing activities was approximately RMB1.8 million, which was mainly comprising our (i) refund of excess deposit paid in prior year amounted to approximately RMB2.0 million for the land auction to acquired land use rights after our Group entered into an agreement with the Land Bureau in 2017; (ii) withdrawal of restricted bank deposits of approximately RMB1.4 million; partially offset by (iii) payment for acquisition of property, plant and equipment of approximately RMB1.8 million; (iv) payment for acquisition of land use rights of approximately RMB0.3 million; and (v) payment for acquisition of other intangible assets of approximately RMB0.2 million.

In FY2018, our net cash used in investing activities was approximately RMB0.5 million, which was mainly comprising our (i) payment for acquisition of property, plant and equipment of approximately RMB1.4 million; partially offset by (ii) proceeds from disposal of property, plant and equipment of approximately RMB0.5 million; and (iii) withdrawal of restricted bank deposits of approximately RMB0.3 million.

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## FINANCIAL INFORMATION

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In 6M2018, our net cash generated from investing activities was approximately RMB0.9 million, which was mainly comprising our (i) withdrawals of restricted bank deposits of approximately RMB1.1 million; (ii) proceeds from disposal of property, plant and equipment of approximately RMB0.4 million; partially offset by (iii) payment for acquisition of property, plant and equipment of approximately RMB0.6 million.

In 6M2019, our net cash used in investing activities was approximately RMB2.6 million, which was mainly comprising our (i) payment for acquisition of property, plant and equipment of approximately RMB1.1 million; and (ii) placement of restricted bank deposits of approximately RMB1.5 million.

### **Net cash (used in)/generated from financing activities**

During the Track Record Period, our cash generated from financing activities mainly consisted of (i) proceeds from bank borrowings, (ii) proceeds from other borrowings, (iii) proceeds of loans from related parties and (iv) capital contribution from Ms. Yan, while our cash used in financing activities mainly consisted of (v) repayment of bank borrowings, (vi) repayment of other borrowings, (vii) repayment of loans from related parties, (viii) payment for capitalised listing expenses, (ix) repayments of advances from Shareholders and Directors.

In FY2016, our net cash used in financing activities was approximately RMB6.9 million, which was mainly contributed by our (i) repayment of loans from related parties of approximately RMB22.8 million; (ii) repayment of bank borrowings of approximately RMB18.0 million; (iii) repayments of advances from Shareholders and Directors of approximately RMB5.0 million; (iv) interest paid of approximately RMB1.6 million; partially offset by (v) proceeds from bank borrowings of approximately RMB22.0 million; and (vi) proceeds of loans from related parties of approximately RMB20.0 million.

In FY2017, our net cash generated from financing activities was approximately RMB49.7 million, which was mainly contributed by our (i) proceeds from bank borrowings of approximately RMB63.5 million; (ii) proceeds from other borrowings of approximately RMB20.0 million; (iii) proceeds of loans from related parties of approximately RMB6.8 million; partially offset by (iv) repayment of bank borrowings of approximately RMB22.0 million; (v) repayments of advances from Shareholders and Directors of approximately RMB15.2 million; (vi) payment for capitalised listing expenses of approximately RMB1.4 million; and (vii) interest paid of approximately RMB1.8 million.

In FY2018, our net cash used in financing activities was approximately RMB16.3 million, which was mainly contributed by our (i) repayment of bank borrowings of approximately RMB72.5 million; (ii) repayment of other borrowings of approximately RMB20.0 million; (iii) repayment of loans from related parties of approximately RMB6.8 million, (iv) interest paid of approximately RMB4.8 million; (v) payment for capitalised Listing expenses of approximately RMB1.4 million; and partially offset by (vi) proceeds from bank borrowings of approximately RMB87.3 million; (vii) proceeds of loans from a Shareholder and Director of approximately RMB1.8 million; and (viii) capital contribution from Ms. Yan of approximately RMB1.7 million.

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## **FINANCIAL INFORMATION**

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In 6M2018, our net cash used in financing activities was approximately RMB2.2 million, which was mainly contributed by (i) repayment of bank borrowings of approximately RMB28.0 million; (ii) repayment of other borrowings of approximately RMB14.0 million; (iii) interest paid of approximately RMB2.0 million; partially offset by (iv) proceeds from bank borrowings of approximately RMB40.8 million; and (v) capital contribution from Ms. Yan of approximately RMB1.7 million.

In 6M2019, our net cash generated from financing activities was approximately RMB14.1 million, which was mainly contributed by our (i) proceeds from bank borrowings of approximately RMB55.3 million, partially offset by (ii) repayment of bank borrowings of approximately RMB34.8 million; (iii) interest paid of approximately RMB3.6 million; and (iv) payment for capitalised Listing expenses of approximately RMB1.6 million.

### **SUFFICIENCY OF WORKING CAPITAL**

Our Directors confirmed that, after due and careful enquiry and taking into consideration of the presently available financial resources to our Group, including other internal resources and the expected net proceeds of the Global Offering, our Group has sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

The following table sets out a breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 June 2019	As at 31 October 2019
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current assets</b>					
Inventories	73,487	43,611	31,006	31,862	24,618
Contract assets	41,674	69,194	89,263	84,563	98,259
Trade and bills receivables	43,250	104,715	123,181	141,788	145,325
Deposits, prepayments and other receivables	20,541	10,536	14,596	10,049	10,691
Amount due from a Shareholder and Director	275	—	—	—	—
Restricted bank deposits	3,982	2,614	2,335	3,881	3,468
Cash and cash equivalents	2,140	12,962	16,155	14,121	19,104
	<u>185,349</u>	<u>243,632</u>	<u>276,536</u>	<u>286,264</u>	<u>301,465</u>
<b>Current liabilities</b>					
Trade and bills payables	53,143	32,787	47,908	31,153	25,879
Contract liabilities	1,756	7,415	3,537	4,769	2,114
Accruals and other payables	23,446	29,513	30,455	30,955	27,304
Amounts due to Shareholders and Directors	15,178	17	852	21	18
Lease liabilities	183	549	713	743	751
Bank borrowings	22,000	63,500	78,284	98,771	112,769
Other borrowings	—	20,000	—	—	—
Tax payable	5,344	2,101	4,860	2,595	1,920
	<u>121,050</u>	<u>155,882</u>	<u>166,609</u>	<u>169,007</u>	<u>170,755</u>
<b>Net current assets</b>	<u>64,299</u>	<u>87,750</u>	<u>109,927</u>	<u>117,257</u>	<u>130,710</u>

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## FINANCIAL INFORMATION

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Our net current assets increased to approximately RMB87.8 million as at 31 December 2017 from approximately RMB64.3 million as at 31 December 2016, primarily attributable to the combined effect of the (i) increase in our trade and bills receivables by approximately RMB61.5 million; (ii) the increase in our contract assets by approximately RMB27.5 million; (iii) the increase in cash and cash equivalents by approximately RMB10.8 million; (iv) the decrease in trade and bills payables by approximately RMB20.4 million; (v) the decrease in amounts due to Shareholders and Directors by approximately RMB15.2 million; partially offset by (vi) the decrease in inventories by approximately RMB29.9 million; (vii) the decrease in deposits, prepayments and other receivables by approximately RMB10.0 million; (viii) the increase in our bank borrowings by approximately RMB41.5 million, and (ix) the increase in our other borrowings by approximately RMB20.0 million.

Our net current assets further increased to approximately RMB109.9 million as at 31 December 2018 from approximately RMB87.8 million as at 31 December 2017, primarily attributable to the combined effect of the (i) the increase in contract assets by approximately RMB20.1 million; (ii) the increase in trade and bills receivables by approximately RMB18.5 million; (iii) the decrease in other borrowings by approximately RMB20.0 million; partially offset by (iv) the decrease in inventories by approximately RMB12.6 million; (v) the increase in trade and bills payables by approximately RMB15.1 million; and (vi) the increase in our bank borrowings by approximately RMB14.8 million.

As at 30 June 2019, our Group's net current assets position increased to approximately RMB117.3 million mainly due to (i) the increase in trade and bills receivables by approximately RMB18.6 million; (ii) the decrease in trade and bills payables by approximately RMB16.8 million; partially offset by (iii) the decrease in deposits, prepayments and other receivables by approximately RMB4.5 million; and (iv) the increase in bank borrowings by approximately RMB20.5 million.

As at 31 October 2019, our Group's net current assets position increased to approximately RMB130.7 million, mainly due to (i) the increase in contract assets by approximately RMB13.7 million; (ii) the increase in cash and cash equivalents by approximately RMB5.0 million; (iii) the decrease in trade and bills payables by approximately RMB5.3 million; partially offset by (iv) the decrease in inventories by approximately RMB7.2 million; and (v) the increase in bank borrowings by approximately RMB14.0 million.

## FINANCIAL INFORMATION

### Consolidated statements of financial position

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	36,057	33,479	29,877	28,954
Land use rights	1,067	8,386	8,213	8,127
Right-of-use assets	3,030	2,237	1,904	1,494
Other intangible assets	—	238	190	166
Deferred tax assets	968	1,465	3,121	3,919
	<u>41,122</u>	<u>45,805</u>	<u>43,305</u>	<u>42,660</u>
<b>Current assets</b>				
Inventories	73,487	43,611	31,006	31,862
Contract assets	41,674	69,194	89,263	84,563
Trade and bills receivables	43,250	104,715	123,181	141,788
Deposits, prepayments and other receivables	20,541	10,536	14,596	10,049
Amount due from a Shareholder and Director	275	—	—	—
Restricted bank deposits	3,982	2,614	2,335	3,881
Cash and cash equivalents	2,140	12,962	16,155	14,121
	<u>185,349</u>	<u>243,632</u>	<u>276,536</u>	<u>286,264</u>
<b>Total assets</b>	<u><u>226,471</u></u>	<u><u>289,437</u></u>	<u><u>319,841</u></u>	<u><u>328,924</u></u>
<b>Current liabilities</b>				
Trade and bills payables	53,143	32,787	47,908	31,153
Contract liabilities	1,756	7,415	3,537	4,769
Accruals and other payables	23,446	29,513	30,455	30,955
Amounts due to Shareholders and Directors	15,178	17	852	21
Lease liabilities	183	549	713	743
Bank borrowings	22,000	63,500	78,284	98,771
Other borrowings	—	20,000	—	—
Tax payable	5,344	2,101	4,860	2,595
	<u>121,050</u>	<u>155,882</u>	<u>166,609</u>	<u>169,007</u>

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	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net current assets</b>	64,299	87,750	109,927	117,257
<b>Total assets less current liabilities</b>	105,421	133,555	153,232	159,917
<b>Non-current liabilities</b>				
Lease liabilities	3,675	3,173	2,818	2,444
Loans from related parties	—	6,770	—	—
<b>Total non-current liabilities</b>	3,675	9,943	2,818	2,444
<b>Net assets</b>	101,746	123,612	150,414	157,473
<b>Equity</b>				
Share capital	60,192	60,192	—	—
Reserves	40,536	62,183	148,925	155,914
Equity attributable to owners of our Company	100,728	122,375	148,925	155,914
Non-controlling interests	1,018	1,237	1,489	1,559
<b>Total equity</b>	101,746	123,612	150,414	157,473

### DISCUSSION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Inventories

Our inventories comprised our raw materials and finished goods. The value of our inventories accounted for approximately 39.6%, 17.9%, 11.2% and 11.1% of our total current assets as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. The following tables set out a breakdown of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	14,278	16,857	9,911	12,770
Finished goods	59,209	26,754	21,095	19,092
	73,487	43,611	31,006	31,862

## FINANCIAL INFORMATION

Our inventories decreased by approximately RMB29.9 million, to approximately RMB43.6 million as at 31 December 2017 from approximately RMB73.5 million as at 31 December 2016, primarily due to the combined effect of (i) the decrease in our finished goods by approximately RMB32.5 million as at 31 December 2017 as compared to that as at 31 December 2016 as a result of the utilisation of our access flooring products manufactured in 2016; and partially offset by (ii) the increase in our raw materials by approximately RMB2.6 million as at 31 December 2017 as compared to those as at 31 December 2016.

Our inventories further decreased by approximately RMB12.6 million to approximately RMB31.0 million as at 31 December 2018 from approximately RMB43.6 million as at 31 December 2017, primarily due to the decrease in our (i) finished goods by approximately RMB5.7 million as at 31 December 2018 as compared to that as at 31 December 2017, which was in line with the increase in the sales volume of our products in FY2018; and (ii) raw materials by approximately RMB6.9 million as at 31 December 2018 as compared to that as at 31 December 2017 due to increasing production activities in FY2018 which lower the level of raw materials.

Our inventories increased by approximately RMB0.9 million to approximately RMB31.9 million as at 30 June 2019 from approximately RMB31.0 million as at 31 December 2018, primarily due to (i) the increase in our raw materials by approximately RMB2.9 million to prepare for the production of our products due to the increase in the ending value of backlog projects as at 30 June 2019; and partially offset by (ii) the decrease in our finished goods by approximately RMB2.0 million which generally in line with the increasing trend in the sales volume of our products.

Our inventories are stated at the lower of cost and net realisable value. At the end of each reporting period, we assess whether any inventory provision of inventories is necessary by considering various factors, including but not limited to, the age of our inventory, expected demand from customers and the expected selling price. Allowance is made against the carrying values of the inventories when the net realisable value inventories falls below the cost or any of the inventories identified obsolete. After performing the aforesaid assessments, no impairment of inventories were provided during the Track Record Period.

The table below sets out the ageing analysis of our inventory as at the date indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ageing analysis:				
Within 1 month	24,459	18,050	22,001	21,094
1 month to 3 months	25,797	22,379	7,389	9,510
3 months to 6 months	22,939	3,182	1,049	410
Over 6 months	292	—	567	848
<b>Total</b>	<b>73,487</b>	<b>43,611</b>	<b>31,006</b>	<b>31,862</b>



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Up to the Latest Practicable Date, approximately RMB31.9 million, or 100.0% of our inventories as at 30 June 2019 had been subsequently consumed or sold after the Track Record Period.

The following table sets out a breakdown of our average inventory turnover days for the periods indicated:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>6M2019</u>
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average inventory turnover days ( <i>Note</i> )	<u>187.1</u>	<u>131.4</u>	<u>72.2</u>	<u>60.2</u>

*Note:* Our average inventory turnover days equal to the average of the opening and closing balances of our inventories divided by our cost of sales and multiplied by 365 days for FY2016, FY2017 and FY2018 or multiplied by 180 days for 6M2019.

Our average inventory turnover days were approximately 187.1 days, 131.4 days, 72.2 days and 60.2 days for FY2016, FY2017, FY2018 and 6M2019, respectively. The decreasing trend in our Group's average inventory turnover days during the Track Record Period was in line with our decreasing trend in our inventories as at the end of the reporting period during FY2016 to FY2018 resulting from the increasing sales volume. The average inventory turnover days for 6M2019 was further decreased to 60.2 days. Such decrease was resulted from our Group's effort in enhancing our inventory level management.

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## FINANCIAL INFORMATION

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### Contract assets and liabilities

The contract assets represent our Group's rights to consideration for access flooring products and/or installation services transferred to the customers but the rights to payments are still conditional upon the quality and quantity check by the customers on the installed access flooring products transferred by our Group, other than on passage of time. The contract assets are transferred to trade receivables when the rights to receipt of the consideration for performed obligations become unconditional. The following table sets out a breakdown of our contract assets as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Under current assets</u>				
Contract assets	41,751	70,202	90,557	86,671
Less: Allowance for expected credit losses	<u>(77)</u>	<u>(1,008)</u>	<u>(1,294)</u>	<u>(2,108)</u>
	<u>41,674</u>	<u>69,194</u>	<u>89,263</u>	<u>84,563</u>
<u>Under current liabilities</u>				
Contract liabilities	<u>1,756</u>	<u>7,415</u>	<u>3,537</u>	<u>4,769</u>

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Movements of the contract assets, before allowance for expected credit losses, during the Track Record Period are as follows:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning of the year/period	22,390	41,751	70,202	90,557
Entitlement to considerations for contract performance obligations discharged for the year/period, comprising:				
– Revenue recognised (exclusive of value-added-tax)	159,603	216,360	248,785	124,888
– Value-added-tax on revenue recognised <i>(Note)</i>	26,708	42,786	33,556	18,906
	186,311	259,146	282,341	143,794
Transferred to trade receivables when rights to payments became unconditional	(160,793)	(229,385)	(256,316)	(145,466)
Transferred to and offset by contract liabilities	(6,157)	(1,310)	(5,670)	(2,214)
End of the year/period	<u>41,751</u>	<u>70,202</u>	<u>90,557</u>	<u>86,671</u>
Subsequent billings issued up to the Latest Practicable Date	<u>41,674</u>	<u>69,544</u>	<u>79,030</u>	<u>59,588</u>
Subsequent settlements up to the Latest Practicable Date	<u>41,674</u>	<u>52,791</u>	<u>38,023</u>	<u>20,812</u>

*Note:* During the Track Record Period, the considerations of those contracts entered into between our Group and our customers in the PRC were subject to value-added taxes (“VAT”), which are collected on behalf of the tax authorities and are excluded from the revenue recognised from performance obligations discharged by our Group, at the applicable rates as follows:

- 11% - 17% for the period prior to May 2018;
- 10% - 16% for the period from May 2018 to March 2019; and
- 9% - 13% for the period commencing from April 2019.

The considerations of the export sales contracts entered into between our Group and foreign customers are not subject to the VAT.

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As at the Latest Practicable Date, approximately RMB3.3 million, or 70.1% of the contract liabilities as at 30 June 2019 were subsequently settled. In respect of the contract assets at 30 June 2019, a total of approximately RMB59.6 million, or 68.8% of the contract assets was subsequently billed by our Group and transferred to trade receivables. Our Directors confirmed that the relatively low level of subsequent billing of contract assets was mainly attributable to certain projects with installation work performed for which the quality and quantity check yet to be performed. Some of our customers are large property developers or stated-owned enterprises, which requires a longer period for quality and quantity check. As advised by CIC, the billing process and long ageing of our contract assets, trade and bills receivables are in line with the industry norm.

Contract assets, before deduction for allowance for expected credit losses, comprise the following components:

	As at 31 December			As at	*Subsequent billings issued after
	2016	2017	2018	30 June 2019	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rights to consideration for obligations performed on contracts in progress	37,783	53,004	69,317	68,384	51,963
Retention monies receivable on completed contracts	3,968	17,198	21,240	18,287	7,625
	41,751	70,202	90,557	86,671	59,588

\* up to the Latest Practicable Date

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## FINANCIAL INFORMATION

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As at 31 December 2016, 2017, 2018 and 30 June 2019, contract assets amounted to approximately RMB41.7 million, RMB69.2 million, RMB89.3 million and RMB84.6 million, respectively. The contract assets of the top five customers for each of the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 amounted to approximately RMB15.4 million, RMB4.9 million, RMB19.1 million and RMB21.0 million, respectively, which accounted for approximately 36.8%, 7.0%, 21.5% and 24.8% of the contract assets as at 31 December 2016, 2017 and 2018 and 30 June 2019. The increasing trend of contract assets was in line with the increase in our revenue. Also, it is affected by the quality and quantity check by customers on the installed accessing flooring products transferred by our Group. Our customers may require a longer period for the quality and quantity check, which leads to a higher level of contract assets. The time required between the date of completing the installation work of our products and the date of the quality and quantity check may vary. Such time difference varies depending on a number of factors, including but not limited to the size and complexity of the construction project as a whole, the relationship between the tenant, supervision engineer and the main contractors and the progress of quality and quantity check on other parts of the project. As at 31 December 2016, 2017, 2018 and 30 June 2019, the contract assets of our Group, before allowance for expected credit losses, amounted to approximately RMB41.8 million, RMB70.2 million, RMB90.6 million and RMB86.7 million, respectively, of which, approximately RMB4.0 million, RMB17.2 million, RMB21.2 million and RMB18.3 million were retention monies receivables. The higher balances of contract assets, excluding retention monies receivables, with ageing longer than one year as at 31 December 2018 and 30 June 2019 was mainly attributable to certain projects with installation work performed for which the quality and quantity check yet to be performed, such as supply and installation projects for (i) the buildings of some financial institutions, which are state-owned bank, listed securities firm and insurance company in the PRC; and (ii) the buildings of some state-owned enterprise in petroleum industry, electricity industry, etc.; and (iii) commercial buildings of large property developers. According to the CIC Report, as there is a time gap between installation of access flooring products and the completion of the building, customer, being the large-scale property developers and government entities may require longer period for quality and quantity check. Based on various factors, such as the actual progress of the whole project, the size and complexity of the building, it is an industry norm that a longer period for quality and quantity check will result in as a longer time period between the completion of access flooring installation and the actual timing of issue of billing and the industry range is between zero to 36 months, with an industry norm of approximately five months in average. Based on the above, the Sponsor concurs with CIC that the actual timing of our Group's issue of billing to the customers during the Track Record Period is in line with the industry norm.

During the Track Record Period, the time between the date of revenue recognition to the date of actual billing to our Group's customers during the Track Record Period varies greatly, generally ranges from zero to approximately 31 months (including product assurance warranty period of 12 to 24 months) with a weighted average time based on the amount of revenue of approximately 3.4 months, depending on a number of factors, including (i) the period for our customers to conduct the quality and quantity check; (ii) the relationships and negotiations between our Group and our customers on the settlement process; and (iii) the length of the product assurance warranty period. The retention monies receivable included in contract assets are transferred to the trade receivables when the rights to payments become unconditional, which is typically at the expiry date of the product assurance warranty period when the customers have completed their final check on the quality of the installed access flooring products. The product assurance warranty period generally ranges from 12 to 24 months.

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For the contract assets at each reporting period of the Track Record Period, there were no material disputes received from our Group's customers.

An ageing analysis of the contract assets, based on the date of revenue recognition and before allowance for expected credit losses, as at the end of each reporting period of the Track Record Period is as follows:

	As at 31 December			As at	*Subsequent	*Subsequent
	2016	2017	2018	30 June	issued after	settlements
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	30 June	after
					2019	30 June
					<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	12,251	24,147	17,525	23,481	12,171	5,856
1 to 3 months	10,104	10,999	11,668	14,019	11,550	7,658
3 to 6 months	6,691	12,699	10,242	4,487	584	248
6 to 9 months	9,696	7,866	15,391	9,582	6,959	302
9 to 12 months	533	10,876	1,978	8,460	7,763	1,864
1-2 years	2,476	3,615	32,107	23,085	17,004	1,893
Over 2 years	—	—	1,646	3,557	3,557	2,991
	<u>41,751</u>	<u>70,202</u>	<u>90,557</u>	<u>86,671</u>	<u>59,588</u>	<u>20,812</u>

\* up to the Latest Practicable Date

The billings for payments of contract assets, which include the retention monies receivable, are issued by our Group only after the customers completed the quality and/or quantity checks on the work performed by our Group.

In respect of those contract assets aged between one to two years (based the date of revenue recognition) of approximately RMB23.1 million at 30 June 2019, approximately RMB11.4 million and RMB11.7 million were related to rights to considerations for contracts in progress and rights to retention monies of the completed contracts, respectively, out of which, approximately RMB10.7 million and RMB6.3 million were billed by our Group, respectively, upon the completion of the quantity and/or quality checks by the customers during the period subsequent to 30 June 2019 and up to the Latest Practicable Date.

Subsequent to 30 June 2019 and in September 2019, our Group had issued the billings for all those contract assets aged over two years amounted to approximately RMB3.6 million out of which approximately RMB3.0 million were subsequently settled by the customers and the remaining balance of approximately RMB0.6 million represented the retention monies in nature which will be due for settlement upon the expiry of the assurance type warranty period in December 2019.

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## FINANCIAL INFORMATION

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As confirm by our Directors, there was no material dispute with any of the customers regarding the contract assets.

Our Group's actual historic bad debt rates of contract assets as at 31 December 2014, 2015 and 2016 were 0%, 0% and 0.18%, respectively.

Further disclosures on the recoverability assessment of contract assets are set out in Notes 21 (a)(vi) and 22 of the Accountants' Report set out in Appendix I to this prospectus.

Retention monies receivable, included in contract assets, represent our Group's rights to receipt of consideration for obligations of contracts completed which are conditional on the customers' final check on the installed access flooring products transferred to the customers i.e. contract obligations completed by our Group, at the end of the product assurance warranty period which ranges generally from 12 to 24 months. The retention monies receivable included in contract assets are transferred to the trade receivables when the rights to payments become unconditional, which is typically at the expiry date of the product assurance warranty period when the customers have completed their final check on the quality of the installed access flooring products, i.e. supplied access flooring products and installation services completed, which represent the contract obligations performed by our Group. As at 31 December 2016, 2017, 2018 and 30 June 2019, included in contract assets were retention monies receivable from the customers amounting to approximately RMB4.0 million, RMB17.2 million, RMB21.2 million and RMB18.3 million, respectively. The increasing trend of the retention monies receivable as at 31 December 2016, 2017 and 2018 is in line with the increase in revenue during the Track Record Period. The decrease in our retention monies receivables as at 30 June 2019 was the expiry of the product assurance warranty period in 2019. The terms and conditions for the release of retention monies held by the customers vary from contract to contract, which are subject to practical completion, the expiry of the product assurance warranty period or a pre-agreed time period. The retention monies receivable from the customers generally represent 3% to 10% of consideration of the relevant contracts, that are retained by the customers as protection for defects of the access flooring products and our Group's entitlement to payment of retention monies receivable are conditional upon the customers' final physical inspection of the quality of the transferred access flooring products at the expiry of the respective product assurance warranty period of the relevant contracts. In the opinion of our Directors, the retention monies retained by the customers under the relevant contracts are not intended as a financing arrangement by our Group to the customers.

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An analysis of due dates for settlement of our Group's retention monies receivable that are held by our customers during the product assurance warranty period, before allowance for expected credit losses, as at each reporting period end of Track Record Period, is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,651	1,241	13,905	11,694
Between 1 and 2 years	1,317	15,957	7,335	6,593
	3,968	17,198	21,240	18,287

Contract assets have substantially the same characteristics as the trade receivables for the same types of the contracts. Our Group's customers are mainly the large property developers and state-owned enterprises with high credit rating and their payment history with our Group are considered to be good. There are no material disputes or claims received from the customers of the relevant contracts and our Group considered that there has not been a significant change in credit quality of the customers. Our Group concluded that the expected loss rates for trade receivables are a reasonable approximation of the rates for expected credit loss for contract assets. Since the contract assets are related to contracts which are still in progress and the payment is not due, the net carrying amount of contract assets (after deduction of allowance for expected credit losses) are still considered fully recoverable at each reporting period end of the Track Record Period. Our Group does not hold any collateral as security for the contract assets at each reporting period end of the Track Record Period.

Up to the Latest Practicable Date, as disclosed in Note 22(c) of the Accountants' Report set out in Appendix I to this prospectus, our Group has received subsequent settlements from the customers of approximately RMB41.7 million, RMB52.8 million, RMB38.0 million and RMB20.8 million on the carrying balances of contract assets (net of the allowance for expected credit losses) at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

All of the contract assets at 31 December 2016 were subsequently billed by our Group and transferred to trade receivables which were settled by the customers, except for an aggregate amount of RMB77,000 of consideration for contract obligations performed by our Group which were not yet settled by certain customers and were considered to be irrecoverable.

In respect of the contract assets at 31 December 2017, a total of approximately RMB69.5 million was subsequently billed by our Group and transferred to trade receivables and out of which, a total of approximately RMB52.8 million was subsequently settled by the customers up to the Latest Practicable Date.



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In respect of the contract assets at 31 December 2018, a total of approximately RMB79.0 million was subsequently billed by our Group and transferred to trade receivables and out of which, a total of approximately RMB38.0 million was subsequently settled by the customers up to the Latest Practicable Date.

In respect of the contract assets at 30 June 2019, a total of approximately RMB59.6 million was subsequently billed by our Group and transferred to trade receivables and out of which, a total of approximately RMB20.8 million was subsequently settled by the customers up to the Latest Practicable Date.

As at 31 December 2016, 2017, 2018 and 30 June 2019, allowance for expected credit losses on contract assets amounted to approximately RMB0.1 million, RMB1.0 million, RMB1.3 million and RMB2.1 million, respectively.

The movements in allowance for expected credit losses on contract assets during the Track Record Period are as follows:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	—	77	1,008	1,294
Charge for the year/period — Increase in provision for expected credit losses	77	931	286	814
At the end of the year/period	77	1,008	1,294	2,108

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Our contract liabilities primarily relate to the advance considerations received from contract customers during the Track Record Period for the goods or services to be transferred by our Group. The movements in contract liabilities during the Track Record Period are set out below:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	6,737	1,756	7,415	3,537
Advance considerations received from customers	1,176	6,969	1,792	3,446
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	<u>(6,157)</u>	<u>(1,310)</u>	<u>(5,670)</u>	<u>(2,214)</u>
At the end of the year/period	<u>1,756</u>	<u>7,415</u>	<u>3,537</u>	<u>4,769</u>
Amounts subsequently utilised and recognised as revenue after the respective reporting year/period	<u>1,756</u>	<u>7,353</u>	<u>2,385</u>	<u>3,342</u>

The following table includes revenue expected to be recognised in the future related to the supply and installation of access flooring products that are unsatisfied (or partially satisfied) as at each reporting period end during the Track Record Period:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Remaining performance obligations for the supply and/or installation of access flooring products expected to be satisfied during the following periods:				
Expected to be recognised within one year	59,458	59,816	71,410	75,670
Expected to be recognised over one year	<u>18,286</u>	<u>30,702</u>	<u>25,714</u>	<u>2,982</u>
	<u>77,744</u>	<u>90,518</u>	<u>97,124</u>	<u>78,652</u>

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## FINANCIAL INFORMATION

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The revenue recognised for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 did not include any amount, respectively, that was related to performance obligations satisfied in previous periods.

### Trade and bills receivables

Our trade and bills receivables principally represented the outstanding balances to be received from our customers in relation to the sales of our products and provision of installation services.

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	47,698	111,437	132,146	151,205
Bills receivables	—	107	300	2,226
	47,698	111,544	132,446	153,431
Less: Allowance for expected credit losses	(4,448)	(6,829)	(9,265)	(11,643)
	43,250	104,715	123,181	141,788
Subsequent write-off upon factoring without recourse	—	899	67	—
Subsequent settlements, including cash receipts from factoring without recourse, up to the Latest Practicable Date	43,250	103,759	94,178	46,227
Proceeds received for factoring trade and bills receivables (with recourse) up to the Latest Practicable Date	—	—	2,884	36,869

Our trade and bills receivables net of allowance for expected credit losses increased to approximately RMB104.7 million as at 31 December 2017 from approximately RMB43.3 million as at 31 December 2016, representing an increase by approximately 142.1%. The increase was mainly due to the increase in revenue for FY2017 from approximately RMB159.6 million for FY2016 to approximately RMB216.4 million, representing an increase by approximately 35.6%, in which part of the contribution of the increase in revenue was contributed by large property developers and state-owned enterprises that we usually allowed longer credit periods, thus lead to the increase in our trade and bills receivables.

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Our trade and bills receivables net of allowance for expected credit losses further increased to approximately RMB123.2 million as at 31 December 2018 from approximately RMB104.7 million as at 31 December 2017, representing an increase by approximately 17.6%. The increase was which was in line with the revenue growth of approximately 15.0%, from approximately RMB216.4 million for FY2017 to approximately RMB248.8 million for FY2018.

Our trade and bills receivables net of allowance for expected credit losses further increased to approximately RMB141.8 million as at 30 June 2019 from approximately RMB123.2 million as at 31 December 2018, representing an increase by approximately 15.1%. The increase was mainly due to the increase in the revenue and the different in the payment method of one of our top five customers during the six months ended 30 June 2019. This customer entered into an arrangement with our Group, pursuant to which, the customer provided commercial bills or letters of credit issued by the banks of the customer and our Group factored these commercial bills issued by the customer or letters of credit issued by a bank of the customer for the trade receivables in respect of the customer, with recourse, to a factoring bank which is one of the principal banks of the customer. The customer agreed to reimburse our Group for all the interest incurred under the relevant factoring agreements entered into by our Group and the factoring bank. And this factoring arrangement is recognised as bank borrowings secured by the pledge of the trade receivables in respect of the customer. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the outstanding factored trade receivables in respect of this customer amounted to nil, nil, RMB3.6 million and RMB25.6 million, respectively. For further detail, please refer to Note 22(a) of the Accountants' Report set out in Appendix I to this prospectus.

The following table sets out a breakdown of our average trade and bills receivable turnover days and our average contract assets, trade and bills receivable turnover days for the periods indicated:

	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>6M2019</u>
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average trade and bills receivable turnover days <sup>(Note 1)</sup>	97.6	124.8	167.2	190.9
Average contract assets, trade and bills receivable turnover days <sup>(Note 2)</sup>	170.9	218.3	283.4	316.2

*Notes:*

1. Our average trade and bills receivable turnover days equal to the average of the opening and closing balances of our trade and bills receivables divided by our revenue and multiplied by 365 days for FY2016, FY2017 and FY2018 or multiplied by 180 days for 6M2019.
2. Our average contract assets, trade and bills receivable turnover days equal to the average of the opening and closing balances of our contract assets, trade and bills receivables divided by our revenue and multiplied by 365 days for FY2016, FY2017 and FY2018 or multiplied by 180 days for 6M2019.

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We generally grant our customers a credit period of 60 to 365 days from the respective date of invoice. Our average trade and bills receivable turnover days during the Track Record Period were approximately 97.6 days, 124.8 days, 167.2 days and 190.9 days for FY2016, FY2017, FY2018 and 6M2019, respectively. Based on the knowledge of our Directors, the increase was mainly due to the increase in the number of sizable project during the Track Record Period and these customers usually request for delay in payments and the settlement process is lengthy resulting from the large number of parties involved the projects. Our average trade and bills receivable turnover days were generally within the range of our usual allowed credit periods. During the Track Record Period, our Group recorded approximately 26.1%, 4.9%, 15.3% and 13.4% of trade and bills receivables were longer than our usual allowed credit periods, which was mainly due to the overdue of trade receivables contributed by some of our customers, which are mainly the large property developers and state-owned enterprises and therefore they usually required more time over their internal approval process of payments. As stated in the CIC Report, customers including large-scale real estate enterprises or government entities, may require to make payment after conducting acceptance check of the entire building. It is an industry norm to have a longer receivable turnover period and the average receivable collection period in China's access flooring manufacturing industry is approximately two years, or even longer subjected to various circumstances. As advised by CIC, the settlement process and long ageing of our trade and bills receivables are in line with the industry norm.

Our average contract assets, trade and bills receivable turnover days during the Track Record Period were approximately 170.9 days, 218.3 days, 283.4 days and 316.2 days for FY2016, FY2017, FY2018 and 6M2019, respectively. There is a time gap between the installation of access flooring products and the completion of the entire premise. Some of our customers, which are large property developers or state-owned enterprises, may require a longer period for quality and quantity check because of various factors including the actual progress of the entire premise, which is an industry norm. It will result in a longer time period between the completion of access flooring product installation and the actual timing of issuance of invoice. As advised by our Directors, there is no definite timeframe on when should our Group issue invoices to our customers. As an usual practice, our Group will reach an consensus with our customers when issuing invoice to them in order to maintain a good relationship with our customers. Since these customers have strong financial ability with low credit risk, and historically and subsequently, there was rare actual default for these revenue. Our Directors also point out that the contract assets aged over two years mainly related to contracts with customers who are large property developers or state-owned enterprises, which requires a longer period for quality and quantity check. As advised by CIC, the billing process and the long ageing of our contract assets, trade and bills receivables are in line with the industry norm.

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Our Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for trade and bills receivables. To measure the expected losses on trade and bills receivables, our Group categorised them based on their shared credit risk characteristics and ageing, evaluated their recoverability by reference to their payment history records with our Group and a provision matrix adjusted for forward-looking information such as the actual and expected subsequent settlements from the contract customers, expected economic and market conditions after each reporting period end of the Track Record Period. Our Group considered that there has not been a significant change in credit quality of the customers subsequent to 30 June 2019. Our Directors considered that the adoption of HKFRS 9 did not have significant impact on our financial position and performance when compared to that of HKAS 39 as the provision of impairment loss on financial assets based on the ECL model is not materially different.

The movement in our allowance for expected credit losses on trade and bills receivables during the Track Record Period is as follows:

	For the year ended 31 December			For the six months ended 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	4,139	4,448	6,829	9,265
Charge for the year/period				
— Increase in provision for expected credit losses	309	2,381	2,436	2,378
<b>At the end of the year/period</b>	<b>4,448</b>	<b>6,829</b>	<b>9,265</b>	<b>11,643</b>

For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, allowance for expected credit losses on trade and bills receivables amounted to approximately RMB4.4 million, RMB6.8 million, RMB9.3 million and RMB11.6 million, respectively, was fully made for the lifetime expected loss of certain customers.

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The following table sets out an ageing analysis of our trade and bills receivables (net of allowance for expected credit losses) based on invoice date as at the dates indicated, together with the analysis of subsequent settlements after 30 June 2019 up to the Latest Practicable Date:

	As at 31 December			As at	*Subsequent	*Proceeds
	2016	2017	2018	30 June	settlements	from
	RMB'000	RMB'000	RMB'000	2019	received	factoring
				June	after 30	trade
				2019	June 2019	receivables
						of
						Customer I
						(see below)
						RMB'000
Within 1 month	16,933	26,415	29,335	29,863	15,248	5,510
1 to 3 months	6,818	26,813	28,281	31,820	5,081	11,817
3 to 6 months	7,100	32,100	16,097	32,778	4,132	11,656
6 to 9 months	1,691	6,699	26,262	19,078	10,204	1,068
9 to 12 months	2,019	7,569	4,368	9,242	748	3,912
1 to 2 years	6,338	3,019	17,072	19,007	10,814	2,906
Over 2 years	2,351	2,100	1,766	—	—	—
	<u>43,250</u>	<u>104,715</u>	<u>123,181</u>	<u>141,788</u>	<u>46,227</u>	<u>36,869</u>

\* up to the Latest Practicable Date

In 2018, our Group entered into an arrangement with Customer I which is a subsidiary of a blue chip property developer, which was established in the PRC with its shares listed in the Shenzhen Stock Exchange and is a constituent stock of both Shenzhen Stock Index and CSI 300 Index which is the benchmark of the China Stock Market Index. Customer I contributed to approximately nil, 1.67% and 5.20%, 3.43% (unaudited) and 29.42% of our Group's revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, respectively, and approximately nil, 2.46% and 9.73%, 2.79% (unaudited) and 25.48% of our Group's total of contract assets and trade receivables at each of these reporting period ends, respectively. Customer I provided commercial bills or letters of credit issued by the banks of Customer I in accordance with the sales contracts made between our Group and Customer I. For the contract performance obligations discharged by us, the credit period of up to 365 days from the invoice date is allowed to Customer I. We factored these trade receivables in respect of Customer I, with recourse, to a factoring bank which is one of the principal banks of Customer I. Customer I agreed to reimburse us, at the expiry date of the factoring agreement, for the difference between the invoiced amounts of factored receivables and the cash proceeds received by us from the factoring bank, including all the interests incurred under the relevant factoring agreements entered into by the factoring bank and us. For the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2018 and 2019, we earned interest from Customer I amounted to approximately nil, nil, nil, nil, (unaudited) and RMB0.2 million, respectively. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the outstanding factored receivables in respect of Customer I amounted to approximately nil, nil, RMB3.6 million and RMB25.6 million,

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respectively, against which, we received proceeds of approximately nil, nil, RMB2.9 million and RMB20.8 million from the factoring bank for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. According to the terms of the relevant factoring agreements entered into by our Group and the factoring bank which is one of the principal banks of Customer I, our Group still retains all the risks and rewards associated with the ownership of factored trade receivables in respect of Customer I. Accordingly, these factored trade receivables are not derecognised, in accordance with HKFRS 9, until the factoring bank will have successfully collected the proceeds of factored receivables from Customer I at the expiry of the factoring period which is one year from the factoring date. In substance, the factoring arrangement is a form of borrowings and the proceeds received from factoring receivables are recognised as secured bank borrowings which are secured by the pledge of the trade receivables in respect of Customer I, as further disclosed in Note 29(a) of the Accountants' Report set out in Appendix I to this prospectus.

In order to maintain a long-term business relationship with our customers, we may provide some flexibility for certain of our customers for the settlement of trade and bills receivables after assessing various factors, including the length of business relationship, relevant customer's size and background, credit history, financial condition and industry reputation, on a case-by-case basis. Our trade and bills receivables that were past due but not impaired during the Track Record Period were contributed by several of our major customers, which are mainly large and famous property developers and stated-owned enterprises with high credit rating and good payment history with our Group. Based on our past experience, our Directors considered that the credit risks of these customers as low and there has not been any sign of significant adverse change in credit strengths and financial conditions of our customers and the balances are still considered fully recoverable.



## FINANCIAL INFORMATION

The following table provides information about our Group's exposures to credit risk and ECLs for contract assets and trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019:

	As at 31 December 2016					
	Average historic bad debt rate for 2014 to 2015	Lifetime ECL	Gross carrying amount	Lifetime ECL	Net carrying amount	Subsequent settlements received*
			RMB'000	RMB'000	RMB'000	RMB'000
Contract assets	0%	0.18%	41,751	77	41,674	41,674 <sup>#</sup>
Trade and bills receivables	4.99%	9.32%	47,698	4,448	43,250	43,250
			<u>89,449</u>	<u>4,525</u>	<u>84,924</u>	<u>84,924</u>
Collective assessment:						
Not yet due or current	0.49%	0.20%	70,029	140	69,889	69,889
Past due						
Within 1 month	0.63%	3.83%	1,515	58	1,457	1,457
1 to 3 months	1.83%	4.49%	1,448	65	1,383	1,383
3 to 6 months	0.44%	7.91%	1,883	149	1,734	1,734
6 to 9 months	0.03%	7.68%	1,419	109	1,310	1,310
9 to 12 months	1.87%	5.09%	2,788	142	2,646	2,646
1 to 2 years	13.71%	4.79%	4,364	209	4,155	4,155
Over 2 years	21.87%	31.41%	3,426	1,076	2,350	2,350
Specific assessment:						
Credit impaired	100%	100%	<u>2,577</u>	<u>2,577</u>	—	—
			<u>89,449</u>	<u>4,525</u>	<u>84,924</u>	<u>84,924</u>

\* Settlements received up to the Latest Practicable Date.

<sup>#</sup> Amounts transferred to trade receivables and subsequently settled up to the Latest Practicable Date.

## FINANCIAL INFORMATION

As at 31 December 2017

	Average historic bad debt rate for 2014 to 2016	Lifetime ECL	Gross	Lifetime	Net	Subsequent
			carrying	ECL	carrying	settlements
			amount	amount	amount	received*
			RMB'000	RMB'000	RMB'000	RMB'000
Contract assets	0.06%	1.43%	70,202	1,008	69,194	52,791 <sup>#</sup>
Trade and bills receivables	6.43%	6.12%	111,544	6,829	104,715	103,759
			181,746	7,837	173,909	156,550 <sup>(Note)</sup>
Collective assessment:						
Not yet due or current	0.39%	1.32%	138,007	1,819	136,188	120,180
Past due						
Within 1 month	1.70%	3.02%	6,360	192	6,168	5,339
1 to 3 months	2.72%	4.14%	13,421	556	12,865	12,545
3 to 6 months	2.92%	3.69%	11,856	437	11,419	11,217
6 to 9 months	2.60%	8.03%	1,531	123	1,408	1,408
9 to 12 months	2.94%	7.60%	2,501	190	2,311	2,311
1 to 2 years	10.74%	33.36%	2,452	818	1,634	1,634
Over 2 years	25.05%	36.99%	3,041	1,125	1,916	1,916
Specific assessment:						
Credit impaired	100%	100%	2,577	2,577	—	—
			181,746	7,837	173,909	156,550

\* Settlements received up to the Latest Practicable Date.

<sup>#</sup> Amounts transferred to trade receivables and subsequently settled up to the Latest Practicable Date.

*Note:* Included in these subsequent settlements, during FY2018, there was a total of approximately RMB11.5 million which was related to outright sale of certain receivables with gross invoiced amounts in aggregate of approximately RMB12.4 million to certain factoring financial institutions, without recourse, and these related receivables were derecognised during FY2018. The difference of approximately RMB0.9 million between the receipts and the invoiced amount of these receivables had been charged as finance cost in the consolidated profit or loss for FY2018.

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As at 31 December 2018

	Average historic bad debt rate for 2014 to 2017	Lifetime ECL	Gross	Lifetime	Net	Subsequent
			carrying	ECL	carrying	settlements
			amount	amount	amount	received*
			RMB'000	RMB'000	RMB'000	RMB'000
Contract assets	0.40%	1.43%	90,557	1,294	89,263	38,023 <sup>#</sup>
Trade and bills receivables	6.35%	7.00%	132,446	9,265	123,181	94,178
			223,003	10,559	212,444	132,201 <sup>(Note)</sup>
Collective assessment:						
Not yet due or current	0.62%	1.31%	160,600	2,104	158,496	88,224
Past due						
Within 1 month	2.03%	3.16%	13,341	422	12,919	8,348
1 to 3 months	3.07%	3.87%	3,359	130	3,229	2,179
3 to 6 months	3.11%	5.54%	11,957	663	11,294	9,374
6 to 9 months	3.96%	5.68%	17,931	1,019	16,912	14,081
9 to 12 months	4.11%	10.69%	8,390	897	7,493	6,897
1 to 2 years	17.99%	40.29%	2,348	946	1,402	1,325
Over 2 years	28.03%	72.04%	2,500	1,801	699	1,773
Specific assessment:						
Credit impaired	100%	100%	2,577	2,577	—	—
			223,003	10,559	212,444	132,201

\* Settlements received up to the Latest Practicable Date.

<sup>#</sup> Amounts transferred to trade receivables and subsequently settled up to the Latest Practicable Date.

*Note:* Included in these subsequent settlements, during the 6M2019, there was a total of approximately RMB1.0 million which was related to outright sale of certain receivables with gross invoiced amounts in aggregate of approximately RMB1.1 million to certain factoring financial institutions, without recourse, and these related receivables were derecognised during 6M2019. The difference of approximately RMB67,000 between the receipts and the invoiced amount of these receivables had been charged as finance cost in the consolidated profit or loss for 6M2019.

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As at 30 June 2019						
	Average historic bad debt rate for 2014 to 2018	Lifetime ECL	Gross carrying amount <i>RMB'000</i>	Lifetime ECL <i>RMB'000</i>	Net carrying amount <i>RMB'000</i>	Subsequent settlements received* <i>RMB'000</i>
Contract assets	0.59%	2.43%	86,671	2,108	84,563	20,812 <sup>#</sup>
Trade and bills receivables	6.49%	7.59%	153,431	11,643	141,788	46,227
			<u>240,102</u>	<u>13,751</u>	<u>226,351</u>	<u>67,039</u>
Collective assessment:						
Not yet due or current	0.78%	1.69%	177,522	3,006	174,516	41,316
Past due						
Within 1 month	2.26%	3.72%	13,265	493	12,772	4,611
1 to 3 months	3.23%	3.88%	11,419	443	10,976	5,865
3 to 6 months	3.57%	5.56%	11,690	650	11,040	3,876
6 to 9 months	4.29%	6.83%	5,697	389	5,308	2,653
9 to 12 months	5.42%	12.51%	11,711	1,465	10,246	6,903
1 to 2 years	21.17%	71.80%	5,295	3,802	1,493	1,815
Over 2 years	36.83%	100%	926	926	—	—
Specific assessment:						
Credit impaired	100%	100%	2,577	2,577	—	—
			<u>240,102</u>	<u>13,751</u>	<u>226,351</u>	<u>67,039</u>

\* *Settlements received up to the Latest Practicable Date.*

<sup>#</sup> *Amounts transferred to trade receivables and subsequently settled up to the Latest Practicable Date.*

Up to the Latest Practicable Date, approximately RMB46.2 million, or 30.1% of our trade and bills receivables as at 30 June 2019 had been subsequently settled.

For further details of our credit risk management of our trade and bills receivables, please refer to Note 40(a) of the Accountants' Report set out in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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### Deposits, prepayments and other receivables

The following sets out a breakdown of our deposits, prepayments and other receivables at the end of each of the financial year/period during the Track Record Period:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid Listing expenses	—	1,446	2,808	4,454
Contract performance deposits	1,594	1,717	1,017	674
Tender deposits	2,115	1,745	2,065	1,422
Prepayments for purchases of raw materials	3,382	2,534	4,373	615
Deposits paid for the acquisition of land use rights	9,572	—	—	—
Deposits paid for the acquisition of plant and machinery	810	157	110	110
Deposits paid for electricity and natural gas	597	616	632	611
Government subsidies	137	347	—	—
Prepayments	1,611	1,252	1,904	1,174
Other interest receivables	—	—	—	233
Land use rights	21	173	173	173
Rental deposits	—	—	174	147
Others—individually insignificant	702	549	1,340	759
Allowance for expected credit losses	—	—	—	(323)
	20,541	10,536	14,596	10,049

Our deposits, prepayments and other receivables decreased to approximately RMB10.5 million as at 31 December 2017 from approximately RMB20.5 million as at 31 December 2016, mainly attributable to the decrease in deposits paid for the acquisition of land use rights as the transaction was completed during FY2017, of which, approximately RMB7.6 million was utilised as the consideration of the additional land cost while the remaining RMB2.0 million was refunded to our Group.

Our deposits, prepayments and other receivables increased to approximately RMB14.6 million as at 31 December 2018 from approximately RMB10.5 million as at 31 December 2017 due to the increase in prepaid Listing expenses by approximately RMB1.4 million and prepayments for purchases of raw materials by approximately RMB1.8 million as at 31 December 2018.

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Our deposits, prepayments and other receivables decreased to approximately RMB10.0 million as at 30 June 2019 from approximately RMB14.6 million as at 31 December 2018 due to the decrease in prepayments for purchases of raw materials by approximately RMB3.8 million as at 30 June 2019.

Up to the Latest Practicable Date, approximately RMB2.8 million, or 28.3% of our deposits, prepayments and other receivables as at 30 June 2019 had been subsequently settled.

### Amount due from a Shareholder and Director

As at 31 December 2016, the amount due from a Shareholder and Director, Ms. Zhang, was approximately RMB0.3 million. The balance was unsecured, interest-free and repayable on demand. The balances was fully settled during FY2017.

### Trade and bills payables

Our trade and bills payables principally represented the payables to our suppliers for the purchases of our raw materials. The balances of our trade and bills payables accounted for approximately 43.9%, 21.0%, 28.8% and 18.4% of our total current liabilities as at 31 December 2016, 2017, 2018 and 30 June 2019. The following table sets out a breakdown of our trade and bills payables as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	47,143	32,787	47,908	31,153
Bills payables	6,000	—	—	—
	53,143	32,787	47,908	31,153

Our trade and bills payables decreased to approximately RMB32.8 million as at 31 December 2017 from approximately RMB53.1 million as at 31 December 2016, primarily attributable to our settlement of trade payables over six months, the long turnover days for this settlement was based on further commercial negotiations with our suppliers to provide us longer credit periods in order to ensure that we have sufficient working capital buffer to support our general operations. As at 31 December 2018, our trade and bills payables increased to approximately RMB47.9 million from approximately RMB32.8 million as at 31 December 2017. Such increase was mainly due to increase in our purchase resulting from the increase in our production volume in order to cope with the increase in sales during the Track Record Period. As at 30 June 2019, our trade and bills payables decreased to approximately RMB31.2 million, primarily contributable to the increase in our settlement for trade and bills payables to maintain good relationship with our suppliers to get timely and sufficient supply of raw materials.

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The following table sets out a breakdown of our average trade and bills payables turnover days for the periods indicated:

	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>6M2019</b>
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average trade and bills payables turnover days <sup>(Note)</sup>	133.1	96.4	78.1	75.7

*Note:* Our average trade and bills payables turnover days equals to the average of the opening and closing balances of our trade and bills payables divided by our cost of sales and multiplied by 365 days for FY2016, FY2017 and FY2018 or multiplied by 180 days for 6M2019.

During the Track Record Period, our suppliers generally granted us credit period ranging from one to two months after invoice date. Our average trade and bills payables turnover days were approximately 133.1 days, 96.4 days, 78.1 days and 75.7 days for FY2016, FY2017, FY2018 and 6M2019, respectively. Our average trade and bills payables turnover days during the Track Record Period were generally longer than the credit period granted by our suppliers, mainly attributable to possible longer credit terms offered to our Group based on commercial negotiations and mutual agreement with our suppliers. The decreasing trend in our trade and bills payables turnover days during the Track Record Period was mainly due to our reduction in payment cycle in order to maintain a good relationship with our suppliers to get timely and sufficient supply of raw materials. The following table sets out an ageing analysis of our trade payables based on invoice date as at the dates indicated:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	1,079	13,182	13,714	26,615
1 to 3 months	4,360	14,404	20,619	2,449
3 to 6 months	3,088	4,872	10,416	1,348
Over 6 months	38,616	329	3,159	741
	47,143	32,787	47,908	31,153

Our Directors confirmed that there had been no material defaults in payment of our trade payables during the Track Record Period and up to the Latest Practicable Date.

Up to the Latest Practicable Date, approximately RMB23.6 million, or 75.8% of our trade payables as at 30 June 2019 had been subsequently settled.

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### Accruals and other payables

The following table sets out our breakdown of accruals and other payables as at the end of each of the financial year during the Track Record Period:

	<u>As at 31 December</u>			<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable for acquisition of property, plant and equipment	184	361	190	493
Accounts payable for acquisition of intangible assets	—	28	9	9
Accrued installation costs	9,133	11,461	12,176	9,731
Interest payable	—	676	451	566
Provision for Listing expenses	—	581	3,934	8,938
Education and construction levies	1,305	1,802	1,487	1,215
Salaries and bonuses payable	1,067	620	633	614
Value-added-tax payable	8,583	10,896	8,307	6,201
Other payables and accruals	<u>3,174</u>	<u>3,088</u>	<u>3,268</u>	<u>3,188</u>
	<u>23,446</u>	<u>29,513</u>	<u>30,455</u>	<u>30,955</u>

Our accruals and other payables increased to approximately RMB29.5 million as at 31 December 2017 from approximately RMB23.4 million as at 31 December 2016 mainly attributable to the increase in accrued installation costs as a result of increasing installation services provided by our suppliers of installation services in FY2017 and the increase in our value-added-tax payable by approximately RMB2.3 million. Our accruals and other payables slightly increased to approximately RMB30.5 million as at 31 December 2018 from approximately RMB29.5 million as at 31 December 2017 primarily due to the increase in the provision for Listing expenses by approximately RMB3.4 million. As at 30 June 2019, our accruals and other payables further increased to approximately RMB31.0 million, primarily contributable to the increase in the provision for Listing expenses by approximately RMB5.0 million.

Up to the Latest Practicable Date, approximately RMB15.3 million, or 49.3% of our accruals and other payables as at 30 June 2019 had been subsequently settled.



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### INDEBTEDNESS AND CONTINGENT LIABILITIES

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, our Group had a total indebtedness of approximately RMB41.0 million, RMB94.0 million, RMB82.7 million, RMB102.0 million and RMB115.7 million, respectively. The following table sets forth a summary of our Group's borrowings as at the dates indicated:

	As at 31 December			As at 30 June 2019	As at 31 October 2019
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current liabilities</b>					
Amounts due to					
Shareholders and					
Directors	15,178	17	852	21	18
Lease liabilities	183	549	713	743	751
Bank borrowings	22,000	63,500	78,284	98,771	112,769
Other borrowings	—	20,000	—	—	—
	37,361	84,066	79,849	99,535	113,538
<b>Non-current liabilities</b>					
Lease liabilities	3,675	3,173	2,818	2,444	2,195
Loan from related parties	—	6,770	—	—	—
	41,036	94,009	82,667	101,979	115,733

### Amounts due to our Shareholders and Directors

Our amounts due to our Shareholders and Directors as of the dates indicated were approximately RMB15.2 million, RMB17,000, RMB0.9 million, RMB21,000 and RMB18,000, respectively. The balances were unsecured, interest-free and repayable on demand. Subsequent to 31 October 2019, all the above amounts due to our Shareholders and Directors were settled by our Group.

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### Lease liabilities

During the Track Record Period, we leased properties in the PRC for use as office, production facilities, warehouses, staff quarters as a lessee. Lease liabilities are initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, our Group uses its incremental borrowing rate. After initial recognition, the lease liability is measured by (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

	As at 31 December			As at	As at
	2016	2017	2018	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
<b>Lease liabilities</b>					
At beginning of the year	4,408	3,858	3,722	3,531	3,187
Addition	—	—	479	—	—
Interest charged to profit or loss	313	203	158	71	43
Payment during the year/period	<u>(863)</u>	<u>(339)</u>	<u>(828)</u>	<u>(415)</u>	<u>(284)</u>
<b>Balance at the end of the year/period</b>	<u><u>3,858</u></u>	<u><u>3,722</u></u>	<u><u>3,531</u></u>	<u><u>3,187</u></u>	<u><u>2,946</u></u>
<b>Analysed for reporting purpose as:</b>					
Current liabilities	183	549	713	743	751
Non-current liabilities	<u>3,675</u>	<u>3,173</u>	<u>2,818</u>	<u>2,444</u>	<u>2,195</u>
	<u><u>3,858</u></u>	<u><u>3,722</u></u>	<u><u>3,531</u></u>	<u><u>3,187</u></u>	<u><u>2,946</u></u>

Our lease liabilities mainly contributed by a long-term lease contract entered into by our Group and an Independent Third Party on 21 September 2013, from which our Group leased a factory building located in the PRC for a lease term of 10 years, commencing from 31 October 2013 to 30 September 2023, at the monthly lease payments of approximately RMB54,000.

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### Loan from related parties

The following table sets out our loan with related parties as at the dates indicated:

	As at 31 December			As at 30 June 2019	As at 31 October 2019
	2016	2017	2018	2019	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Non-current liabilities</b>					
<b>Non-trade in nature:</b>					
Mr. Zhao Lin Zhang	—	3,270	—	—	—
Ms. Zhang Ya Qin	—	3,500	—	—	—
	—	6,770	—	—	—
	—	6,770	—	—	—

On 20 September 2017, our Group and Mr. Zhao Lin Zhang (“**Mr. Zhao**”) entered into a loan agreement, pursuant to which, Mr. Zhao provided a loan of approximately RMB3,270,000 to our Group. As at 31 December 2016, 2017, 2018 and 30 June 2019, the loan payable to Mr. Zhao of nil, approximately RMB3,270,000, nil and nil was unsecured, interest-free and repayable on 19 September 2019.

On 9 October 2017, our Group and Ms. Zhang Ya Qin (“**Ms. Zhang YQ**”) entered into a loan agreement, pursuant to which, Ms. Zhang YQ provided a loan of approximately RMB3,500,000 to our Group. As at 31 December 2016, 2017, 2018 and 30 June 2019, the loan payable to Ms. Zhang YQ of nil, approximately RMB3,500,000, nil and nil. The loan was unsecured, interest-free and repayable on 8 October 2019.

During the year ended 31 December 2018, the two loans from Mr. Zhao and Ms. Zhang YQ were fully repaid by our Group in August 2018.

Mr. Zhao and Ms. Zhang YQ are the parents of Mr. Zhao Hao Huan, being the head of purchase department of our Group for the period up to 31 December 2017 during the Track Record Period and a nephew of Mr. Shen and Ms. Zhang. Mr. Zhao and Ms. Zhang YQ are the relatives of Ms. Zhang and close family members of Ms. Zhang Lingyan and Mr. Zhao Hao Huan, being two of the key management personnel of our Group, respectively. Mr. Zhao and Ms. Zhang YQ acted as nominees of Ms. Zhang for the purpose of providing our Group with the above interest-free loans, of which, all the loan proceeds were ultimately provided by Ms. Zhang at no interest during the Track Record Period. Considering the family relationship between Mr. Zhao, Ms. Zhang YQ and Ms. Zhang, our Directors are of the opinion that the above interest-free loans were provided by Ms. Zhang via her nominees, Mr. Zhao and Ms. Zhang YQ. Such nominee arrangement was at the convenience of Ms. Zhang as Ms. Zhang advanced approximately RMB4.0 million and RMB3.8 million to Mr. Zhao and Ms. Zhang YQ in 2017, respectively, for their personal use. Ms. Zhang then instructed Mr. Zhao and Ms. Zhang YQ to repay the said advance from Ms. Zhang by making the transfers to the Group.

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The interests implicit on the loans from the above related parties, are determined with reference to prevailing bank borrowing rates per annum of the three years ended 2016, 2017 and 2018, respectively. For details, please refer to Note 37(i) of the Accountants' Report set out in Appendix I to this prospectus.

After the Track Record Period and up to the Latest Practicable Date for the purpose of indebtedness statement, no further additional loans were obtained from related parties.

### Bank borrowings

The following table sets out a breakdown of our bank borrowings as at the dates indicated:

	As at 31 December			As at	As at
	2016	2017	2018	30 June 2019	31 October 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
<b>Payable within 1 year:</b>					
Unsecured bank loans	—	—	43,500	49,500	49,500
Secured bank loans	—	28,500	2,884	49,271	63,269
Guaranteed bank loans	—	11,000	4,900	—	—
Secured and guaranteed bank loans	22,000	24,000	27,000	—	—
	22,000	63,500	78,284	98,771	112,769

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, being the latest practicable date for the purpose of indebtedness statement, all bank borrowings were denominated in RMB, interest-bearing at the rates ranging from 5.14% to 5.50%, 4.35% to 5.44%, 4.35% to 6.20%, 4.35% to 6.70% and 4.35% to 6.20% per annum and repayable within one year, respectively.

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As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, our bank borrowings were secured by the land use rights, leasehold buildings, trade receivables and bill receivables of our Group as follows:

	As at 31 December			As at	As at
	2016	2017	2018	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Carrying value of the pledged assets:					
Land use rights	1,088	8,559	8,386	8,300	8,240
Leasehold buildings	10,218	9,967	9,313	8,986	8,768
Trade receivables	—	—	3,567	25,621	44,655
Bills receivables	—	—	—	1,517	—
	<u>11,306</u>	<u>18,526</u>	<u>21,266</u>	<u>44,424</u>	<u>61,663</u>

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, certain bank borrowings of approximately RMB22.0 million, RMB35.0 million, RMB27.0 million, nil and nil were jointly guaranteed by Mr. Shen, Ms. Zhang and Mr. Shen MH, our Shareholders and Directors, respectively.

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, certain bank borrowings of approximately RMB18.0 million, RMB35.0 million, nil, nil and nil, respectively, were guaranteed by an Independent Third Party, Changzhou Qianghua Tinning Thin Board Co. Ltd. (“**Changzhou Qianghua**”) which is one of our top five supplier in FY2016.

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, bank borrowings of nil, approximately RMB28.5 million, nil, nil and nil were jointly secured by the bank deposits jointly owned by Mr. Shen and Ms. Zhang of nil, approximately RMB30.0 million, nil, nil and nil, respectively.

As at 31 December 2018, a bank borrowing of approximately RMB4.9 million was secured by the personal insurance policy in favour of Ms. Zhang for an insured sum of approximately RMB5.9 million.

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## FINANCIAL INFORMATION

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As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, our Group had banking and other borrowings facilities of approximately RMB45.0 million, RMB45.0 million, RMB94.5 million, RMB78.0 million and RMB85.5 million, respectively, which were utilised to the extent of approximately RMB22.0 million, RMB35.0 million, RMB75.4 million, RMB78.0 million and RMB76.5 million, respectively, and our Group's available unused credit facilities amounted to approximately RMB23.0 million, RMB10.0 million, RMB19.1 million, nil and RMB9.0 million, respectively.

Customer I provided commercial bills or letters of credit issued by the banks of Customer I to our Group in accordance with the sales contracts made between our Group and Customer I, for the contract performance obligations discharged by our Group and the credit period of up to 365 days from the invoice date is allowed to Customer I. Our Group factored these trade receivables in respect of Customer I, with recourse, to a factoring bank which is one of the principal banks of Customer I. At 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019, the outstanding factored receivables in respect of Customer I amounted to nil, nil, approximately RMB3.6 million, RMB25.6 million and RMB44.7 million, respectively, against which, our Group received proceeds of nil, nil approximately RMB2.9 million, RMB20.8 million and RMB15.5 million from the factoring bank for the years ended 31 December 2016, 2017 and 2018, the six months ended 30 June 2019 and the four months ended 31 October 2019, respectively.

As at 31 October 2019, being the latest practicable date for the purpose of the indebtedness statement, no further additional guarantees nor securities were provided.

Our Directors confirmed that our Group did not have any material external debt financing plan as at the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulty in obtaining credit facilities or withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of our loans and borrowings. We have been able to repay our loans and borrowings when they became due and payable. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had no material default with regard to covenants and/or breaches of covenants under our loans and borrowings. In addition, our Directors confirmed that there are no material covenants in our existing loans and borrowings that impose a substantial limitation on our ability to obtain further financing.

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## FINANCIAL INFORMATION

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### Other borrowings

The following table sets out a breakdown of our other borrowings as at the dates indicated:

	As at 31 December			As at	As at
	2016	2017	2018	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
<b>Repayable within one year:</b>					
Unsecured other borrowings	—	20,000	—	—	—
	—	20,000	—	—	—

On 8 June 2017 and 3 August 2017, JiaChen Floor and an independent supplier entered into a loan agreement, respectively, under which the independent supplier provided short-term loans of approximately RMB6,000,000 and RMB8,000,000 to JiaChen Floor, respectively. As at 31 December 2017, the two loans of approximately RMB6,000,000 and RMB8,000,000 were unsecured with an interest bearing at the rate of 5.44% per annum, which were fully repaid on 9 February 2018 and 11 February 2018, respectively. During the Track Record Period, the pricing, payment method and credit period of the purchase agreements with the aforementioned independent supplier were comparable to those of our other suppliers.

On 19 January 2017, JiaChen Floor and a company (the “**Lender**”), which Ms. Yan and her close family members have beneficial interests in, entered into a loan agreement, under which the Lender provided a short-term loan of approximately RMB6,000,000 to JiaChen Floor. To the best knowledge of our Directors, the Lender is owned as to 80% by an entity owned by Ms. Yan and her family members and as to 20% by another entity which is an Independent Third Party. As at 31 December 2017, the short-term loan amounted to approximately RMB6,000,000 which was unsecured with an interest bearing at the rate of 5.44% per annum and repayable on 18 January 2018. The terms of the loan agreement were negotiated and arrived with reference to the bank borrowing agreements entered into between our Group and the bank without any connection with the Pre-IPO Investment. On 18 January 2018, JiaChen Floor and the Lender entered into a supplemental loan agreement, based on which, the Lender extended the repayment date of the loan from 18 January 2018 to 31 December 2018, with other terms remained unchanged. In the opinion of our Directors, there was no significant change in the fair value of this loan and its carrying amount at 18 January 2018 when its maturity was extended to 31 December 2018. This loan was fully repaid by JiaChen Floor during FY2018.

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## FINANCIAL INFORMATION

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Subsequent to the Track Record Period and up to the Latest Practicable Date, for the purpose of indebtedness statement, no further borrowings were obtained. As at the Latest Practicable Date, all of the above balances as at 30 June 2019 were subsequently settled.

### Contingent liabilities

As at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019, we did not have any contingent liabilities except for the followings:

- (i) During FY2016, JiaChen Floor provided corporate guarantees to the extent of RMB11.0 million and RMB7.0 million in favour of a bank for bank loans granted to Changzhou Qianghua and an Independent Third Party, respectively. These two corporate guarantees were fully released upon the full settlement of the relevant bank loans by Changzhou Qianghua and the Independent Third Party in February 2017 and October 2017, respectively. In the opinion of our Directors, the fair values of the corporate guarantees provided to the two suppliers were insignificant, as the probability of defaults by these two suppliers was considered to be low at 31 December 2016 and during the period up to their respective dates of their releases.
- (ii) As at 31 December 2016, 2017, 2018 and 30 June 2019, Changzhou Qianghua provided corporate guarantees for JiaChen Floor's bank borrowings of approximately RMB18.0 million, RMB35.0 million, nil and nil, respectively, which were drawn down and applied by JiaChen Floor towards settling the trade debts payable to Changzhou Qianghua. In the opinion of our Directors, the fair value of the corporate guarantees provided by this supplier was insignificant, as the probability of defaults by JiaChen Floor was considered to be low as at 31 December 2016, 2017, 2018 and 30 June 2019.

In the opinion of our Directors, the above contingent liabilities and the fair values of the above corporate guarantees were insignificant. Furthermore, the pricing, payment method and credit period of the purchase agreements with Changzhou Qianghua were comparable to those of our other suppliers.

Our Directors confirmed that, as at the Latest Practicable Date, there was no material change in our Group's contingent liabilities and we are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial conditions.

Save as disclosed in the paragraph headed "Indebtedness and contingent liabilities" in this section, we did not have other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities as at 31 October 2019 (being the latest practicable date for the purpose of this indebtedness statement).



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### Material indebtedness change

Our Directors confirmed that, as at the Latest Practicable Date, there had been no material change in our Group's indebtedness since 31 October 2019. Our Directors further confirmed that, as at the Latest Practicable Date, we did not have any plans to raise any material debt financing shortly after the Listing.

### OFF-BALANCE SHEET TRANSACTIONS

We had not entered into any material off-balance sheet transactions or arrangements during the Track Record Period and up to the Latest Practicable Date.

### CAPITAL EXPENDITURES

In FY2016, FY2017, FY2018 and 6M2019, we paid an aggregate amount of approximately RMB5.8 million, RMB1.8 million, RMB1.4 million and RMB1.1 million, respectively, for capital expenditures in respect of the acquisition of property, plant and equipment.

We expect that our capital expenditure in FY2019 and FY2020 will be approximately RMB0.6 million and RMB51.7 million, respectively, which are mainly related to the acquisition of property, plant and equipment.

### OPERATING LEASE COMMITMENTS

Our Group leases certain of its staff quarter under operating lease arrangements. The leases are negotiated for terms ranging from one year to three years during the Track Record Period. Certain leases are cancellable with notice periods ranging from one to three months.

As at 31 December 2016, 2017, 2018 and 30 June 2019, our Group had total future minimum lease payments under non-cancellable operating leases within one year amounted to RMB0.1 million, RMB0.1 million, RMB0.2 million and RMB0.1 million, respectively.

There has been no significant impact on our Group's financial position and performance comparing the application of HKFRS 16 and HKAS 17.

### CAPITAL COMMITMENTS

There were no material capital commitments as at 31 December 2016, 2017, 2018, 30 June 2019 and 31 October 2019.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

Other than those transactions and balances disclosed elsewhere in the Historical Financial Information of the Accountants' Report in Appendix I to this prospectus, the following transactions were carried out with related parties during the Track Record Period:

Name of related party	Nature of transactions	For the year ended 31 December			For the six months ended
		2016	2017	2018	30 June 2019
		RMB'000	RMB'000	RMB'000	RMB'000
Jiachen Machinery Plant	Disposal of plant and equipment	348	—	—	—
	Purchase of plant and equipment	491	—	—	—
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The above transactions were carried out in the ordinary course of business of our Group and at the terms mutually agreed by the respective parties.

With respect to the related party transactions set out in this prospectus, our Directors are of the opinion that these related party transactions were conducted on an arm's length basis and on normal commercial terms, and such terms were no less favorable to our Group than terms available to the Independent Third Parties, and were fair and reasonable and in the interests of our Shareholders as a whole.

### KEY FINANCIAL RATIOS

The table below sets out our certain key financial ratios as at the dates/for the periods indicated:

	As at/For the year ended 31 December			As at/For the six months ended
	2016	2017	2018	30 June 2019
Return on equity <sup>(1)</sup>	19.0%	16.7%	16.5%	N/A <sup>(8)</sup>
Return on assets <sup>(2)</sup>	8.5%	7.1%	7.8%	N/A <sup>(8)</sup>
Current ratio <sup>(3)</sup>	1.5	1.6	1.7	1.7
Quick ratio <sup>(4)</sup>	0.9	1.3	1.5	1.5
Gearing ratio <sup>(5)</sup>	40.3%	76.1%	55.0%	64.8%
Debt-to-equity ratio <sup>(6)</sup>	34.3%	63.5%	42.7%	53.3%
Interest coverage ratio <sup>(7)</sup>	8.5	7.5	7.2	3.4
Gross profit margin <sup>(9)</sup>	23.3%	24.8%	24.2%	24.7%
Net profit margin <sup>(10)</sup>	12.1%	9.5%	10.0%	5.7%
Adjusted net profit margin <sup>(11)</sup>	12.1%	11.6%	11.6%	9.6%

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*Notes:*

1. Return on equity equals to our profit for the year divided by the closing balance of our total equity, multiplied by 100%, on a full-year basis.
2. Return on assets equals to our profit for the year divided by the closing balance of our total assets, multiplied by 100%, on a full-year basis.
3. Current ratio equals to our total current assets divided by our total current liabilities as at the year/period end date.
4. Quick ratio equals to our total current assets less our inventories divided by our total current liabilities as at the year/period end date.
5. Gearing ratio equals to our total loans and borrowings divided by our total equity as at the year/period end date, multiplied by 100%.
6. Debt-to-equity ratio equals to our net debts (being our total loans and borrowings net of our cash and cash equivalents) divided by our total equity as at the year/period end date, multiplied by 100%.
7. Interest coverage ratio equals to our profit for the year/period netting off our finance costs and income tax expense divided by our finance costs.
8. Calculation of return on equity and return on total assets is on a full-year basis.
9. Gross profit margin is calculated by dividing the gross profit for the year/period by our total revenue for the year/period and multiplied by 100%.
10. Net profit margin is calculated by dividing the net profit for the year/period by our total revenue for the year/period and multiplied by 100%.
11. Adjusted net profit margin is calculated by dividing the adjusted net profit for the year/period by our total revenue for the year/period and multiplied by 100%. For further details of our adjusted net profit, please refer to the section headed “Summary — Summary of historical financial information — Non-HKFRS measure” in this prospectus.

### **Return on equity**

Our return on equity decreased to approximately 16.7% for FY2017 from approximately 19.0% for FY2016, primarily attributable to the increase in profit for the year from FY2016 to FY2017 was proportionally greater than the increase in equity base as a result of increase in reserves. Our return on equity slightly decreased to approximately 16.5% for FY2018, mainly due to the increase in equity base as a result of the equity swap agreement entered into between our Controlling Shareholders and Changzhou Jintai on 18 January 2018 which led to the increase in reserves.

### **Return on assets**

Our return on assets decreased to approximately 7.1% for FY2017 as from approximately 8.5% for FY2016, mainly due to the increase in total assets as at 31 December 2017. In particular, the trade and bill receivables was approximately RMB104.7 million as at 31 December 2017 as compared to that of approximately RMB43.3 million as at 31 December 2016. Our return on assets increased to approximately 7.8% for FY2018 from approximately 7.1% for FY2017, primarily attributable to increase in profit to approximately RMB24.9 million for FY2018 from approximately RMB20.7 million for FY2017.

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### Current ratio

Our current ratio had an increasing trend at approximately 1.5, 1.6, 1.7 and 1.7 as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively, mainly due to the increasing trend of our balances of contract assets and trade and bills receivables, which was in line with our increasing trend of revenue, outweigh the increase in our current liabilities.

### Quick ratio

Our quick ratio remained stable at approximately 0.9 as at 31 December 2016. Our quick ratio increased to approximately 1.3, 1.5 and 1.5 as at 31 December 2017, 2018 and 30 June 2019, respectively, mainly due to the decrease in our inventories as at the dates indicated.

### Gearing ratio

Our gearing ratio increased to approximately 76.1% as at 31 December 2017 from approximately 40.3% as at 31 December 2016 mainly due to the combined effect of (i) the increase in bank borrowings to approximately RMB63.5 million as at 31 December 2017 from approximately RMB22.0 million as at 31 December 2016; (ii) the increase in other borrowings to approximately RMB20.0 million as at 31 December 2017 from nil as at 31 December 2016; (iii) the increase in our loans from related parties to approximately RMB6.8 million as at 31 December 2017 from nil as at 31 December 2016; (iv) the increase in our current lease liabilities to approximately RMB0.5 million as at 31 December 2017 from approximately RMB0.2 million as at 31 December 2016; and partially offset by (v) the decrease in amounts due to Shareholders and Directors to approximately RMB17,000 as at 31 December 2017 from approximately RMB15.2 million as at 31 December 2016. Our gearing ratio decreased to approximately 55.0% as at 31 December 2018 from approximately 76.1% as at 31 December 2017, primarily attributable to the decrease in our other borrowings by approximately RMB20.0 million to nil as at 31 December 2018 outweigh the increase in (i) our bank borrowings by approximately RMB14.8 million to approximately RMB78.3 million as at 31 December 2018 from approximately RMB63.5 million as at 31 December 2017; and (ii) our current lease liabilities by approximately RMB0.2 million to approximately RMB0.7 million as at 31 December 2018 from approximately RMB0.5 million as at 31 December 2017. Our gearing ratio increased to approximately 64.8% as at 30 June 2019, primarily attributable to the increase in bank borrowings to approximately RMB98.8 million as at 30 June 2019.

### Debt-to-equity ratio

Our debt-to-equity ratio increased to approximately 63.5% as at 31 December 2017 from approximately 34.3% as at 31 December 2016 but at a smaller extent as compared to the increase in our gearing ratio for the same period, mainly due to the increase in our cash and cash equivalents to approximately RMB13.0 million as at 31 December 2017 from approximately RMB2.1 million as at 31 December 2016, as a result of the increase in proceeds from bank borrowings and other borrowings. Our debt-to-equity ratio decreased to approximately 42.7% as at 31 December 2018 from approximately 63.5% as at 31 December 2017, mainly due to the decrease in our other borrowings by approximately RMB20.0 million outweigh the increase in our bank borrowings by approximately RMB14.8 million. Our debt-to-equity ratio increased to approximately 53.3% as at 30 June 2019, from approximately 42.7% as at 31 December 2018 mainly due to the combined effect of (i) the increase

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## FINANCIAL INFORMATION

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in bank borrowings by approximately RMB20.5 million from approximately RMB78.3 million as at 31 December 2018 to approximately RMB98.8 million as at 30 June 2019; and (ii) the decrease in cash and cash equivalents from approximately RMB16.2 million as at 31 December 2018 to approximately RMB14.1 million as at 30 June 2019.

### **Interest coverage ratio**

Our interest coverage ratio decreased to approximately 7.5 for FY2017 from approximately 8.5 for FY2016 was mainly due to the increase in finance costs by approximately 21.4% resulting from the increase in bank borrowings and other borrowings during FY2017 and the increase in profit before interest and taxation for FY2017 to approximately RMB27.5 million recorded a rise by 6.2%. Our interest coverage ratio then decreased to approximately 7.2 for FY2018, primarily attributable to the increase in finance costs resulting from the increased bank borrowings. Our interest coverage ratio then further decreased to approximately 3.4 for 6M2019, primary attributable to the interest of approximately RMB3.8 million for 6M2019 accounted for approximately 20.3% of the adjusted net profit before interest and tax for the same period compared to approximately 12.4% for FY2018 resulting from the increased in bank borrowings of approximately RMB98.8 million for 6M2019 compared to approximately RMB78.3 million for FY2018.

### **Gross profit margin**

For further details of our gross profit margin, please refer to the paragraph headed “Period to period comparison of results of operation” in this section.

### **Net profit margin**

Our net profit margin amounted to approximately 12.1%, 9.5%, 10.0% and 5.7% for the Track Record Period.

### **Adjusted net profit margin**

Our adjusted net profit margin amounted to approximately 12.1%, 11.6%, 11.6% and 9.6% for the Track Record Period.

## **FINANCIAL RISK MANAGEMENT**

Our Group is exposed to market risk, credit risk and liquidity risk in the normal course of business. For further details of our financial risk management, please refer to Note 40 of the Accountants’ Report set out in Appendix I to this prospectus.

## **RECENT DEVELOPMENT**

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on developing our manufacturing and sales of access flooring products and provision of related installation services.

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## **FINANCIAL INFORMATION**

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### **LISTING EXPENSES**

The estimated total expenses in relation to the Listing are approximately RMB41.1 million (equivalent to approximately HK\$46.7 million), calculated based on the Offer Price of HK\$0.565 per Share (being the mid-point of our indicative price range). Approximately RMB13.4 million (equivalent to approximately HK\$15.2 million) had already been recorded in the consolidated statements of profit or loss and other comprehensive income during the Track Record Period. Furthermore, approximately RMB6.4 million (equivalent to approximately HK\$7.3 million) and approximately RMB4.8 million (equivalent to approximately HK\$5.4 million) are expected to be charged to the consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2019 and 2020, respectively. The balance of the expenses of approximately RMB16.5 million (equivalent to approximately HK\$18.8 million) will be recorded as equity of our Company. Our Directors would like to emphasise that such amount of total expenses is a current estimation for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions.

### **DIVIDENDS**

No dividends have been paid or declared by our Company since its date of incorporation. Any future declaration and payment of dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operations and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders, as well as any applicable laws. We do not have any predetermined dividend payout ratio.

### **DISTRIBUTABLE RESERVES**

As at 30 June 2019, our Company had no distributable reserve available for distribution.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

Please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for the details of our unaudited pro forma adjusted consolidated net tangible assets.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirmed, save for the expense in relation to the Listing, that since 30 June 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there have been no events since 30 June 2019 which would materially affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS STRATEGIES AND FUTURE PLANS

For a detailed description of our business strategies and future plans, please refer to the section headed “Business — Business strategies” in this prospectus.

### BASES AND KEY ASSUMPTIONS

The implementation plans for our business strategies are set out by our Directors based on the following principal bases and assumptions:

- (i) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, and any other places where any members of our Group carry on business and provide or will provide services;
- (ii) there will be no material changes in the bases or rates of taxation and duties in the PRC or in any other places where any member of our Group operates or will operate or is incorporated;
- (iii) our Group will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;
- (iv) the Global Offering will be completed in accordance with and as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus;
- (v) our Directors and key senior management will continue their involvement in the development of our existing and future development and our Group will be able to retain our key management personnel;
- (vi) we will be able to recruit new staff when required;
- (vii) there will be no change in the funding requirement for carrying out each of the implementation plans described in this prospectus from the amount as estimated by our Directors;
- (viii) we will be able to continue our operations substantially in the same manner as we had been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruption; and
- (ix) we will not materially and adversely be affected by the risk factors as set out in the section headed “Risk Factors” in this prospectus. The successful implementation of our business plans may be affected by a number of factors including the availability of sufficient funds, the economic condition, our ability to maintain our existing competitive advantages, relationship with our customers and the threat of substitutes and new market entrants.

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## FUTURE PLANS AND USE OF PROCEEDS

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These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. There can be no assurance that our plans will materialise in accordance with the expected time frame or that the business objective of our Group will be accomplished at all.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering, after deducting the related underwriting fees and commissions and estimated total listing expenses payable by us in connection with the Global Offering, will be approximately HK\$94.6 million, assuming an Offer Price of HK\$0.565 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.53 to HK\$0.60 per Offer Share. If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, will increase by approximately HK\$8.8 million or decrease by approximately HK\$8.8 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the below purposes on a pro-rata basis. Our Directors currently intend to apply such net proceeds in the following manner:

- (i) approximately HK\$79.3 million (equivalent to approximately RMB70.0 million or approximately 83.8% of our total estimated net proceeds) will be used for expansion of our production facilities by acquiring a parcel of land in the PRC and constructing two factory buildings thereon and implementation of new production lines and supplemental equipment, of which:
  - approximately HK\$23.0 million (equivalent to approximately RMB20.3 million or approximately 24.2% of our total estimated net proceeds) be used for the acquisition of the land use right for the land;
  - approximately HK\$24.2 million (equivalent to approximately RMB21.4 million or approximately 25.6% of our total estimated net proceeds) will be used to build the necessary infrastructure including two new factory buildings for production and storage; and
  - approximately HK\$32.1 million (equivalent to approximately RMB28.3 million or approximately 34.0% of our total estimated net proceeds) will be used to enhance our production capacity by:
    - installing (a) two additional production lines for producing calcium sulfate access flooring products with an aggregate cost of approximately HK\$14.7 million (equivalent to approximately RMB13.0 million); and (b) three additional production lines for producing steel access flooring products, including two production lines with specification of 600mm x 600mm with an aggregate cost of approximately HK\$10.3 million (equivalent to approximately RMB9.1 million) and one production line with specification of 500mm x 500mm with cost of approximately HK\$4.7 million (equivalent to approximately RMB4.1 million); and



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## FUTURE PLANS AND USE OF PROCEEDS

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- installing environmental-friendly and energy-saving facilities and equipment with an aggregate cost of approximately HK\$2.4 million (equivalent to approximately RMB2.1 million).
  
- (ii) approximately HK\$5.6 million (equivalent to approximately RMB4.9 million or approximately 5.9% of our total estimated net proceeds) will be used to optimise our manufacturing process and to increase productivity by acquiring automated machinery and equipment for upgrading our existing production lines;
  
- (iii) approximately HK\$5.5 million (equivalent to approximately RMB4.8 million or approximately 5.8% of our total estimated net proceeds) will be used for repaying outstanding indebtedness of our Group under the facility agreement drawn on 25 February 2019 for financing our Group's general working capital in procuring raw materials, bearing a fixed interest rate based on a one-year loan prime rate of +/- 1.11% on the previous business day before the drawdown date, which will mature on 25 February 2020. For details of the outstanding indebtedness of our Group, please refer to the section headed "Financial Information — Indebtedness and contingent liabilities" in this prospectus;
  
- (iv) approximately HK\$2.5 million (equivalent to approximately RMB2.2 million or approximately 2.7% of our total estimated net proceeds) will be used for enhancing and optimising our information technology system, in particular upgrading our existing ERP system; and
  
- (v) approximately HK\$1.7 million (equivalent to approximately RMB1.3 million or approximately 1.8% of our total estimated net proceeds) will be used for our working capital and general corporate purposes.

The use of our proceeds outlined above may change in light of our evolving business needs, conditions and management requirements as well as prevailing market circumstances. In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required under the Listing Rules.

To the extent that the net proceeds from the issue of new Shares under the Global Offering are not immediately required for or applied to the above purposes, it is the present intention of our Directors that such proceeds will be placed into interest-bearing bank accounts, such as demand deposit accounts, with licensed commercial banks and/or authorised financial institutions in Hong Kong and/or the PRC. To the extent that the net proceeds are not sufficient to fund the purposes as set forth above, we intend to fund the balance through a variety of means, including cash generated from our operations, bank loans and other borrowings, as appropriate.

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## FUTURE PLANS AND USE OF PROCEEDS

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### OUR IMPLEMENTATION PLANS

We will endeavour to achieve the milestone events set out below during the period from the Latest Practicable Date to 30 June 2021, and the respective scheduled completion dates are based on certain bases and assumptions as set out in the paragraph headed “Bases and key assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risks factors set out in the section headed “Risk Factors” in this prospectus. Therefore, there can be no assurance that our plans will materialise in accordance with the expected time frame or that our objective will be accomplished at all.

Based on our business objectives, we intend to carry out the following implementation plans:

<u>Business strategies</u>	<u>Implementation activities</u>	<u>Source of funds</u>
<b>For the period from Latest Practicable Date to 30 June 2020</b>		
To increase our production capacity and efficiency	Entering into a formal agreement with the municipal people’s government in Henglin Town, Wujin District, Changzhou, China (常州市武進區橫林鎮人民政府) in respect of the acquisition of a parcel of land in Changzhou City, the PRC (the “ <b>Targeted Land</b> ”) and a construction plan of two factory buildings to be built thereon	N/A
	Settlement of payment for the Targeted Land, the relevant tax and other payments necessary for the acquisition of the Targeted Land	To be funded by the net proceeds of the Global Offering of approximately RMB20.3 million
	Application submission for the requisite licences and permits, including use of land, construction works planning permits and construction works commencement permits	N/A
	Finalising construction plans and engaging with contractors for constructing the factory buildings	N/A

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## FUTURE PLANS AND USE OF PROCEEDS

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<u>Business strategies</u>	<u>Implementation activities</u>	<u>Source of funds</u>
	Construction of a factory building on the Targeted Land for accommodating steel access flooring product manufacturing facilities	To be funded by the net proceeds of the Global Offering of approximately RMB10.7 million
<b>For the period from 1 July 2020 to 31 December 2020</b>		
To increase our production capacity and efficiency	Construction of a factory building on the Targeted Land for accommodating calcium sulfate access flooring product manufacturing facilities	To be funded by the net proceeds of the Global Offering of approximately RMB10.7 million
	Completion of the construction of the factory building for accommodating both steel access flooring product and calcium sulfate access flooring product manufacturing facilities	N/A
	Installation of the three additional steel access flooring product production lines	To be funded by the net proceeds of the Global Offering of approximately RMB13.2 million
<b>For the period from 1 January 2021 to 30 June 2021</b>		
To increase our production capacity and efficiency	Installation of and trial-run testing for the two additional calcium sulfate access flooring product production lines and three additional steel access flooring product production lines, including the installation of the environmental-friendly and energy-saving facilities and equipment to be acquired during the same period	To be funded by the net proceeds of the Global Offering of approximately RMB13.0 million and RMB2.1 million for installation of the calcium sulfate access flooring product production lines and the acquisition of the environmental-friendly and energy-saving facilities and equipment, respectively

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## FUTURE PLANS AND USE OF PROCEEDS

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<u>Business strategies</u>	<u>Implementation activities</u>	<u>Source of funds</u>
	Full operation of the five additional production lines, together with the environmental-friendly and energy-saving facilities and equipment, is expected to commence after satisfactory testing	N/A
To upgrade our existing production lines	Acquisition of automated machinery and equipment to be installed to both of our calcium sulfate access flooring product and steel access flooring product production lines	To be funded by the net proceeds of the Global Offering of approximately RMB2.9 million and RMB2.0 million for acquiring automated machinery and equipment for upgrading our existing calcium sulfate access flooring product and steel access flooring product production lines, respectively
	Installation of and trial-run testing for the enhanced machinery and equipment for both of our existing calcium sulfate access flooring product and steel access flooring product production lines	N/A
	Full operation of the enhanced machinery and equipment is expected to commence after satisfactory testing	N/A
To upgrade our ERP system	Installation of a new ERP system which provides more services for improving our quality management, warehouse management and other operational management	To be funded by the net proceeds of the Global Offering of approximately RMB2.2 million

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## FUTURE PLANS AND USE OF PROCEEDS

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### REASONS FOR THE LISTING

We intend to raise funds by the Global Offering in order to facilitate the implementation of our business strategies which we regard it as our Group's long-term development. The net proceeds from the Global Offering will enable us to have sufficient financial resources to achieve our business strategies which will further strengthen our production and research and development capabilities. In particular, we plan to expand our manufacturing facilities by acquiring a parcel of land adjacent to our existing manufacturing facility for installing five additional production lines and acquiring new environmental-friendly and energy-saving facilities and equipment. Notwithstanding that we had cash and cash equivalents of approximately RMB14.1 million as at 30 June 2019, our Directors considered that such amount of cash are only sufficient to be applied for our Group's working capital purpose.

Given the increasing demand of our Group's products and the almost full utilisation rate of our production lines, our Directors recognise the imminent need for additional capital to expand our business in order to capture the expected demand in the access flooring manufacturing industry in the PRC. We had considered debt financing which include finance lease and bank loan as an alternative way to finance our expansion plan, but resolved to proceed with the Global Offering as our Group had no additional security available to be pledged for obtaining further banking facilities. We considered that the finance cost to be incurred to implement our expansion plan is relatively high and the payment term of requiring an upfront payment on deposit and retention money imposes substantial financial burden to our Group. Furthermore, since we relied on our internal resources and bank borrowings for business operations in the past, it is important for us to expand our source of capital for the implementation of our business strategies. Our Directors believed that the Listing is beneficial to our Company and its Shareholders as a whole, notwithstanding the dilution effect on the shareholdings of our Controlling Shareholders upon Listing and the expenses involved in the process of the Global Offering, taking into consideration of the reasons below:

1. *imminent fund raising platform*: we will be able to raise net proceeds from the Global Offering to facilitate the implementation of our business strategies;
2. *long-term fund raising platform*: apart from our internal sources (such as our cash and cash equivalents), we will also enjoy flexibility in raising funds by gaining access to a variety of fund raising avenues, including the issuance of equity and debt securities, to fund our medium to long-term development as and when necessary;
3. *strengthening the competitiveness of our Group*: the Listing will enhance the level of competitiveness of our Group, which may in turn lead to the establishment and strengthening of business relationships with new and existing customers, increase our Group's market share and attract strategic investors for our Group;
4. *higher profile and visibility*: the Listing will enhance our corporate profile and creditability with the public, and potential and existing business partners, customers and suppliers; and
5. *maximise Shareholders' interest*: the Listing will enhance the liquidity of our Shares and offer an opportunity for our Shareholders to realise their investment in the capital market.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

Astrum Capital Management Limited  
Wealth Link Securities Limited  
Lead Securities (HK) Limited  
Quasar Securities Co., Limited  
Emperio Securities And Assets Management Limited  
Tiger Faith Securities Limited  
Sorrento Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering for subscription of 25,000,000 Hong Kong Offer Shares at the Offer Price under the Hong Kong Public Offering subject to the terms and conditions set forth in this prospectus and the Application Forms. Subject to, among other matters, the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and the Offer Price having been determined by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or prior to Friday, 10 January 2020 or such other date or time as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) but in any event not later than Monday, 13 January 2020, the Hong Kong Underwriters have agreed on and subject to the terms and conditions in the Hong Kong Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, our Hong Kong Offer Shares.

The Hong Kong Underwriting Agreement is subject to various conditions, which include, but without limitation, the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus. In addition, the Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed, becoming unconditional and not having been terminated. The Hong Kong Offer Shares are fully underwritten pursuant to the Hong Kong Underwriting Agreement.

#### *Grounds for termination*

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, our Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) have the right, in their sole and absolute discretion to terminate the Hong Kong Underwriting Agreement by notice in writing to our Company with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if prior to the Termination Time:

- (i) there comes to the notice of the Joint Bookrunners or any of the Hong Kong Underwriters:
  - (a) any matter or event showing any of the representations, warranties, agreements and undertakings given to the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading in any material

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## UNDERWRITING

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respect when given or repeated or there has been any material breach of any of the representations, warranties, obligations or undertakings contained in the Hong Kong Underwriting Agreement or any other provisions of the Hong Kong Underwriting Agreement by any party to the Hong Kong Underwriting Agreement (other than the Joint Bookrunners or any of the Hong Kong Underwriters); or

- (b) any statement contained in this prospectus, the application forms, the post hearing information pack, any supplemental offering materials, announcement, the formal notice to be published in connection with the Hong Kong Public Offering, the roadshow materials and any other documents published or issued by or on behalf of our Company, or the Underwriters for the purposes of or in connection with the Global Offering (“**Offer Documents**”) considered by the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering, was or has become or been discovered to be materially untrue, incorrect or misleading in any respect, or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Joint Bookrunners, fair and honest and based on reasonable assumptions, when taken as a whole; or
- (c) any person (other than the Sponsor, the Joint Bookrunners and any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to the issue of any of the Offer Documents with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (d) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of Offer Shares) or the Global Offering; or
- (e) any event, act or omission which gives or is likely to give rise to any liability of the warrantors under the Hong Kong Underwriting Agreement pursuant to the indemnity provisions therein; or
- (f) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, have constituted an omission therefrom considered by the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering; or
- (g) approval by the Listing Committee of the listing of, and permission to deal in, the Shares is refused or not granted before the Listing Date, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

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## UNDERWRITING

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- (ii) there shall develop, occur, exist or come into effect:
- (a) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1) or such related or mutated forms) or interruption or delay in transportation) in or affecting any of Hong Kong, the PRC, the United States, the Cayman Islands, the BVI or any other jurisdictions relevant to any member of our Group or the Global Offering (the “**Relevant Jurisdictions**”); or
  - (b) any change or development involving a prospective change, or any event or series of events likely to result in or represent any change or development involving a prospective change, in local, national, regional, international, financial, political, economic, legal, military, industrial, fiscal, regulatory, currency, or market conditions (including, without limitation, any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency, or any interruption in monetary or trading or securities settlement or clearance services or procedures or matters) in or affecting Hong Kong or anywhere in the world; or
  - (c) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
  - (d) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or (B) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions or any other relevant jurisdiction, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in the case of either (A) or (B), in or affecting any of the Relevant Jurisdictions; or
  - (e) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for the United States, the European Union (or any member thereof), Australia, Hong Kong, the PRC, the Cayman Islands, the BVI or any of the Relevant Jurisdictions; or



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## UNDERWRITING

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- (f) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws in any of the Relevant Jurisdictions or affecting an investment in the Shares; or
- (g) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (h) the chairman of our Board or chief executive officer of our Company vacating his office; or
- (i) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or
- (j) non-compliance of this prospectus (and/or any other documents used in connection with the subscription and purchase of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other laws applicable to the Global Offering; or
- (k) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our 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 our 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 our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (l) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (m) an event where, as a result of market conditions or otherwise, a material portion of the orders in the bookbuilding process at the time the International Underwriting Agreement is entered into, has been withdrawn or cancelled and the Joint Bookrunners, in their absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (n) any material and valid litigation or claim being threatened or instigated against any member of our Group; or

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## UNDERWRITING

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- (o) any of the executive Directors as set out in the “Directors and Senior Management” section of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any of the said Directors and senior management members in his capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or
- (p) any contravention by any covenantors (as defined in the Hong Kong Underwriting Agreement) as warrantors, any member of our Group or any Director of the Companies (Winding up and Miscellaneous Provisions) Ordinance, the SFO or any of the Listing Rules; or
- (q) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents pursuant to the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules,

which in each case or in aggregate in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (i) is or will or could be expected to have material adverse effect on the general affairs, management, business, financial, trading or other condition or prospects or risks of our Company or our Group or any member of our Group or on any present or prospective shareholder in his or its capacity as such; or
- (ii) has or will have or could be expected to have material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
- (iii) makes it or may make it impracticable, inadvisable or inexpedient to proceed with or to market the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Offer Documents or the formal notice or shall otherwise result in an interruption to or delay thereof; or
- (iv) has or will have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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## UNDERWRITING

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### Lock-up undertakings pursuant to the Hong Kong Public Offering

#### *Undertakings by our Company*

Our Company has undertaken with the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except for the issue of the Shares pursuant to the Global Offering, the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares on exercise thereof or as otherwise with the Joint Bookrunners' prior written consent, and unless in compliance with the Listing Rules, our Company shall not, and shall procure none of our subsidiaries to:

- (i) at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”):
  - (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any options, warrants or other rights to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of its share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); or;
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or other securities of our Company or interest therein; or
  - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
  - (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above,

whether any of the foregoing transactions described in (a) or (b) or (c) is to be settled by delivery of share capital or such other securities, in cash or otherwise; and

- (ii) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any member of our Group or any interest therein by virtue of the aforesaid exceptions or during the six month period commencing from the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), we will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

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## UNDERWRITING

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### *Undertakings by our Substantial Shareholders*

Each of our Substantial Shareholders has undertaken to our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the Joint Bookrunners' prior written consent and unless in compliance with the Listing Rules:

- (i) at any time during the First Six-Month Period:
  - (a) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, any of the share capital of our Company or any securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein);
  - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein;
  - (c) enter or agree to enter into, conditionally or unconditionally, or effect any transaction with the same economic effect as any of the transactions referred to in (a) or (b) above; or
  - (d) agree or contract to, or publicly announce any intention to enter into or effect any of the transactions referred to in (a) or (b) or (c) above;

whether any of the foregoing transactions described in (a) or (b) or (c) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so; and

- (ii) at any time during the Second Six-Month Period, enter into any of the foregoing transactions in (i)(a) or (i)(b) or (i)(c) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it will cease to be a substantial shareholder (as such term is defined in the Listing Rules) of our Company or would together with the other Substantial Shareholders cease to be, or regarded as, substantial shareholders (as such term is defined in the Listing Rules) of our Company.

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## UNDERWRITING

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Each of our Substantial Shareholders has jointly and severally undertaken to our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that:

- (i) at any time before the expiry of the Second Six-Month Period, in the event that he or she or it enters into any such transactions referred to in (i) or (ii) above or agrees or contracts to or publicly announces an intention to enter into any such transaction, he or she or it will take all reasonable steps to ensure that such action will not create a disorderly or false market in the Shares or other securities of our Company;
- (ii) he or she or it shall procure that his or her or its associates and companies controlled by him or her or it and nominees or trustees holding on trust for him or her or it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him or her or it or by the registered holder controlled by him or her or it of any Shares; and
- (iii) at any time after the date of the Hong Kong Underwriting Agreement and up to and including the date falling twelve (12) months from the Listing Date, our Substantial Shareholders will:
  - (a) when he or she or it pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which he or she or it is the beneficial owner, immediately inform our Company, the Sponsor, the Joint Bookrunners and the Joint Lead Managers in writing of such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and
  - (b) when he or she or it receives any indication, whether verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sponsor, the Joint Bookrunners and the Joint Lead Managers in writing of any such indication.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

### **Lock-up undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertaking by our Company***

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be offered, allotted, issued or sold, or agree to be allotted, issue or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the grant of options and the issue of Shares pursuant to the Share Option Scheme.

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## UNDERWRITING

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### *Undertakings by our Substantial Shareholders*

In accordance with Rule 10.07(1) of the Listing Rules, our Substantial Shareholders have undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering or unless in compliance with the requirements of the Listing Rules, he or she or it shall not, and shall procure that the relevant registered holder(s) shall not without the prior written consent of the Stock Exchange, (i) at any time during the period commencing on the date by reference to which disclosure of his or her or its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, offer for sale, sell, transfer, contract to sell, or otherwise dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase, or acquire in respect of, any of those securities of our Company in respect of which he or she or it is shown by this prospectus to be the beneficial owners; or (ii) at any time during the period of six months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it would cease to be our Substantial Shareholder.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, our Substantial Shareholders have further undertaken to us and the Stock Exchange that he or she or it will, within a period commencing on the date by reference to which disclosure of his or her or its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) pledges or charges of any Shares or other securities of our Company beneficially owned by any of our Substantial Shareholders in favor of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he or she or it or the relevant registered holders receive indication, either verbal or written, from any pledgee or chargee of any of the pledged or charges Shares or other securities of our Company pledged or charged that any of such securities will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as it is informed of the above matters by any of our Substantial 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 by any of our Substantial Shareholders.

### **International Underwriting Agreement**

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among other parties, the Sponsor and the International Underwriters on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below.

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## UNDERWRITING

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Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters are expected to severally, but not jointly, agree to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the 225,000,000 International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. The International Underwriting Agreement is conditional on and subject to the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the International Underwriting Agreement, our Company and Substantial Shareholders will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement. It is also expected that upon entering into the International Underwriting Agreement, the International Placing will be fully underwritten.

### **Commission and expenses**

The Hong Kong Underwriters will receive an underwriting commission of 8.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares.

The aggregate commissions and fees, together with the Stock Exchange listing fees and trading fee, SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering are estimated to approximately HK\$46.7 million in total (based on an Offer Price of HK\$0.565 per Share, being the mid-point of the indicative Offer Price range of between HK\$0.53 and HK\$0.60 per Share).

### **HONG KONG UNDERWRITERS' INTEREST IN OUR GROUP**

Save for its obligations pursuant to the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, the Hong Kong Underwriters are not interested, legally or beneficially, directly or indirectly, in any Shares or other securities in our Company or any other member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or other securities in our Company or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and its affiliates may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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### **SPONSOR'S INDEPENDENCE**

The Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

### **MINIMUM PUBLIC FLOAT**

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of initially 250,000,000 Offer Shares will be made available under the Global Offering, of which:

- (i) 225,000,000 International Placing Shares (subject to reallocation), representing 90% of the Offer Shares, will initially be conditionally placed with professional, institutional and other investors under the International Placing; and
- (ii) 25,000,000 Hong Kong 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 Hong Kong Public Offering.

The Hong Kong Underwriters have agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the Underwriting Agreements are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Placing Shares under the International Placing, but may not do both.

### The International Placing

Our Company is expected to offer initially 225,000,000 International Placing Shares (subject to reallocation) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing, representing 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with professional, institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Other investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering.

Our Company, our Directors, the Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offering.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” in this section.

### **The Hong Kong Public Offering**

Our Company is initially offering 25,000,000 Hong Kong Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of the Offer Shares offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$0.60 per Offer Share, plus brokerage fee of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%.

An applicant for Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her or it that he or she or it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided into two pools of 12,500,000 Hong Kong Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: the Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable thereon) or less; and

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- Pool B: the Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable thereon) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Multiple applications or suspected multiple applications and any application made for more than 50% of the 25,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering (i.e. 12,500,000 Hong Kong Offer Shares) are liable to be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **BASIS OF ALLOCATION OF THE OFFER SHARES**

The allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment as further described below:

- (a) where the International Placing is fully subscribed or oversubscribed:
  - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Bookrunners deem appropriate;
  - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased up to 50,000,000 Offer Shares, representing up to 20% of the total number of the Offer Shares initially available under the Global Offering;

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 50,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 75,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
  - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 75,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 100,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
  - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 100,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 125,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering;
- (b) where the International Placing is undersubscribed:
- (i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions contained in this Prospectus, the application forms and the Underwriting Agreements; and
  - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of oversubscription), then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased up to 50,000,000 Offer Shares, representing up to 20% of the total number of the Offer Shares initially available under the Global Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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In the event the reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing is in the circumstances where the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.53 per Offer Share) stated in this prospectus.

In addition, the Joint Bookrunners may in their sole and absolute discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 50,000,000 Offer Shares).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may in their sole discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing in such proportions as the Joint Bookrunners deem appropriate.

### DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or about Friday, 10 January 2020 and in any event, no later than Monday, 13 January 2020.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will be not more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.53 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters), with the consent of our Company, may extend or reduce the indicative Offer Price range stated in this prospectus and/or the number of the Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such extension or reduction, and in any event not later than the morning of the last day lodging applications under the Hong Kong Public Offering, cause there to be posted on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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website at [www.jiachencn.com.cn](http://www.jiachencn.com.cn) notices of the extension or reduction of the indicative Offer Price range and/or the number of the Offer Shares. Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range and/or the number of the Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.jiachencn.com.cn](http://www.jiachencn.com.cn) of an extension or reduction in the indicative Offer Price range and/or the number of the Offer Shares as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Monday, 13 January 2020, the Global Offering will not proceed and will lapse.

Announcement of the final Offer Price, together with the level of indications of interest in the International Placing and the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares is expected to be published on Thursday, 16 January 2020.

### PRICE PAYABLE ON APPLICATION

The Offer Price will be not more than HK\$0.60 per Offer Share and is expected to be not less than HK\$0.53 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum Offer Price of HK\$0.60 per Offer Share plus brokerage fee of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%, amounting to a total of HK\$3,030.23 per board lot of 5,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.60 per Offer Share, appropriate refund payments (including the related brokerage fee, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### **Reduction in indicative Offer Price range and/or number of Offer Shares**

The Joint Bookrunners (for themselves and on behalf of the Underwriters), may where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, reduce the indicative Offer Price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be posted on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.jiachencn.com.cn](http://www.jiachencn.com.cn)) notices of the reduction. Upon issuance of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong 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 Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

### **CONDITIONS OF THE GLOBAL OFFERING**

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

- (a) the Listing Committee granting the approval of the listing of, and permission to deal in, our Shares in issue and our Shares to be issued pursuant to the Global Offering (including any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme) (and such listing and permission not subsequently being revoked prior to the commencement of dealings in our Shares on the Stock Exchange);

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## **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

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- (b) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of these agreements or otherwise;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the Offer Price having been duly determined and the execution of the Price Determination Agreement on or before the Price Determination Date.

In each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) or if not as stipulated by 8:00 a.m. on the Listing Date or such other dates as the Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Underwriters) may agree but in any event not later than the 30th day after the date of this prospectus.

If any of the conditions is not fulfilled or waived by the Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the section headed “How to Apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies” in this prospectus.

### **LISTING ON ANY OTHER STOCK EXCHANGE**

Our Directors are not considering any listing of our Shares on any other stock exchange. We have not submitted any application nor obtained any approval for the listing of our Shares on any other overseas stock exchange.

### **DEALING**

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 17 January 2020, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 17 January 2020.

Our Shares will be traded in board lots of 5,000 Shares each. Our Company will not issue any temporary document of title. The stock code of our Shares will be 1937.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk) or the IPO App; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** 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 Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly 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 Bookrunners 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 **HK eIPO White Form** service for the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/ or any of its subsidiaries;
- a Director or chief executive officer of our Company and/ or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk) or the IPO App.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 December 2019 to 12:00 noon on Thursday, 9 January 2020:

- (i) any of the following offices of the Hong Kong Underwriters:

**Astrum Capital Management Limited**

Room 2704, 27/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong

**Wealth Link Securities Limited**

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

**Lead Securities (HK) Limited**

Unit A, 23/F, The Wellington, 198 Wellington Street, Sheung Wan, Hong Kong

**Quasar Securities Co., Limited**

Unit A, 12/F, Harbour Commercial Building, 122-124 Connaught Road Central, Sheung Wan, Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**Emperio Securities And Assets Management Limited**  
20/F, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong

**Tiger Faith Securities Limited**  
Suite 1502, 15/F, The Chinese Bank Building, 61-65 Des Voeux Road Central,  
Central, Hong Kong

**Sorrento Securities Limited**  
11/F, The Wellington, 198 Wellington Street, Central, Hong Kong

(ii) any of the following branches of DBS Bank (Hong Kong) Limited:

<u>District</u>	<u>Branch name</u>	<u>Branch address</u>
Hong Kong Island	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Aberdeen Branch	Shops A & B, G/F, Units A & B, 1/F, On Tai Building, 1-3 Wu Nam Street, Aberdeen
Kowloon	Yau Ma Tei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
New Territories	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 December 2019 until 12:00 noon on Thursday, 9 January 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker cashier's order attached and marked payable to "Ting Hong Nominees Limited — JiaChen Holding 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:

**Tuesday, 31 December 2019 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 2 January 2020 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 3 January 2020 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 4 January 2020 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 6 January 2020 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 7 January 2020 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 8 January 2020 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 9 January 2020 — 9:00 a.m. to 12:00 noon**

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 9 January 2020, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the applications lists” in this section.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Forms carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sponsor and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto 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 specified in the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE**

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** 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 their agent.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “2. Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the IPO App.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or in the IPO App. 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 or the IPO App, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) or in the IPO App (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 31 December 2019 until 11:30 a.m. on Thursday, 9 January 2020 and the latest time for completing full payment of application monies in respect of such application will be 12:00 noon on Thursday, 9 January 2020 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

### **No Multiple Applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong 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 (<http://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  
1/F, One & Two Exchange & Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong 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 Sponsor, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors, the Sponsor, the Joint Bookrunners and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that none of our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable 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 Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and the acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account, and in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in 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 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong 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 Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions<sup>(Note)</sup>

CCASS Clearing Participants/CCASS Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Tuesday, 31 December 2019 — 9:00 a.m. to 8:30 p.m.**  
**Thursday, 2 January 2020 — 8:00 a.m. to 8:30 p.m.**  
**Friday, 3 January 2020 — 8:00 a.m. to 8:30 p.m.**  
**Saturday, 4 January 2020 — 8:00 a.m. to 1:00 p.m.**  
**Monday, 6 January 2020 — 8:00 a.m. to 8:30 p.m.**  
**Tuesday, 7 January 2020 — 8:00 a.m. to 8:30 p.m.**  
**Wednesday, 8 January 2020 — 8:00 a.m. to 8:30 p.m.**  
**Thursday, 9 January 2020 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 31 December 2019 until 12:00 noon on Thursday, 9 January 2020 (24 hours daily, except on Thursday, 9 January 2020, being the last application day).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 9 January 2020, being 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:* The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong 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 Ordinance).

### **Personal data**

The section headed “Personal Data” in the Application Form applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint 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 Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** 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 Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 9 January 2020.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or in the IPO App.

If your application is successful, the brokerage fee will be paid to the Exchange Participants and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and Conditions of the Global Offering” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- Extreme Conditions; and/or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 9 January 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings 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 Thursday, 9 January 2020 or if there is a tropical cyclone warning signal number 8 or above, Extreme Conditions and/or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 16 January 2020 on our Company's website at [www.jiachencn.com.cn](http://www.jiachencn.com.cn) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.jiachencn.com.cn](http://www.jiachencn.com.cn) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Thursday, 16 January 2020;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) and [www.hkeipo.hk/IPOResult](http://www.hkeipo.hk/IPOResult) or the "Allotment Result" in the IPO App with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 16 January 2020 to 12:00 midnight on Wednesday, 22 January 2020;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 16 January 2020 to Tuesday, 21 January 2020 (excluding Saturday and Sunday); and
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 16 January 2020 to Monday, 20 January 2020 at all the receiving bank 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 Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** 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.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the 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.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the IPO App;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Sponsor or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 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\$0.60 per Offer Share (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure and Conditions of the Global Offering” in this prospectus, or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker cashier’s order will not be cleared.

Any refund of your application monies will be made on or around Thursday, 16 January 2020.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of 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:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong 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 the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 16 January 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 17 January 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal collection**

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong 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 our Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 16 January 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not 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 our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address specified in the relevant Application Form on Thursday, 16 January 2020, by ordinary post and at your own risk.

#### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address specified in the relevant Application Form on Thursday, 16 January 2020, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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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 Thursday, 16 January 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)**

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant**

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "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 Thursday, 16 January 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

**(iii) If you apply through the HK eIPO White Form service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 16 January 2020, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 16 January 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (iv) If you apply via Electronic Application Instructions to HKSCC

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 16 January 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of results" in this section on Thursday, 16 January 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 16 January 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong 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 Thursday, 16 January 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 16 January 2020.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the 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 the Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

*The following is the text of a report received from the Company's reporting accountants, Crowe (HK) CPA Limited, for the purpose of inclusion in this prospectus.*



國富浩華（香港）會計師事務所有限公司  
Crowe (HK) CPA Limited  
香港 銅鑼灣 禮頓道77號 禮頓中心9樓  
9/F Leighton Centre,  
77 Leighton Road,  
Causeway Bay, Hong Kong

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JIACHEN HOLDING GROUP LIMITED

### Introduction

We report on the historical financial information of JiaChen Holding Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 (the "Track Record Period"), the statement of financial position of the Company at 31 December 2018 and 30 June 2019 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-123 forms an integral part of this report, which has been prepared for inclusion in the Appendix I of the prospectus of the Company dated 31 December 2019 (the "Prospectus") in connection with the initial public offering of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2(b) and 3 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved in performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error.

In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 2(b) and 3 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the financial position of the Company as at 31 December 2018 and 30 June 2019 and of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of the financial performance and cash flows of the Group for each of the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 2(b) and 3 to the Historical Financial Information.

### **Review of Stub Period Comparative Financial Information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2018 and other explanatory information (together, the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 2(b) and 3 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying the analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 2(b) and 3 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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 14 to the Historical Financial Information which indicates that no dividends were declared and paid by the companies now comprising the Group to their then shareholders during the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation on 7 July 2017.

**Crowe (HK) CPA Limited**  
*Certified Public Accountants*  
Hong Kong, 31 December 2019

Leung Chun Wa  
Practising Certificate Number P04963



## I. HISTORICAL FINANCIAL INFORMATION

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms part of an integral part of this accountants' report.

The consolidated financial statements of the Group prepared by the directors of the Company for the Track Record Period, on which the Historical Financial Information is based, were audited by Crowe (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(unaudited)</i>	
<b>Revenue</b>	7	159,603	216,360	248,785	112,670	124,888
Cost of sales		(122,398)	(162,616)	(188,619)	(86,339)	(94,046)
<b>Gross profit</b>		37,205	53,744	60,166	26,331	30,842
Other revenue and other net income	8	1,539	410	876	295	734
Selling and distribution expenses		(3,008)	(5,149)	(5,217)	(2,943)	(2,605)
Impairment of contract assets and trade receivables	10	(386)	(3,312)	(2,722)	(2,369)	(3,192)
Impairment of other receivables	10	—	—	—	—	(323)
Administrative expenses		(9,491)	(18,230)	(18,306)	(7,824)	(12,741)
Profit from operations		25,859	27,463	34,797	13,490	12,715
Finance costs	9	(3,031)	(3,680)	(4,814)	(2,408)	(3,757)
<b>Profit before taxation</b>	10	22,828	23,783	29,983	11,082	8,958
Income tax	11	(3,466)	(3,125)	(5,132)	(1,381)	(1,899)
<b>Profit and total comprehensive income for the year/period</b>		<u>19,362</u>	<u>20,658</u>	<u>24,851</u>	<u>9,701</u>	<u>7,059</u>
<b>Attributable to:</b>						
Owners of the Company		19,168	20,451	24,605	9,605	6,989
Non-controlling interests		194	207	246	96	70
<b>Profit and total comprehensive income for the year/period</b>		<u>19,362</u>	<u>20,658</u>	<u>24,851</u>	<u>9,701</u>	<u>7,059</u>

## Consolidated statements of financial position

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
				RMB'000	
<b>Non-current assets</b>					
Property, plant and equipment	16	36,057	33,479	29,877	28,954
Land use rights	17	1,067	8,386	8,213	8,127
Right-of-use assets	18	3,030	2,237	1,904	1,494
Other intangible assets	19	—	238	190	166
Deferred tax assets	31(b)	968	1,465	3,121	3,919
		<u>41,122</u>	<u>45,805</u>	<u>43,305</u>	<u>42,660</u>
<b>Current assets</b>					
Inventories	20	73,487	43,611	31,006	31,862
Contract assets	21	41,674	69,194	89,263	84,563
Trade and bills receivables	22	43,250	104,715	123,181	141,788
Deposits, prepayments and other receivables	23	20,541	10,536	14,596	10,049
Amount due from a shareholder and director	37(c)	275	—	—	—
Restricted bank deposits	24	3,982	2,614	2,335	3,881
Cash and cash equivalents	25	2,140	12,962	16,155	14,121
		<u>185,349</u>	<u>243,632</u>	<u>276,536</u>	<u>286,264</u>
<b>Total assets</b>		<u><u>226,471</u></u>	<u><u>289,437</u></u>	<u><u>319,841</u></u>	<u><u>328,924</u></u>
<b>Current liabilities</b>					
Trade and bills payables	26	53,143	32,787	47,908	31,153
Contract liabilities	21	1,756	7,415	3,537	4,769
Accruals and other payables	27	23,446	29,513	30,455	30,955
Amounts due to shareholders and directors	37(d)	15,178	17	852	21
Lease liabilities	28	183	549	713	743
Bank borrowings	29	22,000	63,500	78,284	98,771
Other borrowings	30	—	20,000	—	—
Tax payable	31	5,344	2,101	4,860	2,595
		<u>121,050</u>	<u>155,882</u>	<u>166,609</u>	<u>169,007</u>
<b>Net current assets</b>		<u>64,299</u>	<u>87,750</u>	<u>109,927</u>	<u>117,257</u>
<b>Total assets less current liabilities</b>		<u>105,421</u>	<u>133,555</u>	<u>153,232</u>	<u>159,917</u>

	Notes	As at 31 December			As at
		2016	2017	2018	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current liabilities</b>					
Lease liabilities	28	3,675	3,173	2,818	2,444
Loans from related parties	37(f)	—	6,770	—	—
<b>Total non-current liabilities</b>		<u>3,675</u>	<u>9,943</u>	<u>2,818</u>	<u>2,444</u>
<b>Net assets</b>		<u>101,746</u>	<u>123,612</u>	<u>150,414</u>	<u>157,473</u>
<b>Equity</b>					
Share capital	32(a)	60,192	60,192	—	—
Reserves	32	<u>40,536</u>	<u>62,183</u>	<u>148,925</u>	<u>155,914</u>
Equity attributable to owners of the Company		100,728	122,375	148,925	155,914
Non-controlling interests	33	<u>1,018</u>	<u>1,237</u>	<u>1,489</u>	<u>1,559</u>
<b>Total equity</b>		<u>101,746</u>	<u>123,612</u>	<u>150,414</u>	<u>157,473</u>

## Consolidated statements of changes in equity

	Equity attributable to owners of the Company						Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Statutory reserve	Retained profits	Total		
	RMB'000 (Note 32(a))	RMB'000 (Note 32(d)(i))	RMB'000 (Note 32(b))	RMB'000 (Note 32(c))	RMB'000	RMB'000		
<b>At 1 January 2016</b>	60,192	—	1,572	1,730	16,641	80,135	810	80,945
Profit and total comprehensive income for the year	—	—	—	—	19,168	19,168	194	19,362
Transfer of statutory reserve (Note 32(c))	—	—	—	1,917	(1,917)	—	—	—
Deemed contributions by shareholders (Note 37(i))	—	—	—	—	1,425	1,425	14	1,439
<b>At 31 December 2016 and 1 January 2017</b>	60,192	—	1,572	3,647	35,317	100,728	1,018	101,746
Profit and total comprehensive income for the year	—	—	—	—	20,451	20,451	207	20,658
Transfer of statutory reserve (Note 32(c))	—	—	—	2,045	(2,045)	—	—	—
Deemed contributions by shareholders (Note 37(i))	—	—	—	—	1,196	1,196	12	1,208
<b>At 31 December 2017 and 1 January 2018</b>	60,192	—	1,572	5,692	54,919	122,375	1,237	123,612
Capital contribution to JiaChen Floor for 1.27% equity interest in JiaChen Floor by an investor (Note 2(a)(viii))	780	—	955	—	—	1,735	—	1,735
Effect on non-controlling interests arising from capital contribution to JiaChen Floor	—	—	(4)	—	—	(4)	4	—
Effects of First Equity Swap on 23 January 2018 in the Reorganisation (Note 2(a)(viii) and Note 32(d)(i))	(60,192)	60,192	—	—	—	—	—	—
Effects of Second Equity Swap on 15 March 2018 (Note 2(a)(ix) and Note 32(d)(i))	(780)	1,735	(955)	—	—	—	—	—
Profit and total comprehensive income for the year	—	—	—	—	24,605	24,605	246	24,851
Transfer of statutory reserve (Note 32(c))	—	—	—	2,460	(2,460)	—	—	—
Deemed contributions by shareholders (Note 37(i))	—	—	—	—	214	214	2	216
<b>At 31 December 2018 and 1 January 2019</b>	—	61,927	1,568	8,152	77,278	148,925	1,489	150,414
Profit and total comprehensive income for the period	—	—	—	—	6,989	6,989	70	7,059
Transfer of statutory reserve (Note 32(c))	—	—	—	699	(699)	—	—	—
<b>At 30 June 2019</b>	—	61,927	1,568	8,851	83,568	155,914	1,559	157,473
<b>At 1 January 2018</b>	60,192	—	1,572	5,692	54,919	122,375	1,237	123,612
Capital contribution to JiaChen Floor for 1.27% equity interest in JiaChen Floor by an investor (Note 2(a)(vii))	780	—	955	—	—	1,735	—	1,735
Effect on non-controlling interests arising from capital contribution to JiaChen Floor	—	—	(4)	—	—	(4)	4	—
Effects of First Equity Swap on 23 January 2018 in the Reorganisation (Note 2(a)(viii) and Note 32(d)(i))	(60,192)	60,192	—	—	—	—	—	—
Effects of Second Equity Swap on 15 March 2018 (Note 2(a)(ix) and Note 32(d)(i))	(780)	1,735	(955)	—	—	—	—	—
Profit and total comprehensive income for the period	—	—	—	—	9,605	9,605	96	9,701
Transfer of statutory reserve (Note 32(c))	—	—	—	961	(961)	—	—	—
Deemed contributions by shareholders (Note 37(i))	—	—	—	—	170	170	2	172
<b>At 30 June 2018 (unaudited)</b>	—	61,927	1,568	6,653	63,733	133,881	1,339	135,220

## Consolidated statements of cash flows

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
<b>Operating activities</b>					
Profit before taxation	22,828	23,783	29,983	11,082	8,958
Adjustments for:					
Interest income	(71)	(114)	(104)	(68)	(289)
Finance costs	3,031	3,680	4,814	2,408	3,757
Impairment of contract assets and trade receivables	386	3,312	2,722	2,369	3,192
Impairment of other receivables	—	—	—	—	323
Depreciation of property, plant and equipment	4,103	4,262	4,343	2,162	2,321
Amortisation of right-of-use assets	713	793	812	403	410
Amortisation of land use rights	21	109	173	86	86
Amortisation of other intangible assets	—	—	48	24	24
Net (gain)/loss on disposal of property, plant and equipment	(157)	651	37	23	7
Operating profit before changes in working capital	30,854	36,476	42,828	18,489	18,789
(Increase)/decrease in inventories	(21,504)	29,876	12,605	8,572	(856)
Increase in contract assets, trade and other receivables	(12,277)	(90,919)	(44,002)	(18,827)	(11,063)
Decrease in amount due to a related party	(4,814)	—	—	—	—
(Increase)/decrease in amount due from a shareholder and director	(275)	275	—	—	—
Increase/(decrease) in trade and bills payables	17,331	(20,356)	15,121	223	(16,755)
Increase/(decrease) in other payables and contract liabilities	12,624	10,845	(2,521)	(4,783)	1,314
Cash generated from operations	21,939	(33,803)	24,031	3,674	(8,571)
Tax paid	(388)	(6,865)	(4,029)	(2,734)	(4,962)
<b>Net cash generated from/(used in) operating activities</b>	<b>21,551</b>	<b>(40,668)</b>	<b>20,002</b>	<b>940</b>	<b>(13,533)</b>

## Consolidated statements of cash flows (Continued)

	Year ended 31 December			Six months ended	
				30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
<b>Investing activities</b>					
Payment for acquisition of property, plant and equipment	(5,771)	(1,791)	(1,427)	(642)	(1,102)
Proceeds from disposal of property, plant and equipment	946	286	525	401	—
Payment of a deposit for acquisition of land use rights	(9,572)	—	—	—	—
Payment for acquisition of land use rights	—	(312)	—	—	—
Refund of a deposit for acquisition of land use rights	—	2,304	—	—	—
Payment for acquisition of other intangible assets	—	(210)	(19)	—	—
Withdrawal/(placement) of restricted bank deposits	1,512	1,368	279	1,116	(1,546)
Interest received	71	114	104	68	56
<b>Net cash (used in)/generated from investing activities</b>	<b>(12,814)</b>	<b>1,759</b>	<b>(538)</b>	<b>943</b>	<b>(2,592)</b>
<b>Financing activities</b>					
Proceeds from bank borrowings	22,000	63,500	87,284	40,784	55,271
Repayment of bank borrowings	(18,000)	(22,000)	(72,500)	(28,000)	(34,784)
Proceeds from other borrowings	—	20,000	—	—	—
Repayment of other borrowings	(946)	—	(20,000)	(14,000)	—
Proceeds of loans from related parties	20,000	6,770	—	—	—
Repayment of loans from related parties	(22,796)	—	(6,770)	—	—
Payment for capitalised listing expenses	—	(1,446)	(1,362)	(434)	(1,646)
Proceeds of advances from a shareholder and director	—	—	1,829	17	21
Repayments of advances from shareholders and directors	(4,966)	(15,161)	(994)	(14)	(852)
Repayment of lease liabilities	(550)	(136)	(670)	(289)	(344)
Capital contribution from an investor	—	—	1,735	1,735	—
Interest paid	(1,592)	(1,796)	(4,823)	(1,988)	(3,575)

## Consolidated statements of cash flows (Continued)

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
<b>Net cash (used in)/generated from financing activities</b>	<u>(6,850)</u>	<u>49,731</u>	<u>(16,271)</u>	<u>(2,189)</u>	<u>14,091</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	1,887	10,822	3,193	(306)	(2,034)
<b>Cash and cash equivalents at beginning of year/period</b>	<u>253</u>	<u>2,140</u>	<u>12,962</u>	<u>12,962</u>	<u>16,155</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>2,140</u></u>	<u><u>12,962</u></u>	<u><u>16,155</u></u>	<u><u>12,656</u></u>	<u><u>14,121</u></u>

## Statement of financial position of the Company

	Notes	As at		
		31 December 2017	31 December 2018	30 June 2019
		RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Interests in subsidiaries	2(a)	—	135,265	135,265
<b>Current assets</b>				
Amount due from subsidiaries		—	848	18
Amount due from shareholders		—*	—*	—*
Cash and cash equivalents		—	1	—*
		—	849	18
<b>Total assets</b>		—	136,114	135,283
<b>Current liabilities</b>				
Amount due to subsidiaries		—	—	12
Amount due to a shareholder and director		—*	849	18
		—	849	30
<b>Net current assets/(liabilities)</b>		—	—	(12)
<b>Net assets</b>		—	135,265	135,253
<b>Equity</b>				
Issued capital	32(a)	—*	—*	—*
Reserves	32(d)	—	135,265	135,253
<b>Total equity</b>		—	135,265	135,253

\* Figures rounded to less than RMB1,000.

## Note:

- (a) The Company was incorporated on 7 July 2017. Pursuant to the Reorganisation as set out in Note 2(a), the Company has become the parent of the companies now comprising the Group.
- (b) Other than those transactions involved in the Reorganisation as referred to in Note 2(a), the Company has not carried out any other significant business transactions since its incorporation date and during the Track Record Period.
- (c) Details of the Company's subsidiaries are set out in Note 2(a).



## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

JiaChen Holding Group Limited (the “Company”) was incorporated on 7 July 2017 and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of Cayman Islands. The address of the Company’s registered office and the principal place of business is disclosed in the paragraph headed “Corporate Information” to the Prospectus.

At the date of the report, the immediate and ultimate holding company is Jiachen Investment Limited (“Jiachen Investment”) which was incorporated in the British Virgin Island (the “BVI”) and is wholly owned by 沈敏 (Mr. Shen Min) (“Mr. Shen”). The Company is owned as to 50.34%, 30.85% and 17.54% by Jiachen Investment, Xinchen Investment Limited (“Xinchen Investment”), a company incorporated in the BVI and wholly owned by 章亞英 (Ms. Zhang Yaying) (“Ms. Zhang” or “Mrs. Shen”) who is the spouse of Mr. Shen, and Yilong Investment Limited (“Yilong Investment”), a company incorporated in the BVI and wholly owned by 沈明暉 (Mr. Shen Minghui) (“Mr. Shen MH”), respectively. Mr. Shen MH is the son of Mr. Shen and Mrs. Shen who are regarded as the Controlling Shareholders of the Company.

佳辰地板常州有限公司 (JiaChen Floor Changzhou Co., Ltd\*) (“JiaChen Floor”), formerly known as 常州佳辰地板集團有限公司 (Changzhou Jiachen Floor Group Co., Ltd\*), which was incorporated on 18 September 2009 in the People’s Republic of China (the “PRC”), is principally engaged in the manufacturing and sales of steel access flooring plates and calcium-sulfate access flooring plates (the “Listing Businesses”) in the PRC and is the core operating entity of the Group throughout the Track Record Period. During the Track Record Period, prior to and after the completion of the reorganisation as detailed in Note 2(a) below, JiaChen Floor has been ultimately controlled by and under the same management of Mr. Shen, Mrs. Shen and Mr. Shen MH, who have constituted the board of directors of JiaChen Floor and are the directors of the Company as referred to in Note 12(b) below.

### 2. REORGANISATION AND BASIS OF PRESENTATION

#### (a) Reorganisation

In preparing for the initial public offering of the Company’s shares on the Main Board of The Stock Exchange Hong Kong Limited (the “Stock Exchange”), the companies now comprising the Group underwent a series of reorganisation (the “Reorganisation”) as described below:

- (i) On 12 December 2016, JiaChen Floor and Mr. Shen entered into an equity transfer agreement pursuant to which JiaChen Floor transferred its investment in 51% equity interests in 常州市佳麗斯石塑地板有限公司 (Changzhou Jia Li Si Stone Sculpture Floor Co., Ltd\*) (“Jia Li Si”) to Mr. Shen at a consideration of approximately RMB1,147,500. On 22 December 2016, Mr. Shen disposed of his 51% equity interest in Jia Li Si to its other shareholder at a consideration of approximately

RMB1,150,000. Prior to the disposal date on 12 December 2016 during the Track Record Period, Jia Li Si was engaged in manufacturing and sales of PVC floor plates, which was dissimilar to the Listing Businesses undertaken by the Group throughout the Track Record Period.

- (ii) On 26 December 2016, JiaChen Floor and Mr. Shen entered into two equity transfer agreements pursuant to which JiaChen Floor transferred its investments in 84.77% and 61% equity interests of 常州市佳辰機房設備有限公司 (Changzhou Jiachen Machinery Plant Co., Ltd\*) (“Jiachen Machinery Plant”) and 江蘇佳申樂商貿有限公司 (Jiangsu Jia Shen Le Trading Co., Ltd\*) (“Jia Shen Le”) to Mr. Shen at consideration of RMB11,698,260 and RMB3,586,800, respectively. Jiachen Machinery Plant is engaged in the business activities in manufacturing and sales of decorative papers, which are dissimilar to the Listing Businesses undertaken by the Group, and Jia Shen Le has not commenced its business since its establishment and throughout the Track Record Period.
- (iii) On 7 July 2017, the Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of Cayman Islands. The Company allotted and issued 5,099 (including 1 subscriber ordinary share of HK\$0.01 of the Company), 3,125 and 1,776 new ordinary shares of HK\$0.01 each of the Company, credited as fully paid, to Jiachen Investment, Xinchen Investment and Yilong Investment, which are beneficially owned by Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively, upon its incorporation on 7 July 2017, and 1 additional new ordinary share of HK\$0.01 each of the Company, credited as fully paid, to Jiachen Investment on 15 March 2018 and, in exchange of which, on 23 January 2018, the Company indirectly obtained a total of 97.74% equity interests in JiaChen Floor from Mr. Shen, Mrs. Shen and Mr. Shen MH, resulting from their capital contributions in form of all their then direct beneficial interests in, totaling, 98.73% of the enlarged registered capital of JiaChen Floor to Changzhou Jintai, an indirect 99%-owned subsidiary of the Company, in the First Equity Swap as further detailed in Note 2(a)(viii) below.
- (iv) On 18 July 2017, LeiShuo Ventures Development Limited (“LeiShuo Ventures”) was incorporated in the BVI and upon its incorporation, 1 ordinary share of LeiShuo Ventures, representing 100% of issued capital of LeiShuo Ventures, was allotted and issued to the Company at the consideration of US\$1. On 11 August 2017, Jinyueda Development Limited (“Jinyueda Development”) was incorporated in Hong Kong and upon its incorporation, 1 ordinary share of Jinyueda Development, representing 100% of issued capital of Jinyueda Development, was allotted and issued to LeiShuo Ventures at a consideration of HK\$1. The Company has become the parent of LeiShuo Ventures and Jinyueda Development since their respective incorporation dates.

- (v) On 9 November 2017, 常州市金港商務信息諮詢有限公司 (Changzhou Jingang Business Information Consulting Co., Ltd\*) (“Changzhou Jingang”) was established in the PRC with registered capital of RMB1,000,000 which was fully contributed and paid up in cash by Jinyueda Development, an indirect wholly-owned subsidiary of the Company, on 16 November 2018. Changzhou Jingang has become an indirect wholly-owned subsidiary of the Company since its incorporation date.
- (vi) On 8 December 2017, 常州市金台商務信息諮詢有限公司 (Changzhou Jintai Business Information Consulting Co., Ltd.\*) (“Changzhou Jintai”) was established in the PRC with a registered capital of RMB1,000,000. Upon its establishment, RMB990,000, representing 99%, of the registered capital of Changzhou Jintai was subscribed by Changzhou Jingang, which was contributed and fully paid up in cash by Changzhou Jingang on 25 December 2018. Changzhou Jintai has become an indirect 99%-owned subsidiary of the Company since its establishment date. The remaining RMB10,000, representing 1%, of the registered capital of Changzhou Jintai were fully contributed by Mr. Shen, Mrs. Shen and Mr. Shen MH, on 23 January 2018, in form of all their then direct beneficial interests in, totaling, 98.73% of registered capital of JiaChen Floor to Changzhou Jintai as set out in Note 2(a)(viii) below.
- (vii) On 23 January 2018, Victor Best Investment Limited (“Victor Best Investment”), which was incorporated on 30 June 2016 in Hong Kong and is wholly owned by Rui Xing Holdings Limited (“Rui Xing Holdings”) which was incorporated on 5 July 2017 in the BVI, became a registered shareholder of JiaChen Floor and paid up capital contributions of RMB1,735,000 to JiaChen Floor on 25 January 2018, of which, RMB780,000 was credited as paid-up registered capital of JiaChen Floor, representing 1.27% of its enlarged registered capital, and the remaining RMB955,000 was credited as capital contribution surplus in the books of JiaChen Floor, based on a capital contribution agreement entered into between Mr. Shen, Mrs. Shen, Mr. Shen MH and Victor Best Investment on 18 December 2017.

Immediately after Victor Best Investment becoming a shareholder of JiaChen Floor, the total equity interests in JiaChen Floor beneficially held by Mr. Shen, Mrs. Shen and Mr. Shen MH were diluted from 100% to 98.73% on 23 January 2018.

- (viii) Immediately after Victor Best Investment becoming a shareholder of JiaChen Floor, as referred to in Note 2(a)(vii) above and on 23 January 2018, Mr. Shen, Mrs. Shen and Mr. Shen MH transferred all their then direct beneficial interests in, totaling RMB60,800,000, representing 98.73% (after capital contribution by Victor Best Investment as referred to in Note 2(a)(vii) above), of the registered capital of JiaChen Floor as their capital contributions to Changzhou Jintai for a total of 1% of the registered capital of Changzhou Jintai, based on an equity swap agreement entered into between Mr. Shen, Mrs. Shen, Mr. Shen MH and Changzhou Jintai on 18 January 2018 (the “First Equity Swap”). Upon completion of the First Equity Swap, the Company, through its indirect wholly-owned subsidiary, Changzhou Jingang which

has directly held 99% of the registered capital of Changzhou Jintai since its establishment date, indirectly obtained a total of 97.74% equity interests in JiaChen Floor from Mr. Shen, Mrs. Shen and Mr. Shen MH and, in consideration of which, as set out in Note 2(a)(iii) above, the Company had already allotted and issued 5,100, 3,125 and 1,776 new ordinary shares of HK\$0.01 of the Company, credited as fully paid, to Jiachen Investment (wholly-owned by Mr. Shen), Xinchen Investment (wholly-owned by Mrs. Shen) and Yilong Investment (wholly-owned by Mr. Shen MH), respectively.

Upon completion of the First Equity Swap on 23 January 2018, Mr. Shen, Mrs. Shen and Mr. Shen MH have also personally and indirectly owned a total of 0.99% equity interests in JiaChen Floor through their direct beneficial interests in, totaling, 1% of the registered capital of Changzhou Jintai which in turn has directly held 98.73% of the registered capital of JiaChen Floor since 23 January 2018.

- (ix) On 15 March 2018, an equity swap agreement was entered into between the Company and Crystal Breeze Ventures Limited (“Crystal Breeze Ventures”) from which, on 15 March 2018, the Company acquired all the issued capital of Rui Xing Holdings at a consideration of RMB1,735,000, which was same as the capital contribution paid by Victor Best Investment, a directly wholly-owned subsidiary of Rui Xing Holdings, to JiaChen Floor for 1.27% of its enlarged registered capital on 23 January 2018, as referred to Note 2(a)(vii) above, and was fully satisfied by the allotment of 129 new ordinary shares of HK\$0.01 each of the Company, credited as fully paid, issued by the Company to Crystal Breeze Ventures on 15 March 2018 (the “Second Equity Swap”). Upon completion of the Second Equity Swap on 15 March 2018, the Company’s total equity interests in JiaChen Floor have been increased from 97.74% to 99.01%.

Since the completion date of the Reorganisation as detailed above and up to the date of this report, all of the equity interests in JiaChen Floor have been indirectly held as to 99.01%, 0.50%, 0.31% and 0.18% by the Company, Mr. Shen, Mrs. Shen and by Mr. Shen MH respectively.

Since the Reorganisation and up to the date of this report, 50.34%, 30.85%, 17.54% and 1.27% of the issued capital of the Company are held directly by Jiachen Investment (wholly-owned by Mr. Shen), Xinchen Investment (wholly-owned by Mrs. Shen), Yilong Investment (wholly-owned by Mr. Shen MH ) and Crystal Breeze Ventures (wholly-owned by Ms. Yan), respectively.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name	Principal activities	Country of business/ incorporation	Date of incorporation	Issued and paid up capital	Effective interest held by the Group as at					
					31 December			30 June		the date of this report
					2016	2017	2018	2018	2019	
					%	%	%	%	%	
<b>Directly held by the Company</b>										
LeiShuo Ventures Development Limited ("LeiShuo Ventures")	Investment holding	BVI	18 July 2017	US\$1	N/A	100	100	100	100	100
Rui Xing Holdings Limited ("Rui Xing Holdings")	Investment holding	BVI	5 July 2016	US\$1	N/A	N/A	100	100	100	100
<b>Indirectly held by the Company</b>										
Jinyueda Development Limited ("Jinyueda Development")	Investment holding	HK	11 August 2017	HKS1	N/A	100	100	100	100	100
Victor Best Investment Limited ("Victor Best Investment")	Investment holding	HK	30 June 2016	HKS1	N/A	N/A	100	100	100	100
常州市金港商務信息諮詢有限公司 (Changzhou Jingang Business Information Consulting Co., Ltd.*) ("Changzhou Jingang")	Investment holding	PRC	9 November 2017	RMB1,000,000	N/A	100	100	100	100	100
常州市金台商務信息諮詢有限公司 (Changzhou Jintai Business Information Consulting Co., Ltd.*) ("Changzhou Jintai")	Investment holding	PRC	8 December 2017	RMB1,000,000	N/A	100	99	99	99	99
佳辰地板常州有限公司 (JiaChen Floor Changzhou Co., Ltd.*) ("JiaChen Floor")	Manufacturing and supply of steel access flooring plates and calcium-sulfate access flooring plates	PRC	18 September 2009	RMB60,800,000 as at 31 December 2015, 2016 and 2017, RMB61,580,000 since 23 January 2018	99	99	99.01	99.01	99.01	99.01

The Company's interests in the above subsidiaries are presented as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or dates of incorporation/establishment, whichever is the shorter period.

No audited financial statements have been prepared by the Company since its date of incorporation and up to the date of this report, as it has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation, and there is no statutory requirement to issue audited financial statements in its place of incorporation.

The statutory financial statements of Jinyueda Development and Victor Best Investment, which were incorporated in Hong Kong under the Companies Ordinance, prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the HKICPA for the periods since their respective dates of incorporation to 31 December 2017 and for the year ended 31 December 2018 were audited by Crowe (HK) CPA Limited.

No audited financial statements have been issued for LeiShuo Ventures and Rui Xing Holdings, which were incorporated in the BVI as it is not required to issue audited financial statements under the relevant statutory requirements of their place of incorporation.

No audited statutory financial statements for the financial year ended 31 December 2017 have been prepared by Changzhou Jingang and Changzhou Jintai which were newly established on 9 November 2017 and 8 December 2017, respectively, and their establishment dates were close to the financial year ended 31 December 2017, as there is no such requirement to issue the audited statutory financial statements in their place of incorporation. Both Changzhou Jingang and Changzhou Jintai have not involved in any significant business transactions other than those transactions involved in the Reorganisation, since their respective establishment dates.

The statutory financial statements of JiaChen Floor for the three years ended 31 December 2016, 2017 and 2018 were audited by 中興財光華會計師事務所(特殊普通合伙)南京分所, being a firm of certified public accountants registered in the PRC. The statutory financial statements of JiaChen Floor were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

**(b) Basis of presentation**

Prior to the Reorganisation as detailed in Note 2(a) above, 50.99%, 31.25% and 17.76% of the registered capital of JiaChen Floor were directly held by Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively. Ms. Yan, as a strategic Pre-IPO investor through Crystal Breeze Ventures, made a capital contribution to JiaChen Floor for 1.27% interest of its enlarged registered capital, as further detailed in Notes 2(a)(vii) and (ix) above, and the shareholdings of the enlarged issued capital of JiaChen Floor held by Mr. Shen, Mrs. Shen and Mr. Shen MH were diluted to 50.34%, 30.85% and 17.54%, respectively, before completion of the equity swap as disclosed in Note 2(a)(viii), in the Reorganisation.

Immediately after the Reorganisation, as detailed in Note 2(a) above, 50.34%, 30.85% , 17.54% and 1.27% of the issued capital of the Company have been indirectly owned by Mr. Shen, Mrs. Shen, Mr. Shen MH and Ms. Yan, respectively, and 99.01%, 0.50%, 0.31% and 0.18% of the registered capital of JiaChen Floor have been held indirectly by the Company, Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively. There has been a continuation of the benefits and risks regarding the 99.01% of the registered capital of JiaChen Floor that were indirectly obtained by the Company from the common beneficial owners of JiaChen Floor and the Company, who are Mr. Shen, Mrs. Shen, Mr. Shen MH and Ms. Yan, in the Reorganisation. Both the Company and JiaChen Floor have been under common control by Mr. Shen, Mrs. Shen and

Mr. Shen MH before and after the Reorganisation. Throughout the Track Record Period, JiaChen Floor, which is the key operating entity of the Group, has been under the same control by Mr. Shen, Mrs. Shen and Mr. Shen MH, who constituted the board of directors of each of JiaChen Floor and the Company, immediately before and after the Reorganisation.

Rui Xing Holdings and Victor Best Investment have been accounted for as subsidiaries of the Company and have been consolidated in the Group's consolidated financial statements since 15 March 2018 when the Company acquired all the issued capital of Rui Xing Holdings from Crystal Breeze Ventures under the equity swap agreement dated 15 March 2018, as further detailed in Note 2(a)(ix). Since their respective dates of incorporation, Rui Xing Holdings and Victor Best Investment have not carried out any other significant business transactions other than making the capital contribution to JiaChen Floor for 1.27% of the registered capital of JiaChen Floor on 23 January 2018, as referred to in Note 2(a)(viii), as part of the Reorganisation.

The results of the non-listing businesses undertaken by Jia Li Si, Jiachen Machinery Plant and Jia Shen Le (the "Carved-out Businesses"), which were former subsidiaries of JiaChen Floor, were carved out and excluded in the Historical Financial Information at the beginning of and throughout the Track Record Period since the Carved-out Businesses are distinct, dissimilar businesses and operations which are not related to the Listing Businesses of the Group, have separate management personnel and separate accounting records and have been financed separately as if they were autonomous. During the Track Record Period, as detailed in Notes 2(a)(i) and (ii) above, the Carved-out Businesses were transferred to Mr. Shen, one of the Controlling Shareholders of the Group.

During the Track Record Period and up to the date of this report, the Listing Businesses of the Group are conducted by JiaChen Floor, apart from which, the Company and its other subsidiaries (together, the "Non-Operating Companies") have not carried out any significant business transactions, other than those involved in the Reorganisation, since their respective dates of incorporation / establishment and during the Track Record Period. The Non-Operating Companies, which do not meet the definition of a business, are inserted as holding companies of a total of 99.01% equity interests in JiaChen Floor. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared based on that of JiaChen Floor, using the principles of merger accounting. JiaChen Floor, being the key operating company within the Group during the Track Record Period, has become an indirect 99.01%-owned subsidiary of the Company, resulting in the Reorganisation and at the date of this report. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or respective dates of incorporation/establishment, whichever is the shorter period. The consolidated statement of financial position of the Group as at 31 December 2016, 2017 and 2018 and at 30 June 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group using the existing book values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or

their respective dates of incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. All intra-group transactions and balances have been eliminated between the companies now comprising the Group.

### 3. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations, issued by HKICPA. HKFRS 9, HKFRS 15 and HKFRS 16, as defined below, and all other effective standards, amendments to standards and interpretations which are mandatory for the accounting period beginning on 1 January 2019, have been early adopted and consistently applied by the Group throughout the Track Record Period. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5 below.

#### (a) New standards and amendments to standards early adopted by the Company

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has early adopted and consistently applied the following HKFRSs in the preparation of the Historical Financial Information since 1 January 2014 and throughout the Track Record Period:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15
HKFRS 16	Leases

#### HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and



interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other financial assets are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. HKFRS 9 has been consistently applied throughout the Track Record Period. The Group's provision for impairment loss on financial assets based on the ECL model under HKFRS 9 is not materially different from that under HKAS 39, during the Track Record Period.

All financial assets and financial liabilities continue to be measured on the same basis as were previously under HKAS 39.

The table below illustrates the classification of the Group's financial instruments, as disclosed in Note 39 below, under HKFRS 9 and HKAS 39.

	<b>Measurement under HKAS 39</b>	<b>Measurement under HKFRS 9</b>
Trade and bills receivables	Loans and receivables at amortised costs	Financial assets at amortised costs
Deposits and other receivables	Loans and receivables at amortised costs	Financial assets at amortised costs
Amounts due from a shareholder and director	Loans and receivables at amortised costs	Financial assets at amortised costs
Restricted bank deposits and cash and cash equivalents	Loans and receivables at amortised costs	Financial assets at amortised costs

There was no significant impact on the Group's financial position and performance upon adoption of HKFRS 9 when compared to that of HKAS 39.

**HKFRS 15 “Revenue from Contracts with Customers”**

HKFRS 15 “Revenue from Contracts with Customers”, together with Amendments to HKFRS 15 “Clarification to HKFRS 15”, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services transferred to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The principal operating activities of the Group are the manufacturing and selling and/or installation of steel and calcium sulfate access flooring plates and the performance obligations are recognised in accordance with Note 4(t)(i).

HKFRS 15 is mandatorily effective for accounting period beginning on or after 1 January 2018 and, as earlier adoption is permitted, has been early adopted since 1 January 2014, being the same date of early adoption of HKFRS 16 “Leases”, and has been applied consistently in the preparation of the Historical Financial Information throughout the Track Record Period.

Apart from reclassifications for certain items in consolidated financial statements as presented below, there was no significant impact on the Group’s performance upon adoption of HKFRS 15 when compared to that of HKAS 18 or HKAS 11, as appropriate.

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see Note 4(t)(i)) before unconditionally entitled to the consideration for the promised goods and services in contract, then the entitlement to the consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when the customer pays non-refundable consideration, or is conditionally required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. Before adoption of HKFRS 15, in the statement of financial position, contract assets were presented under “Trade receivables” and contract liabilities were presented under “Accruals and other payables”.

Under HKFRS 15, the transportation costs are classified and included in the cost of sales as they constitute contract costs to fulfill the performance obligation of sales of goods to customers. Before adoption of HKFRS 15, transportation costs were treated as distribution costs.

**HKFRS 16 “Leases”**

HKFRS 16, which was issued in May 2016, replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” (“HK(IFRIC)-Int 4”), HK(SIC)-Int 15 “Operating Leases — Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liability similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the consolidated statement of cash flows applying HKAS 7 “Statement of Cash Flows”.

HKFRS 16 substantially carries forward the lessor accounting requirements of the superseded HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 is mandatorily effective for accounting periods beginning on or after 1 January 2019. As permitted, the Group has early adopted HKFRS 16 since 1 January 2014, being the same date of early adoption of HKFRS 15, and HKFRS 16 has been consistently applied in the preparation of the Historical Financial Information throughout the Track Record Period.

The Group recognised a lease liability at the date of initial application (i.e. 1 January 2014), for leases previously classified as an operating lease under the superseded HKAS 17 measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate at the date of initial application. The Group applied HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4, and did not apply HKFRS 16 to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. The right-of-use assets have been recognised, on a lease-by-lease basis, at respective carrying amounts equal to lease liabilities since 1 January 2014 or the commencement date of the lease where it is a later date, and were discounted using the Group’s incremental borrowing rate at the date of initial application, being 1 January 2014 or the commencement date of the lease where it is a later date. The recognition of the right-of-use assets and lease liabilities under HKFRS 16 are disclosed in Notes 18 and 28 of this report respectively. There were no material impacts on the net assets, net results and net cash flows of the Group arising from the early adoption of HKFRS 16, as described above, for each reporting period during the Track Record Period.

As described above, there were no material impacts on the Group’s net assets, net results and net cash flows on the consolidated financial statements, arising from the early adoption of the HKFRS 15, HKFRS 9 and HKFRS 16, for each of the reporting period of the Track Record Period.

**(b) New Standards and amendments to existing standards that have been issued but are not yet effective**

At the date of this report, the Company has not early adopted the following new and revised HKFRSs, which have been issued but are not yet effective, in the Historical Financial Information:

Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>1</sup>
Amendments to HKFRS 3 HKFRS 17	Definition of a Business <sup>2</sup> Insurance Contracts <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020.

<sup>2</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>4</sup> No mandatory effective date yet determined but available for adoption.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs and the new interpretations will have no material impact on the consolidated financial statements of the Group.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of combination**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls on investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders and other parties; and
- Rights arising from other contractual arrangements. Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the beneficial owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group balances, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

**(b) Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and 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 and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

**(c) Merger accounting for common control combinations**

The Reorganisation involved only inserting new holding companies on top of JiaChen Floor, which is the key operating entity of the Group, throughout the Track Record Period, and has not resulted in any change of economic substance with continuous common control by Mr. Shen, Mrs. Shen and Mr. Shen MH. Accordingly, the Historical Financial Information has been prepared using the principles of merger accounting as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of acquisition or incorporation/establishment of the companies now comprising the Group, whichever is the shorter period.

The consolidated statement of comprehensive income include the results of each of the companies comprising the Group from the earliest date presented or since their dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination.

All inter-company transactions and balances have been eliminated on combination.

**(d) Subsidiary**

A subsidiary is an interest over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

**(e) Property, plant and equipment**

Property, plant and equipment are stated in consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see Note 4(i)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold buildings	20 years
Plant and machinery	3 — 10 years
Furniture, fixtures and office equipment	3 — 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

**(f) Intangible assets**

The intangible assets with finite use lives are stated at cost less accumulated amortisation and impairment losses (Note 4(i)(ii)). Both the period and basis of amortisation of all intangible assets with finite useful lives are reviewed annually.

*(i) Computer software*

Computer software that is acquired by the Group is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (Note 4(i)(ii)). Computer software is amortised over its estimated useful life of 5 years.

*(ii) Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

**(g) Land use rights**

Land use rights are up-front payments to acquire long-term interests in the usage of land. It is stated at cost less accumulated amortisation and any impairment losses. Costs of land use rights are amortised and charged to profit or loss over the remaining period of the lease on a straight-line basis.

**(h) Leases**

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the directors of the Company consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group as a lessee

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The relative stand-alone price of lease and non-lease components is determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the standalone price, maximising the use of observable information.

The non-lease components are accounted for in accordance with the Group's policies.



For determination of the lease term, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

- is within the control of the Group; and
- affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

At the commencement date, the Group recognises a right-of-use asset and a lease liability under the lease contract.

#### Lease liability

Lease liability is initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where, (i) there is a change in the lease term as a result of reassessment of certainty to exercise an extension option, or not to exercise a termination option as discussed above; or (ii) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group remeasures the lease liability to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where, (i) there is a change in the amounts expected to be payable under a residual value guarantee; or (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group remeasures the lease liability by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group uses a revised discount rate that reflects changes in the interest rate.

The Group recognises the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in profit or loss.

The Group accounts for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Lease modifications that are not accounted for as a separate lease, the Group, at the effective date of the lease modification: (i) allocates the consideration in the modified contract; (ii) determines the lease term of the modified lease; and (iii) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

#### Right-of-use assets

The right-of-use asset is initially recognised at cost comprising:

- amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are recognised as part of the cost of right-of-use asset when the Group incurs an obligation for these costs. The obligations for these costs are incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After initial recognition, a lessee shall measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

**(i) Impairment of assets***(i) Impairment of financial assets at amortised costs and contract assets*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. HKFRS 9 requires the Group to record an allowance for ECLs for all financial assets not held at fair value through profit of loss (FVTPL).

The Group has these types of financial assets and contract assets subject to the expected credited loss model in accordance with HKFRS 9:

- Contract assets and trade and bills receivables
- Financial assets included in deposits and other receivables

When determining whether the credit risk of a financial asset has increased significantly since its initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial asset's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset or contract asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. For trade receivables and contract assets, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment on contract assets, trade and bills receivables or other financial assets included in deposits and other receivables is measured as either 12-month ECL or its lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If significant increase in credit risk of a receivable or contract asset has occurred since initial recognition, impairment is measured as lifetime ECLs. If these balances are considered to be of low credit risk, impairment provision recognised, if any, is limited to 12-month ECL. The 12-month ECLs of these balances during the Track Record Period are zero.

#### Measurements of ECLs

ECLs are a probability-weighted estimate of credit loss. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that the Group expects to receive).

#### 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 a financial asset, receivable or contract asset that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

#### Credit-impaired financial assets and contract assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised costs or contract assets are credit-impaired. A financial asset or contract asset of the Group 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 or contract asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or past due event;

- the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- it is becoming probable that the debtor will enter into bankruptcy or other financial reorganisation.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets or contract assets to become credit-impaired.

Depending the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on a shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since its recognition. Any change in the ECL amount is recognised as an impairment credit or charge in profit or loss. The Group recognises an impairment credit or charge for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investment in debt securities that are measured at fair value through other comprehensive income (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

#### Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

#### *(ii) Impairment of non-financial assets (other than contract assets, Note 4(k) below)*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- land use rights;
- property, plant and equipment;

- right-of-use assets;
- intangible assets; and
- goodwill (if any).

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimate used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### **(j) Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in which the reversal occurs.

**(k) Contract assets**

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide service to the customer. A contract asset is recognised when the Group has the right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditional on something other than the passage of time (for example, the Group's future performance). A contract asset becomes a trade receivable when receipt of the consideration is conditional only on the passage of time.

The contract assets relate to unbilled work in progress and retention monies receivable and have substantially the same characteristics as the trade receivables for the same type of contracts. Impairment policy for trade receivables as explained in Note 4(i)(i) above also applies to contract assets.

**(l) Trade and other receivables**

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 4(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 4(i)(i)).

**(m) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

**(n) Trade and other payables**

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case, they are stated at cost.

**(o) Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

**(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(q) Employee benefits***(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(ii) Defined contribution retirement benefits schemes*

The subsidiaries of the Company located in the PRC participate in defined contribution retirement schemes organised by the local government authorities in the PRC. All of the PRC employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The PRC subsidiaries of the Company are required to contribute certain percentage of the basic salaries of their PRC employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to profit or loss of the Group as they become payable in accordance with the rules of scheme.

**(r) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.



Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

**(s) Revenue recognition**

*(i) Revenue from contracts with customers*

Revenue is recognised when or as the control of the access flooring plates, installation services or repair services is transferred to the customer at the amount of promised consideration to which the Group is entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value-added-tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the access flooring plates, installation services or repair services may be transferred over time or a point in time. Control of the access flooring plates, installation services or repair services is transferred over time if the Group's performance:

- (i) provides the benefits received and consumed simultaneously by the customer;
- (ii) creates or enhances an asset that the customer controls as the Group performs;  
or
- (iii) does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the access flooring plates, installation services or repair services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation, which is measured based on direct measurements of the value of access flooring plates, installation services or repair services transferred by the Group to the customer. Otherwise, revenue is recognised at a point in time when the customer obtains control of the access flooring plates, installation services or repair services.

A contract asset is the Group's right to consideration in exchange for access flooring plates, installation services or repair services that the Group has transferred to a customer, and it should be presented separately. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as contract assets and subsequently amortised when the related revenue is recognised. A contract asset becomes a receivable when receipt of the consideration is conditional only on the passage of time.

Contract assets are assessed for impairment under the same approach adopted for impairment of financial assets carried at amortised cost.

A contract liability is the Group's obligation to supply access flooring plates and/or to render the installation services to a customer for which the Group has received consideration from the customer.

The following is a description of the accounting policy for the revenue streams of the Group.

The Group obtains revenue mainly from supplying access flooring plates and/or providing installation services to the customers under the contracts entered into by the Group and the customers.

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. To the extent the transaction price includes variable consideration, i.e. as a result of contract modifications, the Group estimates the amount of variable consideration that should be included in the transaction price based on the expected value to which the Group expects to be entitled. Variable consideration is included in the transaction price if, in the Group's judgement, it is highly probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are largely based on an assessment of the Group's anticipated performance and all information (historical, current and forecasted) that is reasonably available.

When determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group considers that there is no significant financing arrangement with the customers.

The Group has contracts bundled with two performance obligations, comprising supply of access flooring plates and provision of installation services, of which, the promises to transfer access flooring plates and installation services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the access flooring plates and installation services. The control of the access flooring plates and installation services are transferred to a customer over time only when the promised access flooring plates are installed onto the properties controlled by the contract customers. For those access flooring plates which

are delivered to but are not yet installed onto the site properties controlled by that customers, the Group bears all their risks and retains their control, the customers do not receive and consume the benefits of these uninstalled access flooring plates or the value of assets under control of the customers are not enhanced and in accordance with the terms of the contracts, these uninstalled access flooring plates are not yet transferred to and not yet accepted by the customers, and accordingly, these uninstalled access flooring plates, which are still under control by the Group, are continued to be recognised as inventories of the Group at the reporting period end.

The progress towards complete satisfaction of performance obligations of contracts with bundled promises for supply of the access flooring plates and installation services are measured using the output method based on direct measurements of the quantities of access flooring plates having been delivered and installed onto the customers' properties by reference to the progress status reports acknowledged either by the customers, or their agents, and the installation reports issued by the third party suppliers of installation services, which install the Group's access flooring plates onto the properties controlled by the customers. The management of the Group considers that the output method would faithfully depict the Group's performance towards complete satisfaction of these performance obligations under HKFRS 15.

More specifically, revenue is recognised as follows:

- (1) Revenue from a contract with bundled performance obligations of supply of access flooring plates and installation services are recognised when the control of the access flooring plates and installation services are transferred to the customer over time, as the Group's performance of these contract obligations can either create or enhance the value of the site properties of the customer or the customer simultaneously receives and consumes the benefits when the Group performs over time, and is based on the direct measurement of the quantities of access flooring plates having been delivered to and installed onto the customer's properties by reference to progress status reports acknowledged either by the customer or its agent, and the installation reports issued by the third party suppliers of the installation services, which install the Group's access flooring plates onto the customer's properties.
- (2) Revenue from a sales contract with a single performance obligation of supply of access flooring plates is recognised when control of the access flooring plates is transferred to and accepted by the customer, which is taken at the point in time when (i) the customer accepts the delivery and takes physical possession of the access flooring plates delivered by the Group under a domestic sales contract, or (ii) the access flooring plates are delivered and loaded onto board of the vessels and the bill of lading is passed to the customer under an export sales contract.
- (3) Revenue from a contract with single performance obligation of providing installation services is recognised when the installation services are rendered by the Group and accepted by the customer by reference to the completion report certified by the customer.

- (4) Income from provision of after-sale repair services is recognised when the after-sale repair services are rendered by the Group and accepted by the customer, in accordance with the terms of the contract made with the customer. During the Track Record Period, no after-sale repair service was rendered by the Group.

The Group's rights to consideration for the promised access flooring plates and installation services transferred by the Group to the customers under a contract but not yet billed, as the rights to receipt of consideration are still conditional on something other than on passage of time, are recognised as contract assets, and when the Group's rights to receipt of consideration from the customers become unconditional, the rights to consideration for contract obligations performed are transferred to trade receivables. Contract assets also include retention monies, representing 3% to 10% of the contract price, retained by the customers and will be due for settlement only at the end of specified product assurance warranty period, usually within 1-2 years, and after physical inspection by the customers as their satisfaction to the quality of access flooring plates and/or installation services transferred by the Group, in accordance with terms of the underlying contracts. The payment terms differ from contracts to contracts and are based on commercial negotiations made between the Group and the customers. Most of the payments are payable according to the specified milestone stage of performance of the contracts and with a credit term ranging from 60 to 365 days, based on the Group's evaluation on the creditworthiness of the customers. The payments are commensurate with the Group's performances and under the contracts, retention monies retained by the customers are intended for protection against non-performance. Other than the factoring arrangement for trade receivables in respect of Customer I, as referred to Note 22(a) below, to which the Group has allowed a credit period of 365 days from invoice date and from which the Group earns interest which is recognised as it accrues using the effective interest rate method (see (ii) below) on the trade receivables of Customer I over the credit period of 365 days at rates same as the prevailing interest rates of the related factored bank loans, the Group does not intend to give a financing to its other customers and the Group makes efforts to collect the receivables and timely monitors the credit risk.

The Group does not have any variable consideration such as discounts, refunds, rebates, credits, penalties, performance bonus or royalties. Also, the contract modification rarely occurs, and the contract price finally confirmed by a customer upon completion of the project does not vary significantly from the original price. Trade receivables and contract assets expected to be recovered in one year or less, or within the time frame of the Group's normal business operating cycle, are classified as current asset.

There is no material incremental cost of obtaining contracts of the Group.

Cost of sales incurred comprised costs of access flooring plates manufactured, including the direct materials, direct labour, depreciation and other manufacturing overheads, costs of delivery of the access flooring plates to the contract customers' premise(s) or location(s) designated by the customers, costs of installing the access flooring plates onto the properties of the customers and transportation costs for delivering the access flooring plates to the sites designated by the customers, if applicable, under the terms of the contracts.

The Group records contract liability for non-refundable advance payment from customers before transferring the access flooring plates to the customers and, if applicable, before installing the floor plates to the properties of the customers since there is still performance obligation to complete. The contract liabilities are recognised as revenue when control of the access flooring plates and/or the installation services are transferred to the customers.

*(ii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

*(iii) Government grant/subsidy income*

Government grant/subsidy income is recognised in the consolidated statement of financial position initially when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Government grant/subsidy income that compensates the Company for expenses incurred is recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grant/subsidy income that compensates the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

**(t) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are expensed to in the period in which they are incurred.

**(u) Translation of foreign currencies**

Foreign currency transactions during the reporting period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “functional currency”). The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand except when otherwise indicated. The functional currency of the Company and the Group is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

**(v) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing and amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(w) Related parties**

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, 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 the employees either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides management personnel services to the Group or to the Company's parent.

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.

**(x) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the Group or the counterparty.

**(y) 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 business of manufacturing and supply of revised steel floor plates and geographical locations.

Individually material operating segments 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 nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**5. ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the report amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of assets or liabilities affected in future:

**(a) Judgement**

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements.

(i) *Tax*

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group evaluates tax implications of transactions in accordance with prevailing tax regulations and make tax provisions accordingly.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax to be recovered.

Deferred tax liabilities are recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The directors' assessment is constantly reviewed and deferred tax liabilities are adjusted when the results of assessment change.

(b) **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) *Revenue recognition — determination of performance obligations and the timing of satisfaction of performance obligations*

In making their judgements, the directors of the Company consider the detailed criteria for recognition of revenue set out in HKFRS 15. In determining performance obligations, the directors of the Company, based on the terms under the contracts, consider whether the contract customer benefits from each performance obligation on its own and whether it is distinct in the context of the contract. The consideration of contracts with bundled performance obligations is split into and determined for each of performance obligations, i.e. supply of access flooring plates and provision of installation services, with reference to the standalone contracts for supply of access flooring plates or provision of installation services.

Revenue is recognised when the control of the access flooring plates or installation services are transferred by the Group to the contract customers.



For the contracts bundled with performance obligations of supply of access flooring plates and installation services, the directors of the Company have determined that performance obligations are satisfied over time, as by fixing the access flooring plates onto the customer's site properties, control of the installed access flooring plates and installation services are transferred to the customers over the time, which can either create or enhance the value of the site properties controlled by the customers or the customers simultaneously receive and consume the benefits when the Group performs over time. The determination of the progress of the contract work involves judgements. The Group recognises revenue based on the direct measurement of the quantities of access flooring plates having been delivered and installed onto the customers' properties by reference to progress status reports acknowledged either by the customers or their agents, and the installation reports issued by the third party suppliers of the installation services, which install the Group's access flooring plates onto the customers' properties. The customers will provide the final completion reports when their whole projects are completed. Based on the historic experience with similar projects, there was no material difference in the quantities of works performed by the Group (in terms of the quantities of access flooring plates having been delivered and installed onto the customers' properties) between the final completion reports issued by the customers, accumulated progress status reports acknowledged either by the customers or their agents, and the installation reports issued by the third party suppliers of the installation services.

For a sales contract with supply of access flooring plates only, control of the access flooring plates is transferred to and accepted by the customer which is taken at the point in time when (i) under a domestic sales contract, the customer accepts the delivery and takes physical possession of the access flooring plates from the Group, or (ii) under an export sales contract, the access flooring plates are delivered and loaded onto board of the vessels and the bills of lading are passed to the customers.

In addition, when determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group does not consider the arrangement with the customers have any significant financing component.

*(ii) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. These estimates used are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to change in market conditions. Management reassesses these estimates at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

*(iii) Impairment assessment for trade and other receivables and contract assets*

The Group determines the provision for impairment of trade and other receivables and contract assets (including retention monies receivable) on a forward looking basis and lifetime expected credit losses are recognised from initial recognition of the assets. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward looking estimates. Other receivables are considered for 12-month expected credit losses. Contract assets will be transferred to trade receivables when the contract work performed are satisfied by the customers, or in case of the retention monies receivable which are also included in contract assets, the warranty period expires when the customers are satisfied with the final quality of the access flooring plates transferred and/or installation performed, which is taken a point in time when the Group has unconditional right to receive payments from the customers under the contracts. The Group assesses that the contract assets (including the retention monies receivable) have substantially the same risk characteristics as the trade receivables for same types of contracts. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in operating results and financial positions of the customers, past payment history of the customers, and actual or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change in the customers' ability to settle their trade debts. At each reporting period end, the historical observed bad debt rates are updated and changes in the forward-looking economic conditions and estimates are analysed by the Group's management.

*(iv) Depreciation and amortisation of property, plant and equipment and prepaid lease payments for land use rights*

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. Prepaid lease payments for land use rights is amortised over the lease term on a straight-line basis. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

*(v) Useful lives of right-of-use assets*

The management determines the estimated useful life and basis for depreciation taking into account factors including but not limited to, contractual terms of respective lease contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products of the assets. The estimation of the useful

life and basis for depreciation is a matter of judgment based on the experience of the Group. Management reviews the useful life and basis for amortisation of right-of-use assets annually and, if expectations are significantly different from previous estimates of useful economics life, the depreciation rate for future periods will be adjusted accordingly. Had different amortisation rates been used to calculate the depreciation of the right-of-use assets, the Group's result of operations and financial position could be materially different.

*(vi) Product warranty*

In some of the sales contracts made between the Group and its customers, there are warranty clauses for the access flooring plates, which were sold by the Group, and control of access flooring plates were passed to the customers over time (which is taken as when the access flooring plates are installed onto the customers' properties or possession of the access flooring plates are accepted by the customers) or at a point in time, for a specified period of time normally falling between 1 to 2 years, on a contract by contract basis, after the control of access flooring plates were transferred to the customers under the relevant sales contracts. Management of the Group considered that the warranty clauses only provide the customers with assurance that the access flooring plates will function as the Group and the customers, being parties to the contracts, intended in accordance with the agreed-upon specifications and accordingly, the warranty clauses do not provide the customers with a service in addition to assurance that the access flooring plates comply with agreed-upon specifications. There were no significant costs incurred in the past for those access flooring plates after sales during the warranty period and at each reporting period end of the Track Record Period. Management of the Group was not aware of any events that would cause the Group to incur material amount for the future costs for the purpose of the warranty clauses of the sales contracts in respect of those access flooring plates sold to the customers.

*(vii) Impairment of non-financial assets*

The Group assess at each reporting period end whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating-unit to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future 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. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously.

**6. OPERATING SEGMENT INFORMATION**

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has two reportable operating segments which are the manufacturing and sales of the following two product lines:

- Steel access flooring plates; and
- Calcium-sulfate access flooring plates.

**(a) Segment results, assets and liability**

For the purpose of assessing segment performance and allocation resources between segments, the Group's most senior executive management, who are also the executive directors of the Company, monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Segment assets include all tangible and intangible assets and other current and non-current assets with exception of unallocated corporate assets. Segment liabilities include trade and other payables and bank and other borrowings attributable to each reporting segment, with the exception of uncollected corporate liabilities.
- Revenue and expense are allocated to the reportable segments with reference to sales generated by those segments and the expense incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segments results represent profit or loss attributable to the segment without allocation of certain administrative costs and directors' remuneration. Taxation and finance costs are not allocated to reportable segments. This is measure reported to the Group's most senior executive management for the purpose of resources allocation and performance assessment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for three years ended 31 December 2016, 2017 and 2018, and six months ended 30 June 2018 (unaudited) and 2019 is set out below.

	Steel access flooring plates						Calcium-sulfate access flooring plates						Total					
	Years ended 31 December			Six months ended 30 June			Years ended 31 December			Six months ended 30 June			Years ended 31 December			Six months ended 30 June		
	2016	2017	2018	2018	2019	2019	2016	2017	2018	2018	2019	2019	2016	2017	2018	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>																	
Reportable segment revenue from external customers	139,507	185,617	204,319	90,593	109,594	20,096	30,743	44,466	22,077	15,294	159,603	216,360	248,785	112,670	124,888			
Reportable segment gross profit	31,652	44,068	48,387	21,277	27,145	5,553	9,676	11,779	5,054	3,697	37,205	53,744	60,166	26,331	30,842			
Reportable segment profit	22,134	25,438	31,438	12,342	16,054	4,408	6,999	8,142	2,929	1,993	26,542	32,437	39,580	15,271	18,047			
Other information:																		
Other revenue and other net income or (loss):																		
-Government subsidies	221	259	197	145	52	30	143	41	35	7	251	402	238	180	59			
-Scrap sales	370	376	559	191	379	—	—	—	—	—	370	376	559	191	379			
-Net gain/(loss) on disposal of property, plant and equipment	157	(651)	(37)	(23)	(7)	—	—	—	—	—	157	(651)	(37)	(23)	(7)			
-Exchange gain/(loss), net	241	(216)	(104)	(223)	12	20	(3)	(8)	(4)	2	261	(219)	(112)	(227)	14			
-Sundry income	183	388	120	102	—	246	—	4	4	—	429	388	124	106	—			
Depreciation and amortisation	3,117	3,232	3,402	1,684	1,726	1,403	1,542	1,529	757	791	4,520	4,774	4,931	2,441	2,517			
Impairment of trade receivables	309	2,196	2,001	1,704	1,922	—	185	435	415	456	309	2,381	2,436	2,119	2,378			
Impairment of contract assets	67	799	235	201	717	10	132	51	49	97	77	931	286	250	814			
Impairment of other receivables	—	—	—	—	323	—	—	—	—	—	—	—	—	—	323			
Reportable segment assets	181,321	221,512	232,710	222,769	259,183	33,233	45,044	60,884	51,698	42,793	214,554	266,556	293,594	274,467	301,976			
Additions to non-current segment assets during the year	3,201	8,771	1,182	929	156	724	428	582	288	1,236	3,925	9,199	1,764	1,217	1,392			
Reportable segment liabilities	110,067	152,610	142,900	140,730	149,056	9,314	10,533	17,733	16,349	10,860	119,381	163,143	160,633	157,079	159,916			

## (b) Reconciliations of reportable segment revenue and profit or loss

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
<b>Revenue</b>					
Reportable segment total revenue and consolidated revenue	159,603	216,360	248,785	112,670	124,888
<b>Profit</b>					
Reportable segment results	26,542	32,437	39,580	15,271	18,047
Unallocated other revenue	71	114	104	68	289
Unallocated head office and corporate expenses	(754)	(5,088)	(4,887)	(1,849)	(5,621)
Unallocated finance costs	(3,031)	(3,680)	(4,814)	(2,408)	(3,757)
Consolidated profit before taxation	22,828	23,783	29,983	11,082	8,958

## (c) Reconciliations of reportable assets and liabilities

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>				
Reportable segment assets	214,554	266,556	293,594	301,976
Unallocated head office and corporate assets	11,917	22,881	26,247	26,948
Consolidated total assets	226,471	289,437	319,841	328,924
<b>Liabilities</b>				
Reportable segment liabilities	119,381	163,143	160,633	159,916
Unallocated head office and corporate liabilities	5,344	2,682	8,794	11,535
Consolidated total liabilities	124,725	165,825	169,427	171,451

**(d) Information about major customers**

Revenue from the Group's major customers, which individually accounted for 10% or more of the total revenue of the Group, is set out below:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Steel access flooring plates:					
Customer I ( <i>Note 22(a)</i> )	N/A	N/A	N/A	N/A	36,736

*N/A — not applicable*

For each of the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2018, no customer contributed 10% or more of the Group's total revenue.

**(e) Geographical information**

The Group's operations are located in the PRC. All non-current assets of the Group are located in the PRC. Accordingly, no analysis by geographical basis is presented.

The following table sets out information about the geographical analysis of the Group's revenue based on the location of the Group's external customers.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
PRC	147,517	198,717	226,046	102,032	119,111
Hong Kong	2,271	1,885	1,867	515	498
Other countries	9,815	15,758	20,872	10,123	5,279
	<u>159,603</u>	<u>216,360</u>	<u>248,785</u>	<u>112,670</u>	<u>124,888</u>

## 7. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue from contracts with customers by types of performance obligations:					
- Sales of access flooring plates	151,504	205,922	238,202	107,565	118,444
- Provision of installation services	8,099	10,438	10,583	5,105	6,444
	<u>159,603</u>	<u>216,360</u>	<u>248,785</u>	<u>112,670</u>	<u>124,888</u>
Analysis of revenue by types of contracts:					
- Supply of access floor plates and provision of installation services	134,517	188,673	186,510	90,159	102,617
- Supply of access floor plates	24,702	27,429	62,239	22,511	21,373
- Provision of installation services	384	258	36	—	898
	<u>159,603</u>	<u>216,360</u>	<u>248,785</u>	<u>112,670</u>	<u>124,888</u>

Set out below is an analysis of revenue recognised over time and at a point in time:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue recognised over time:					
- Sales of access flooring plates	126,802	178,493	175,963	85,054	97,071
- Provision of installation services	8,099	10,438	10,583	5,105	6,444
	<u>134,901</u>	<u>188,931</u>	<u>186,546</u>	<u>90,159</u>	<u>103,515</u>
Revenue recognised at a point in time:					
- Sales of access flooring plates	24,702	27,429	62,239	22,511	21,373
	<u>159,603</u>	<u>216,360</u>	<u>248,785</u>	<u>112,670</u>	<u>124,888</u>



## 8. OTHER REVENUE AND OTHER NET INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Other revenue:					
Bank interest income	71	114	104	68	56
Other interest income	—	—	—	—	233
	<u>71</u>	<u>114</u>	<u>104</u>	<u>68</u>	<u>289</u>
Other net income:					
Government subsidies <i>(Note below)</i>	251	402	238	180	59
Scrap sales	370	376	559	191	379
Net gain/(loss) on disposal of property, plant and equipment	157	(651)	(37)	(23)	(7)
Exchange gain or (loss), net	261	(219)	(112)	(227)	14
Sundry income	429	388	124	106	—
	<u>1,468</u>	<u>296</u>	<u>772</u>	<u>227</u>	<u>445</u>
	<u>1,539</u>	<u>410</u>	<u>876</u>	<u>295</u>	<u>734</u>

*Note:*

Government grants and subsidies were received from the local government authorities in the PRC. There are no conditions attached to the grants and subsidies received by the Group.

## 9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Interest on bank borrowings	1,185	1,593	3,073	1,909	3,619
Interest on other borrowings	94	676	468	248	—
Implicit interest on loans from related parties and amounts due to shareholders and directors ( <i>Note 37(i)</i> )	1,439	1,208	216	172	—
Loss on derecognition of financial assets upon factoring without recourse ( <i>Notes 22(c)(i) and (ii)</i> )	—	—	899	—	67
Unwinding of finance costs on lease liabilities ( <i>Note 28</i> )	313	203	158	79	71
	<u>3,031</u>	<u>3,680</u>	<u>4,814</u>	<u>2,408</u>	<u>3,757</u>

## 10. PROFIT BEFORE TAXATION

Profit before taxation is stated at after charging (crediting):

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Contract costs of goods sold and services rendered ( <i>Note (a)</i> )	122,398	162,616	188,619	86,339	94,046
Depreciation of property, plant and equipment ( <i>Note 16</i> )	4,103	4,262	4,343	2,162	2,321
Amortisation of right-of-use assets ( <i>Note 18</i> )	713	793	812	403	410
Amortisation of other intangible assets ( <i>Note 19</i> )	—	—	48	24	24
Amortisation of land use rights ( <i>Note 17</i> )	21	109	173	86	86
Impairment of trade receivables ( <i>Note 22(b)</i> )	309	2,381	2,436	2,119	2,378
Impairment of contract assets ( <i>Note 21(a)(vi)</i> )	77	931	286	250	814
	386	3,312	2,722	2,369	3,192
Impairment of other receivables ( <i>Note 23</i> )	—	—	—	—	323
Net (gain)/loss on disposal of property, plant and equipment	(157)	651	37	23	7
Listing expenses:					
- Auditor	—	672	1,792	712	395
- Other professional fees	—	3,666	2,293	590	4,544
Operating lease charges in respect of properties and land use rights	149	263	200	97	114
Staff costs, including directors' remuneration:					
- Salaries, wages and other benefits	6,305	9,607	10,913	5,768	5,691
- Contributions to defined contribution retirement plans	1,714	2,918	3,247	1,565	1,490
Research and development costs ( <i>Note (b)</i> )	6,172	7,850	8,282	3,318	4,698

Note:

(a) Contract costs of goods sold and services rendered

Included in the contract costs of the goods sold and services rendered were the raw materials consumed, staff costs, installation costs, depreciation of property, plant and equipment and amortisation of right-of-use assets, which were included in the respective total amounts disclosed above for each type of these expenses.

An analysis of the contract costs of goods sold and services rendered is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Raw materials consumed	94,171	123,045	146,789	66,878	72,414
Staff costs	3,310	5,647	6,609	3,265	3,355
Depreciation of property, plant and equipment	3,582	3,643	3,699	1,843	1,904
Amortisation of right-of-use assets	544	647	647	324	324
Water, fuel and electricity	2,853	4,289	5,049	2,379	2,626
Other factory overheads	2,465	4,365	4,085	1,271	1,628
Cost of inventories sold	106,925	141,636	166,878	75,960	82,251
Installation costs	6,856	9,266	9,463	4,582	5,551
Transportation costs	8,617	11,714	12,278	5,797	6,244
	<u>122,398</u>	<u>162,616</u>	<u>188,619</u>	<u>86,339</u>	<u>94,046</u>

(b) Research and development costs

Included in the research and development costs were raw materials consumed, staff costs and depreciation of property, plant and equipment, of which, their respective total amounts were disclosed above for each type of these expenses.

An analysis of the research and development costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Raw materials consumed	4,547	4,904	5,950	2,282	3,521
Staff costs	488	1,614	1,553	790	681
Depreciation of property, plant and equipment	201	228	247	109	116
Water, fuel and electricity	47	50	106	46	72
Other costs	889	1,054	426	91	308
	<u>6,172</u>	<u>7,850</u>	<u>8,282</u>	<u>3,318</u>	<u>4,698</u>

## 11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

No provision for the Hong Kong Profits Tax has been made as the Company has no taxable income derived in Hong Kong since its incorporation during the Track Record Period.

Jinyueda Development and Victor Best Investment, which were incorporated in Hong Kong in 2017, are subject to Hong Kong Profits Tax at the rate of 16.5% on the assessable profits in Hong Kong. Neither Jinyueda Development nor Victor Best Investment has assessable profits derived in Hong Kong since their respective dates of incorporation during the Track Record Period.

LeiShuo Ventures and Rui Xing Holdings were incorporated in the BVI and none of them has assessable profits derived in Hong Kong since their respective dates of incorporation during the Track Record Period.

Pursuant to the PRC Income Tax Law and the respective regulations, subsidiaries of the Group operating in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income. For the three years ended 31 December 2015, 2016 and 2017, JiaChen Floor had been recognised by the relevant authorities as "High Technology Enterprise". Accordingly, JiaChen Floor was entitled to a preferential CIT rate of 15% for each of the two years ended 31 December 2016 and 2017. For the year ended 31 December 2018 and for the six months ended 30 June 2019, JiaChen Floor was subject to CIT at the standard rate of 25%. Changzhou Jintai and Changzhou Jingang, which were established in the PRC in 2017, are subject to PRC CIT at the applicable standard rate of 25% on their taxable profits and each of Changzhou Jintai and Changzhou Jingang has no taxable profit since their respective dates of establishment during the Track Record Period.

During the Track Record Period, in accordance with the then applicable notice "Cai Shui [2015] Notice 119" and the new notice "Cai Shui [2018] Notice 99", for each of the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019, 50%, 50%, 75% and 75% of the Group's qualifying research and development expenses were allowed, respectively, as additional deductions for the purposes of the CIT calculations. Details of the Group's research and development expenses during the Track Record Period are disclosed in Note 10(b) of this report.

According to applicable regulations prevailing in the PRC, dividends distributed by a company established in the PRC to foreign investors with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. Under the double taxation arrangement between the PRC and Hong Kong, the relevant withholding tax rate applicable to the Group is reduced from 10% to 5% subject to the fulfilment of certain conditions. As set out in Note 31(b), at each reporting period end of Track Record Period, no provision for deferred tax is recognised with respect to the withholding tax on undistributed profits of JiaChen Floor as the Group can control the dividend policy of JiaChen Floor which has no plan to make dividend distribution in the foreseeable future.

**(a) Income tax in the consolidated statement of profit or loss represents**

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Current tax - PRC Corporation Income Tax ("CIT") - Charge for the year/period	3,902	3,622	6,788	2,949	2,697
Deferred tax - Origination and reversal of temporary differences	(436)	(497)	(1,656)	(1,568)	(798)
	<u>3,466</u>	<u>3,125</u>	<u>5,132</u>	<u>1,381</u>	<u>1,899</u>

**(b) Reconciliation between actual income tax expense and profit before taxation at applicable tax rates:**

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Profit before taxation	22,828	23,783	29,983	11,082	8,958
Notional tax on profit before taxation, calculated at the tax rates applicable in the jurisdictions concerned	5,707	5,946	7,495	2,770	2,239
Effect of preferential income tax policy in PRC	(2,283)	(2,378)	—	—	—
Tax effect of non-deductible expenses	928	646	851	801	1,339
Tax effect for additional deduction on qualifying research and development expenses	(450)	(592)	(1,558)	(622)	(881)
Effect on deferred tax balances resulting from a change in tax rate for 2018	—	—	(976)	(976)	—
Tax effect of temporary differences recognised	(436)	(497)	(680)	(592)	(798)
Income tax expense for the year/period	<u>3,466</u>	<u>3,125</u>	<u>5,132</u>	<u>1,381</u>	<u>1,899</u>

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors prior to 7 July 2017, date of incorporation of the Company.

Certain directors of the Company received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors of the Company as recorded in the financial statements of the subsidiaries for each reporting period of the Track Record Period, which were included in the staff costs as disclosed in Note 10, is set out below:

	Year ended 31 December 2016			
	Directors' fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors</b>				
Mr. Shen Min (沈敏) (“Mr. Shen”)	—	105	21	126
Ms. Zhang Yaying (章亞英) (“Mrs. Shen”)	—	59	16	75
Mr. Shen Minghui (沈明暉) (“Mr. Shen MH”)	—	80	17	97
Mr. Chen Shiping (陳仕平) (“Mr. Chen”)	—	100	18	118
	—	344	72	416

	Year ended 31 December 2017			
	Directors' fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors</b>				
Mr. Shen Min (沈敏) (“Mr. Shen”)	—	240	81	321
Ms. Zhang Yaying (章亞英) (“Mrs. Shen”)	—	104	39	143
Mr. Shen Minghui (沈明暉) (“Mr. Shen MH”)	—	150	49	199
Mr. Chen Shiping (陳仕平) (“Mr. Chen”)	—	237	72	309
	—	731	241	972

## Year ended 31 December 2018

	Directors' fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors</b>				
Mr. Shen Min (沈敏) (“Mr. Shen”)	—	218	40	258
Ms. Zhang Yaying (章亞英) (“Mrs. Shen”)	—	104	5	109
Mr. Shen Minghui (沈明暉) (“Mr. Shen MH”)	—	130	47	177
Mr. Chen Shiping (陳仕平) (“Mr. Chen”)	—	228	80	308
	—	680	172	852

## Six months ended 30 June 2018 (unaudited)

	Directors' fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors</b>				
Mr. Shen Min (沈敏) (“Mr. Shen”)	—	118	40	158
Ms. Zhang Yaying (章亞英) (“Mrs. Shen”)	—	56	5	61
Mr. Shen Minghui (沈明暉) (“Mr. Shen MH”)	—	70	24	94
Mr. Chen Shiping (陳仕平) (“Mr. Chen”)	—	127	40	167
	—	371	109	480



## Six months ended 30 June 2019

	Directors' fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Executive directors</b>				
Mr. Shen Min (沈敏) (“Mr. Shen”)	—	118	—	118
Ms. Zhang Yaying (章亞英) (“Mrs. Shen”)	—	56	—	56
Mr. Shen Minghui (沈明暉) (“Mr. Shen MH”)	—	70	22	92
Mr. Chen Shiping (陳仕平) (“Mr. Chen”)	—	117	38	155
	—	361	60	421

- (a) No emolument was paid and payable to any of the directors of the Company and the five highest paid individuals of the Group, set out in Note 13 below, as an inducement to join or upon joining the Group or as compensation for loss of office in each reporting period of the Track Record Period. None of the directors of the Company and the five highest paid individuals of the Group waived or agreed to waive any emoluments in each reporting period of the Track Record Period.
- (b) Mr. Shen, Mrs. Shen and Mr. Shen MH are the directors of JiaChen Floor, which is the key operating entity of the Group, and the key management of the Group throughout the Track Record Period. They were appointed as the directors of the Company on 7 July 2017 and were re-designated as the executive directors of the Company on 19 June 2019. Mr. Shen is the chairman of the board of directors of the Company.
- (c) Mr. Chen is the general manager of JiaChen Floor, which is the key operating entity of the Group throughout the Track Record Period. Mr. Chen was appointed as the chief executive officer and an executive director of the Company on 19 June 2019.
- (d) During the Track Record Period, no emolument was paid or payable to Mr. Ma Ving Lung, Ms. Shi Dongying and Mr. Yu Chun Kau who were appointed as independent directors of the Company on 13 December 2019, 13 December 2019 and 23 December 2019, respectively.

**13. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS**

Of the five highest paid individuals of the Group for the three years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019, four, four, four, four and four are the directors of the Company, respectively, whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the remaining individuals for each of the Track Record Period are as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salaries and other emoluments	55	78	70	35	35
Pension scheme contributions	14	24	24	12	11
	<u>69</u>	<u>102</u>	<u>94</u>	<u>47</u>	<u>46</u>

The emoluments of the five individuals with the highest emoluments of the Group for each reporting period during the Track Record Period are within the following bands:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
				<i>(unaudited)</i>	
Nil — HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

**14. DIVIDENDS**

For each reporting period of the Track Record Period, no dividend was declared and paid to the then shareholders of the companies now comprising the Group.

**15. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful with the Reorganisation and the preparation of the results of the Group for each reporting period of the Track Record Period as disclosed in Note 2 of Section II above.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>					
At 1/1/2016	13,381	30,121	700	1,617	45,819
Additions	—	3,923	24	337	4,284
Disposals	—	(946)	—	—	(946)
At 31/12/2016 and 1/1/2017	13,381	33,098	724	1,954	49,157
Additions	391	986	204	1,040	2,621
Disposals	—	(655)	(23)	(765)	(1,443)
At 31/12/2017 and 1/1/2018	13,772	33,429	905	2,229	50,335
Additions	—	1,285	18	—	1,303
Disposals	—	(599)	—	(194)	(793)
At 31/12/2018 and 1/1/2019	13,772	34,115	923	2,035	50,845
Additions	—	1,392	13	—	1,405
Disposals	—	(11)	—	—	(11)
At 30/6/2019	13,772	35,496	936	2,035	52,239
<b>Accumulated depreciation and impairment</b>					
At 1/1/2016	2,527	6,049	355	223	9,154
Charge for the year	636	3,193	87	187	4,103
Written back on disposal	—	(157)	—	—	(157)
At 31/12/2016 and 1/1/2017	3,163	9,085	442	410	13,100
Charge for the year	642	3,307	91	222	4,262
Written back on disposal	—	(204)	(21)	(281)	(506)
At 31/12/2017 and 1/1/2018	3,805	12,188	512	351	16,856
Charge for the year	654	3,372	111	206	4,343
Written back on disposal	—	(156)	—	(75)	(231)
At 31/12/2018 and 1/1/2019	4,459	15,404	623	482	20,968
Charge for the period	327	1,744	57	193	2,321
Written back on disposal	—	(4)	—	—	(4)
At 30/6/2019	4,786	17,144	680	675	23,285

	<b>Leasehold buildings</b>	<b>Plant and machinery</b>	<b>Furniture, fixtures and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Carrying amounts</b>					
At 30/6/2019	8,986	18,352	256	1,360	28,954
At 31/12/2018	9,313	18,711	300	1,553	29,877
At 31/12/2017	9,967	21,241	393	1,878	33,479
At 31/12/2016	10,218	24,013	282	1,544	36,057

- (a) As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amount of leasehold buildings of approximately RMB10,218,000, RMB9,967,000, RMB9,313,000 and RMB8,986,000, respectively, were pledged to a bank as security for the banking facilities granted to the Group as referred to in Note 29.
- (b) During the year ended 31 December 2016, certain plant and machinery of the Group with aggregate carrying amount of approximately RMB224,000 were sold to a related company, Jiachen Machinery Plant in which Mr. Shen has beneficial interests, at an aggregate consideration of approximately RMB407,000 and a gain on disposal of approximately RMB124,000 was recognised in profit or loss for the year ended 31 December 2016.
- (c) For the three years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, depreciation expense was charged to “cost of sales and services”, “selling and distribution expenses” and “administrative expenses”, respectively as follows:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of goods sold and services rendered	3,582	3,643	3,699	1,843	1,904
Selling and distribution expenses	17	38	39	23	14
Administrative expenses	504	581	605	296	403
	<u>4,103</u>	<u>4,262</u>	<u>4,343</u>	<u>2,162</u>	<u>2,321</u>

(unaudited)

## 17. LAND USE RIGHTS

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
Beginning of the year/period	1,109	1,088	8,559	8,386
Addition ( <i>Note (d) below</i> )	—	7,580	—	—
Amortisation	(21)	(109)	(173)	(86)
End of the year/period	<u>1,088</u>	<u>8,559</u>	<u>8,386</u>	<u>8,300</u>
Analysed for reporting purpose as:				
Current assets	21	173	173	173
Non-current assets	<u>1,067</u>	<u>8,386</u>	<u>8,213</u>	<u>8,127</u>
	<u>1,088</u>	<u>8,559</u>	<u>8,386</u>	<u>8,300</u>

*Note:*

- (a) All of the Group's land use rights are located in the PRC with the remaining leasehold period of NIL, 50, 49 and 48.5 years at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.
- (b) As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amount of land use right of approximately RMB1,088,000, RMB8,559,000, RMB8,386,000 and RMB8,300,000, respectively, were pledged to a bank as security for the banking facilities granted to the Group as referred to in Note 29.
- (c) For each reporting period of the Track Record Period, amortisation of the Group's land use rights were charged to "administrative expenses" in the consolidated statement of profit or loss.
- (d) All of the Group's land use rights were by their nature collectively-owned land use rights for industrial purpose during the periods prior to 12 May 2017 and were changed to state-owned land use rights and with transfer rights for industrial purposes with effect on 12 May 2017, at an additional costs of RMB7,580,000 for the leasehold period to May 2067, based on an agreement entered into by the Group and the Land Bureau on 12 May 2017. The Group obtained the revised new certificates to the title of state-owned land use rights issued by the Land Bureau with effect on 18 July 2017.

## 18. RIGHT-OF-USE ASSETS

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	5,120
Addition	<u>479</u>
At 31 December 2018 and 30 June 2019	<u>5,599</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2016	1,377
Amortisation for the year	<u>713</u>
At 31 December 2016 and 1 January 2017	2,090
Amortisation for the year	<u>793</u>
At 31 December 2017 and 1 January 2018	2,883
Amortisation for the year	<u>812</u>
At 31 December 2018 and 1 January 2019	3,695
Amortisation for the period	<u>410</u>
At 30 June 2019	<u>4,105</u>
<b>Carrying amounts</b>	
At 30 June 2019	<u><u>1,494</u></u>
At 31 December 2018	<u><u>1,904</u></u>
At 31 December 2017	<u><u>2,237</u></u>
At 31 December 2016	<u><u>3,030</u></u>

- (a) The right-of-use assets represent the Group's rights to use underlying leased assets under lease arrangements over the lease terms, which are stated at cost less accumulated depreciation/amortisation and any impairment losses, and adjusted for any remeasurement of the lease liabilities.

- (b) On 21 September 2013, the Group entered into a long-term lease contract with an independent third party from which the Group leased a factory building located in the PRC for a lease term of 10 years, commencing from 31 October 2013 to 30 September 2023, at annual rent of RMB575,040 for the first three years and an annual increment of RMB25,000 starting from the fourth year which was subsequently amended to the fifth year on 31 December 2015. At the modification date of the lease contract, the fair value of both the rights-of-use of the leased factory building and the leased liabilities amounted to approximately RMB5,105,000 which was determined with reference to the present value of the future lease payments over the remaining lease term of the lease contract, discounted at the rate of 4.90% per annum by reference to the then incremental borrowing rate of the Group around the lease modification date. The right-of-use assets in respect of the leased factory were amortised on a straight-line basis over the estimated useful life which is the same as the lease term. At 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amount of the right-of-use of the leased factory building under the long-term lease contract was approximately RMB2,836,000, RMB2,189,000, RMB1,542,000 and RMB1,218,000, respectively. Further details of leased liabilities are set out in Note 28.
- (c) During the three years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, depreciation expense was charged to “cost of sales and services” and “selling and distribution expenses”, respectively as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Cost of goods sold and services rendered	544	647	647	324	324
Selling and distribution expenses	169	146	165	79	86
	<u>713</u>	<u>793</u>	<u>812</u>	<u>403</u>	<u>410</u>

## 19. OTHER INTANGIBLE ASSETS

	<b>Computer Software</b>
	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Additions	<u>238</u>
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	<u>238</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	—
Charge for the year	<u>48</u>
At 31 December 2018 and 1 January 2019	48
Charge for the period	<u>24</u>
At 30 June 2019	<u>72</u>
<b>Carrying amounts</b>	
At 30 June 2019	<u><u>166</u></u>
At 31 December 2018	<u><u>190</u></u>
At 31 December 2017	<u><u>238</u></u>
At 31 December 2016	<u><u>—</u></u>



## 20. INVENTORIES

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	14,278	16,857	9,911	12,770
Finished goods	59,209	26,754	21,095	19,092
	<u>73,487</u>	<u>43,611</u>	<u>31,006</u>	<u>31,862</u>

## 21. CONTRACT ASSETS AND CONTRACT LIABILITIES

	As at	As at 31 December			As at
	1 January	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reported on the consolidated statement of financial position:					
<u>Under Current assets</u>					
Contract assets ( <i>Note (a) below</i> )	22,390	41,751	70,202	90,557	86,671
Less: Allowance for expected credit losses ( <i>Note (a)(vi) below</i> )	—	(77)	(1,008)	(1,294)	(2,108)
	<u>22,390</u>	<u>41,674</u>	<u>69,194</u>	<u>89,263</u>	<u>84,563</u>
<u>Under Current liabilities</u>					
Contract liabilities ( <i>Note (b)</i> <i>below</i> )	<u>6,737</u>	<u>1,756</u>	<u>7,415</u>	<u>3,537</u>	<u>4,769</u>

**(a) Contract assets**

Contract assets, before deduction for allowance for expected credit losses, comprise the following components:

	As at	As at 31 December			As at
	1 January				30 June
	<u>2016</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rights to consideration for obligations performed on contracts in progress	19,574	37,783	53,004	69,317	68,384
Retention monies receivable on completed contracts	<u>2,816</u>	<u>3,968</u>	<u>17,198</u>	<u>21,240</u>	<u>18,287</u>
	<u>22,390</u>	<u>41,751</u>	<u>70,202</u>	<u>90,557</u>	<u>86,671</u>

- (i) At each reporting period end of the Track Record Period, the contract assets represents the Group's rights to consideration for access flooring plates and/or installation services transferred to the customers but the rights to payments are still conditional upon the quality and quantity check by the customers on the installed access flooring plates transferred by the Group, other than on passage of time. The contract assets are transferred to trade receivables when the rights to receipt of the consideration for performed obligations become unconditional.

The increase in contract assets at each reporting period end of the Track Record Period was mainly attributable to more contract performance obligations discharged by the Group during the respective reporting period.

For the contract assets at each reporting period of the Track Record Period, there were no material disputes received from the Group's customers.

- (ii) Movements of the contract assets, before allowance for expected credit losses, during the Track Record Period are as follows:

	Year ended 31 December			Six months ended
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
Beginning of the year/period	22,390	41,751	70,202	90,557
Entitlement to considerations for contract performance obligations discharged for the year/period, comprising:				
– Revenue recognised (exclusive of value-added-tax) ( <i>Note 7</i> )	159,603	216,360	248,785	124,888
– Value-added-tax on revenue recognised ( <i>see Note below</i> )	26,708	42,786	33,556	18,906
	186,311	259,146	282,341	143,794
Transferred to trade receivables when rights to payments became unconditional	(160,793)	(229,385)	(256,316)	(145,466)
Transferred to and offset by contract liabilities	(6,157)	(1,310)	(5,670)	(2,214)
End of the year/period	<u>41,751</u>	<u>70,202</u>	<u>90,557</u>	<u>86,671</u>

*Note:*

During the Track Record Period, the considerations of those contracts entered into between the Group and the customers in the PRC were subject to value-added taxes (“VAT”), which are collected on behalf of the tax authorities and are excluded from the revenue recognised from performance obligations discharged by the Group, at the applicable rates as follows:

- 11% - 17% for the period prior to May 2018;
- 10% - 16% for the period from May 2018 to March 2019; and
- 9% - 13% for the period commencing from April 2019.

The considerations of the export sales contracts entered into between the Group and foreign customers are not subject to the VAT.

- (iii) An ageing analysis of the contract assets, based on the date of revenue recognition and before allowance for expected credit losses, as at the end of each reporting period of the Track Record Period is as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within 1 month	12,251	24,147	17,525	23,481
1 to 3 months	10,104	10,999	11,668	14,019
3 to 6 months	6,691	12,699	10,242	4,487
6 to 9 months	9,696	7,866	15,391	9,582
9 to 12 months	533	10,876	1,978	8,460
1-2 years	2,476	3,615	32,107	23,085
Over 2 years	—	—	1,646	3,557
	<u>41,751</u>	<u>70,202</u>	<u>90,557</u>	<u>86,671</u>

The billings for payments of contract assets, which include the retention monies receivable as further disclosed in (iv) below, are issued by the Group only after the customers completed the quality and/or quantity checks on the work performed by the Group.

In the opinion of the directors of the Company, there was no material dispute with any of its customers regarding the contract assets.

The Group's actual historic bad debt rates of contract assets as at 31 December 2014, 2015 and 2016 were 0%, 0% and 0.18%, respectively.

Further disclosures on the recoverability assessment of contract assets are set out in Note 21(a)(vi) and Note 22(c) below.

- (iv) Retention monies receivable

Retention monies receivable included in contract assets represent the Group's rights to receipt of consideration for obligations of completed contracts which are conditional on the customers' final quality check on the installed access flooring plates transferred to the customers i.e. contract obligations completed by the Group, at the end of the product assurance warranty period. The retention monies receivable included in contract assets are transferred to the trade receivables when the rights to payments become unconditional, which is typically at the expiry date of the product assurance warranty period when the customers have completed their final check on the quality of the installed access flooring plates i.e. supplied access flooring plates and installation services completed, which represent the contract obligations performed by the Group.

At 31 December 2016, 2017 and 2018 and 30 June 2019, included in contract assets were retention monies receivable from the customers amounting to approximately RMB3,968,000, RMB17,198,000, RMB21,240,000 and RMB18,287,000, respectively. The terms and conditions for the release of retention monies held by the customers vary from contract to contract. The retention monies receivable from the customers generally represent 3% to 10% of consideration of the relevant contracts, that are retained by the customers as protection for defects of the transferred access flooring plates and the Group's entitlement to payment of retention monies receivable are conditional upon the customers' final physical inspection of the quality of the transferred access flooring plates at the expiry of the respective product assurance warranty period of the relevant contracts. In the opinion of the directors of the Company, the retention monies retained by the customers under the relevant contracts are not intended as a financing arrangement by the Group to the customers.

- (v) An ageing analysis of the retention monies receivable under the product assurance type warranty period, based on the date of revenue recognition and before allowance for expected credit losses, as at the end of each reporting period of the Track Record Period is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	63	2,214	1,815	492
1 to 3 months	469	2,595	1,035	1,209
3 to 6 months	313	3,302	801	761
6 to 9 months	114	3,610	3,557	2,630
9 to 12 months	533	4,535	1,437	784
1-2 years	2,476	942	12,595	11,718
Over 2 years	—	—	—	693
	3,968	17,198	21,240	18,287

There were no significant costs incurred in the past for those access flooring plates and/or installation services after sales during the product assurance type warranty period and at each reporting period end of the Track Record Period. Management of the Group was not aware of any material disputes or events that would cause the Group to incur material amount for the future costs for the purpose of the warranty clauses of the sales contracts in respect of those access flooring plates and/or installation services sold to the customers.

The Group's entitlement to payments of the retention monies retained by its customers is only after the customers' final quality checks on the access flooring plates and/or installation services after sales at the end of the respective product assurance type warranty periods, which generally fall between 1-2 years after sales, under the relevant contracts.

An analysis of due dates for settlement of the Group's retention monies receivable that are held by the customers during the product assurance warranty period, before allowance for expected credit losses, as at the each reporting period end of Track Record Period, is as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,651	1,241	13,905	11,694
Between 1 and 2 years	1,317	15,957	7,335	6,593
	3,968	17,198	21,240	18,287

(vi) Impairment assessment of the contract assets

Contract assets have substantially the same characteristics as the trade receivables for the same types of the contracts. The Group's customers are mainly the large property developers and state-owned enterprises with high credit rating and their payment history with the Group are considered to be good. There are no material disputes or claims received from the customers of the relevant contracts and the Group considered that there has not been a significant change in credit quality of the customers. The Group concluded that the expected loss rates for trade receivables are a reasonable approximation of the rates for expected credit loss for contract assets. Since the contract assets are related to contracts which are still in progress and the payment is not due, the net carrying amount of contract assets (after deduction of allowance for expected credit losses) are still considered fully recoverable at the each reporting period end of the Track Record Period. The Group does not hold any collateral as security for the contract assets at each reporting period end of the Track Record Period.

Up to 21 December 2019, the Group has received subsequent settlements from the customers of approximately RMB41,674,000, RMB52,791,000, RMB38,023,000 and RMB20,812,000 on the carrying balances of contract assets (net of the allowance for expected credit losses) at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

All of the contract assets at 31 December 2016 were subsequently billed by the Group and transferred to trade receivables which were settled by the customers, except for an aggregate amount of RMB77,000 of consideration for contract obligations performed by the Group which were not yet settled by certain customers and were considered to be irrecoverable.

In respect of the contract assets at 31 December 2017, a total of approximately RMB69,544,000 was subsequently billed by the Group and transferred to trade receivables and out of which, a total of approximately RMB52,791,000 was subsequently settled by the customers up to 21 December 2019.

In respect of the contract assets at 31 December 2018, a total of approximately RMB79,030,000 was subsequently billed by the Group and transferred to trade receivables and out of which, a total of approximately RMB38,023,000 was subsequently settled by the customers up to 21 December 2019.

In respect of the contract assets at 30 June 2019, a total of approximately RMB59,588,000 was subsequently billed by the Group and transferred to trade receivables and out of which, a total of approximately RMB20,812,000 was subsequently settled by the customers up to 21 December 2019.

The historic bad debt rates on the Group's contract assets at 31 December 2014, 2015 and 2016 were 0%, 0% and 0.18%, respectively. At each reporting period end during the Track Record Period, management of the Group estimated the expected credit losses on contract assets based on the trend of the historic bad debt rates of contract assets as adjusted for subsequent billings to and settlements from the customers and forward looking information, such as the economic and market conditions which might have impacts on the financial performance, positions and cash flows of the Group's customers and, in consequence, the customers' abilities to pay for the considerations for obligations performed by the Group under the contracts. The rates of 0.18%, 1.43%, 1.43% and 2.43% were applied by management of the Group for making provision for the exposures to expected credit losses on contract assets at 31 December 2016, 2017 and 2018 and at 30 June 2019, respectively.

At 31 December 2016, 2017 and 2018 and 30 June 2019, allowance for expected credit losses on contract assets amounted to approximately RMB77,000, RMB1,008,000, RMB1,294,000 and RMB2,108,000, respectively.

The movements in allowance for expected credit losses on contract assets during the Track Record Period are as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	—	77	1,008	1,294
Charge for the year/period				
— Increase in provision for expected credit losses	<u>77</u>	<u>931</u>	<u>286</u>	<u>814</u>
At the end of the year/period	<u><u>77</u></u>	<u><u>1,008</u></u>	<u><u>1,294</u></u>	<u><u>2,108</u></u>

**(b) Contract liabilities**

The contract liabilities primarily relate to the advance considerations received from contract customers for the goods or services to be transferred by the Group.

The movements in contract liabilities during the Track Record Period are set out below:

	<b>Year ended 31 December</b>			<b>Six months ended</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	6,737	1,756	7,415	3,537
Advance considerations received from customers	1,176	6,969	1,792	3,446
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	<u>(6,157)</u>	<u>(1,310)</u>	<u>(5,670)</u>	<u>(2,214)</u>
At the end of the year/period	<u>1,756</u>	<u>7,415</u>	<u>3,537</u>	<u>4,769</u>
Amounts subsequently utilised and recognised as revenue after the respective reporting year/period	<u>1,756</u>	<u>7,353</u>	<u>2,385</u>	<u>3,342</u>



**(c) Information about unsatisfied performance obligations**

The following table includes revenue expected to be recognised in the future related to the supply and installation of floor plates that are unsatisfied (or partially unsatisfied) as at each reporting period end of the Track Record Period.

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Remaining performance obligations for the supply and/or installation of access flooring plates expected to be satisfied during the following periods:				
Expected to be recognised within one year	59,458	59,816	71,410	75,670
Expected to be recognised over one year	18,286	30,702	25,714	2,982
	77,744	90,518	97,124	78,652

- (d) The revenue recognised in each of the three years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019 did not include any amount, respectively, that was related to performance obligations satisfied in previous periods.

## 22. TRADE AND BILLS RECEIVABLES

	As at	As at 31 December			As at
	1 January				30 June
	2016	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables ( <i>Note (a)</i> )	46,266	47,698	111,437	132,146	151,205
Bills receivables ( <i>Note (a)</i> )	—	—	107	300	2,226
	46,266	47,698	111,544	132,446	153,431
Less: Allowance for expected credit losses ( <i>Notes (b) and (c)</i> )	(4,139)	(4,448)	(6,829)	(9,265)	(11,643)
	<u>42,127</u>	<u>43,250</u>	<u>104,715</u>	<u>123,181</u>	<u>141,788</u>

*Note:*

- (a) An ageing analysis of the trade and bills receivables (net of allowance for expected credit losses) as at the end of each of the Track Record Period, based on the invoice date, is as follows:

	As at 31 December			As at
				30 June
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	16,933	26,415	29,335	29,863
1 to 3 months	6,818	26,813	28,281	31,820
3 to 6 months	7,100	32,100	16,097	32,778
6 to 9 months	1,691	6,699	26,262	19,078
9 to 12 months	2,019	7,569	4,368	9,242
1-2 years	6,338	3,019	17,072	19,007
Over 2 years	2,351	2,100	1,766	—
	<u>43,250</u>	<u>104,715</u>	<u>123,181</u>	<u>141,788</u>

*Analyses of the trade and bills receivables categorised by past due status, together with allowance for expected credit losses, at 31 December 2016, 2017 and 2018 and at 30 June 2019 are set out in Note 22(c) below.*

The Group grants a credit period ranging from 60 to 365 days to its customers. The Group does not hold any collaterals as security for the trade and bills receivables at each reporting period end of the Track Record Period. The trade and bills receivables are non-interest bearing.

In 2018, the Group entered into an arrangement with an independent third party customer ("Customer I") which is a subsidiary of a blue chip property developer, which was established in the PRC with its shares listed in the Shenzhen Stock Exchange and is a constituent stock of both Shenzhen Stock Index and CSI 300 Index which is the benchmark of the China Stock Market Index. Customer I contributed to 0%, 1.67% and 5.20%, 3.43% (unaudited) and 29.42% of the Group's revenue for the three years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2018 and 2019, respectively, and 0%, 2.46% and 9.73%, 2.79% (unaudited) and 25.48% of the Group's total of contract assets and trade receivables at each of these reporting period ends, respectively. Customer I provided commercial bills or letters of credit issued by the banks of Customer I to the Group in accordance with the sales contracts made between the Group and Customer I, for the contract performance obligations discharged by the Group and the credit period of up to 365 days from the invoice date is allowed to Customer I. The Group factored these trade receivables in respect of Customer I, with recourse, to a factoring bank which is one of the principal banks of Customer I. Customer I agreed to reimburse the Group, at the expiry date of the factoring agreement, for the difference between the invoiced amounts of factored receivables and the cash proceeds received by the Group from the factoring bank, including all the interests incurred under the relevant factoring agreements entered into by the Group and the factoring bank. For the year ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2018 and 2019, the Group earned interest from Customer I amounted to NIL, NIL, NIL, NIL (unaudited) and approximately RMB233,000, respectively. At 31 December 2016, 2017 and 2018 and 30 June 2019, the outstanding factored receivables in respect of Customer I amounted to NIL, NIL, approximately RMB3,567,000 and RMB25,621,000 respectively. According to the terms of the relevant factoring agreements entered into by the Group and the factoring bank which is one of the principal banks of Customer I, the Group still retains all the risks and rewards associated with the ownership of factored trade receivables in respect of Customer I and accordingly, these factored trade receivables are not derecognised, in accordance with HKFRS 9, until the factoring bank will have successfully collected the proceeds of factored receivables from Customer I at the expiry of the factoring period which is one year from the factoring date. In substance, the factoring arrangement is a form of borrowings and the proceeds received from factoring receivables are recognised as secured bank borrowings (Note 29) which are secured by the pledge of the trade receivables in respect of Customer I, as further disclosed in Note 29(a) below.

The bases for the measurement of lifetime expected credit losses of trade and bills receivables are set out in Note 22(c) below.

(b) Impairment assessment of trade and bills receivables

Impairment losses in respect of contract assets, trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of lifetime expected loss provision for trade and bills receivables. To measure the expected losses on trade and bills receivables, the Group categorised them based on their shared credit risk characteristics and ageing, evaluated their recoverability by reference to their payment history records with the Group and a provision matrix adjusted for forward looking information such as the actual and expected subsequent settlements from the customers, expected economic and market conditions after each reporting period end of the Track Record Period. The Group considered that there has not been a significant change in credit quality of the customers subsequent to 30 June 2019.

The Group's customers are mainly large property developers and stated-owned enterprises with high credit rating and good payment history with the Group. In respect of the trade and bills receivables (after deducting the allowance for expected credit losses) of approximately RMB43,250,000, RMB104,715,000, RMB123,181,000 and RMB141,788,000 at 31 December 2016, 2017 and 2018 and 30 June 2019, the subsequent settlements received by the Group from its customers were approximately RMB43,250,000, RMB103,759,000, RMB94,178,000 and RMB46,227,000, respectively, up to 21 December 2019.

At 31 December 2016, 2017 and 2018 and 30 June 2019, allowance for expected credit losses on trade and bills receivables amounted to approximately RMB4,448,000, RMB6,829,000, RMB9,265,000 and RMB11,643,000, was made for the lifetime expected loss of certain customers, respectively.

The movements in the allowance for expected credit losses on trade and bills receivables during the Track Record Period are set out below:

	Year ended 31 December			Six months ended
	2016	2017	2018	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year/period	4,139	4,448	6,829	9,265
Charge for the year/period				
— Increase in provision for expected credit losses	309	2,381	2,436	2,378
At the end of the year/period	4,448	6,829	9,265	11,643

- (c) In order to determine the expected credit losses ("ECL") for the portfolio of contract assets and trade receivables at each reporting period end, the Group uses a provision matrix. The provision matrix is based on its historical observed bad debt rates, adjusted for subsequent settlements and forward looking economic and market conditions which might have impacts on the financial performance, position and cash flows of the Group's customers and, in consequence, the customers' abilities to settle their trade debts. At each reporting period end, the historical observed bad debt rates and the forward looking estimates are updated.

The matrix analysis of the Group's actual historic bad debt rates on the trade receivables as at 31 December 2014, 2015, 2016 and 2017, and the expected rates for lifetime ECL on trade receivables at 31 December 2018 and 30 June 2019 is as follows:

	Historic bad debt rates				Average historic bad debt rates		Estimated bad debt rates for lifetime ECL	
	at 31 December				at 31 December		at 31	at
	2014	2015	2016	2017	2014 to 2016	2014 to 2017	December 2018	30 June 2019
<b>Trade receivables</b>								
Not yet due or current	0.83%	1.12%	0.22%	1.20%	0.72%	0.84%	1.16%	0.99%
Past due:								
Within 1 month	0.00%	1.27%	3.83%	3.02%	1.70%	2.03%	3.16%	3.72%
1 to 3 months	0.00%	3.66%	4.49%	4.14%	2.72%	3.07%	3.87%	3.88%
3 to 6 months	0.00%	0.85%	7.91%	3.69%	2.92%	3.11%	5.54%	5.56%
6 to 9 months	0.00%	0.07%	7.68%	8.03%	2.60%	3.96%	5.68%	6.83%
9 to 12 months	2.30%	1.44%	5.09%	7.60%	2.94%	4.11%	10.69%	12.51%
1 to 2 years	25.62%	1.80%	4.79%	33.36%	10.74%	17.99%	40.29%	71.80%
Over 2 years	8.07%	35.66%	31.41%	36.99%	25.05%	28.03%	72.04%	100%
Credit impaired	N/A	100%	100%	100%	100%	100%	100%	100%
<b>Trade receivables —</b>								
<b>Overall</b>	<u>3.60%</u>	<u>6.38%</u>	<u>9.32%</u>	<u>6.12%</u>	<u>6.43%</u>	<u>6.35%</u>	<u>7.00%</u>	<u>7.59%</u>

The observed historic bad debt rates on the Group's contract assets at 31 December 2014, 2015 and 2016 were 0%, 0% and 0.18%, respectively. The Group applied the rate of 0.18%, 1.43%, 1.43% and 2.43% on the contract assets at 31 December 2016, 2017 and 2018 and at 30 June 2019, respectively, for measuring the exposures to expected credit losses on its contract assets at each reporting period end of the Track Record Period, taking into account of subsequent billings to and settlements from the customers and forward looking information such as the economic and market conditions which might have impacts on the financial performance, positions and cash flows of the Group's customers and, in consequence, the customers' abilities to pay for the considerations for obligations performed by the Group under the contracts.

In the opinion of the directors of the Company, the bad debt rates applied for the measurement of the lifetime ECL of the Group's trade receivables and contract assets at 31 December 2016, 2017 and 2018 and at 30 June 2019 are reasonable and adequate.

The following table provides information about the Group's exposures to credit risk and ECLs for contract assets and trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019:

	<b>As at 31 December 2016</b>				
	<b>Average historic bad debt rate for 2014 to 2015</b>	<b>Lifetime ECL rate</b>	<b>Gross carrying amount</b>	<b>Lifetime ECL</b>	<b>Net carrying amount</b>
			<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets (Note 21)	0%	0.18%	41,751	77	41,674
Trade and bills receivables	4.99%	9.32%	47,698	4,448	43,250
			<u>89,449</u>	<u>4,525</u>	<u>84,924</u>
Collective assessment:					
Not yet due or current	0.49%	0.20%	70,029	140	69,889
Past due					
Within 1 month	0.63%	3.83%	1,515	58	1,457
1 to 3 months	1.83%	4.49%	1,448	65	1,383
3 to 6 months	0.44%	7.91%	1,883	149	1,734
6 to 9 months	0.03%	7.68%	1,419	109	1,310
9 to 12 months	1.87%	5.09%	2,788	142	2,646
1 to 2 years	13.71%	4.79%	4,364	209	4,155
Over 2 years	21.87%	31.41%	3,426	1,076	2,350
Specific assessment:					
Credit impaired	100%	100%	2,577	2,577	—
			<u>89,449</u>	<u>4,525</u>	<u>84,924</u>

	As at 31 December 2017				
	Average historic bad debt rate for 2014 to 2016	Lifetime ECL rate	Gross carrying amount	Lifetime ECL	Net carrying amount
			RMB'000	RMB'000	RMB'000
Contract assets ( <i>Note 21</i> )	0.06%	1.43%	70,202	1,008	69,194
Trade and bills receivables	6.43%	6.12%	111,544	6,829	104,715
			<u>181,746</u>	<u>7,837</u>	<u>173,909</u>
Collective assessment:					
Not yet due or current	0.39%	1.32%	138,007	1,819	136,188
Past due					
Within 1 month	1.70%	3.02%	6,360	192	6,168
1 to 3 months	2.72%	4.14%	13,421	556	12,865
3 to 6 months	2.92%	3.69%	11,856	437	11,419
6 to 9 months	2.60%	8.03%	1,531	123	1,408
9 to 12 months	2.94%	7.60%	2,501	190	2,311
1 to 2 years	10.74%	33.36%	2,452	818	1,634
Over 2 years	25.05%	36.99%	3,041	1,125	1,916
Specific assessment:					
Credit impaired	100%	100%	<u>2,577</u>	<u>2,577</u>	<u>—</u>
			<u>181,746</u>	<u>7,837</u>	<u>173,909</u>

*Note (i)* During the year ended 31 December 2018, there were outright sales of certain receivables with gross invoiced amounts in aggregate of approximately RMB12,352,000 to certain factoring financial institutions, without recourse, at the aggregate consideration of approximately RMB11,453,000. These factored receivables were derecognised during the year ended 31 December 2018. The difference of approximately RMB899,000 between the receipts and the invoiced amounts of these receivables had been subsequently written off and charged as finance cost in the consolidated profit or loss for the year ended 31 December 2018.

	As at 31 December 2018				
	Average historic bad debt rate for 2014 to 2017	Lifetime ECL rate	Gross carrying amount	Lifetime ECL	Net carrying amount
			RMB'000	RMB'000	RMB'000
Contract assets ( <i>Note 21</i> )	0.40%	1.43%	90,557	1,294	89,263
Trade and bills receivables	6.35%	7.00%	132,446	9,265	123,181
			<u>223,003</u>	<u>10,559</u>	<u>212,444</u>
Collective assessment:					
Not yet due or current	0.62%	1.31%	160,600	2,104	158,496
Past due					
Within 1 month	2.03%	3.16%	13,341	422	12,919
1 to 3 months	3.07%	3.87%	3,359	130	3,229
3 to 6 months	3.11%	5.54%	11,957	663	11,294
6 to 9 months	3.96%	5.68%	17,931	1,019	16,912
9 to 12 months	4.11%	10.69%	8,390	897	7,493
1 to 2 years	17.99%	40.29%	2,348	946	1,402
Over 2 years	28.03%	72.04%	2,500	1,801	699
Specific assessment:					
Credit impaired	100%	100%	<u>2,577</u>	<u>2,577</u>	<u>—</u>
			<u>223,003</u>	<u>10,559</u>	<u>212,444</u>

*Note (ii)* During the six months ended 30 June 2019, there were outright sales of certain receivables with gross invoiced amounts in aggregate of approximately RMB1,087,000 to certain factoring financial institutions, without recourse, at the aggregate consideration of approximately RMB1,020,000. These factored receivables were derecognised during the six months ended 30 June 2019. The difference of approximately RMB67,000 between the receipts and the invoiced amounts of these receivables had been subsequently written off and charged as finance cost in the consolidated profit or loss for the six months ended 30 June 2019.



As at 30 June 2019					
	Average historic bad debt rate for 2014 to 2018	Lifetime ECL rate	Gross carrying amount	Lifetime ECL	Net carrying amount
			<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets ( <i>Note 21</i> )	0.59%	2.43%	86,671	2,108	84,563
Trade and bills receivables	6.49%	7.59%	<u>153,431</u>	<u>11,643</u>	<u>141,788</u>
			<u>240,102</u>	<u>13,751</u>	<u>226,351</u>
Collective assessment:					
Not yet due or current	0.78%	1.69%	177,522	3,006	174,516
Past due					
Within 1 month	2.26%	3.72%	13,265	493	12,772
1 to 3 months	3.23%	3.88%	11,419	443	10,976
3 to 6 months	3.57%	5.56%	11,690	650	11,040
6 to 9 months	4.29%	6.83%	5,697	389	5,308
9 to 12 months	5.42%	12.51%	11,711	1,465	10,246
1 to 2 years	21.17%	71.80%	5,295	3,802	1,493
Over 2 years	36.83%	100%	926	926	—
Specific assessment:					
Credit impaired	100%	100%	<u>2,577</u>	<u>2,577</u>	<u>—</u>
			<u>240,102</u>	<u>13,751</u>	<u>226,351</u>

## 23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Contract performance deposits <i>((Note (c) below))</i>	1,594	1,717	1,017	674
Tender deposits <i>(Note (d) below)</i>	2,115	1,745	2,065	1,422
Prepayments for purchases of raw materials	3,382	2,534	4,373	615
Deposits paid for the acquisition of land use rights <i>(Note (e) below)</i>	9,572	—	—	—
Deposits paid for the acquisition of plant and machinery	810	157	110	110
Deposits paid for electricity and natural gas	597	616	632	611
Government subsidies	137	347	—	—
Prepayments	1,611	1,252	1,904	1,174
Prepaid listing expenses <i>(Note (b) below)</i>	—	1,446	2,808	4,454
Other interest receivables	—	—	—	233
Land use rights <i>(Note 17)</i>	21	173	173	173
Rental deposits	—	—	174	147
Others-individually insignificant	702	549	1,340	759
	20,541	10,536	14,596	10,372
Allowance for expected credit losses:				
- Contract performance deposits	—	—	—	(213)
- Deposits paid for acquisition of property, plant and equipment	—	—	—	(110)
	—	—	—	(323)
	<u>20,541</u>	<u>10,536</u>	<u>14,596</u>	<u>10,049</u>

Note:

- (a) All of the above deposits, prepayments and other receivables, net of the allowance for expected credit loss, if any, are expected to be recovered or recognised as expenses within one year or repayable on demand.

- (b) The prepaid listing expenses of NIL, approximately RMB1,446,000, RMB2,808,000 and RMB4,454,000 as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, were related to the proposed fundraising from the Company's new shares to be issued in an IPO and are to be charged to equity and deducted against the proceeds to be raised from the issue of new shares of the Company.
- (c) When a contract is awarded by a customer to the Group, the Group is required to pay a contract performance deposit of approximately 10% of the contract sum as security for the Group's performance in accordance the contract which is made between the Group and the customer. The contract performance deposits are refundable and will be refunded to the Group when the performance obligations promised in the contracts are completed by the Group. The contract performance deposits are not bearing interest and, in the opinion of the directors of the Company, are not intended and regarded as a financing arrangement to the contract customers. At 31 December 2016, 2017 and 2018 and 30 June 2019, provision for impairment of NIL, NIL, NIL and approximately RMB213,000, respectively, was recognised for expected credit loss on these contract performance deposits.
- (d) When the Group submits a bid in the tendering process, the Group is required to make a refundable tender deposit, which is specified on a tender by tender basis, to the prospective customer. The tender deposits will be refunded to the Group when the outcomes of the tenders are confirmed by the prospective customers. The tender deposits are not bearing interest and, in the opinion of the directors of the Company, are not intended and regarded as a financing made by the Group to the prospective customers. At each reporting period end of the Track Record Period, all the tender deposits paid for tender bids can be fully recoverable and no provision for impairment was made during each reporting period of the Track Record Period.
- (e) During the year ended 31 December 2016, the Group paid refundable deposits totaling approximately RMB9,572,000 to the local government for the purpose of converting the Group's collectively-owned land use rights into state-owned land use rights, subject to the public land auction conducted by the relevant authorities. On 12 May 2017, after the public land auction, the Group entered into an agreement with the Land Bureau, pursuant to which, the Group obtained the legitimate title certificate to the state-owned land use rights at an additional cost of RMB7,580,000 which was set off by the application of RMB7,580,000 out of the deposits that were paid by the Group during the year ended 31 December 2016 (Note 17(d)). The excess of the deposits paid amounting to RMB1,992,000 was subsequently refunded during the year ended 31 December 2017.

**24. RESTRICTED BANK DEPOSITS**

Restricted bank balances were pledged as security for issuing commercial bills to suppliers. They are deposited with creditworthy banks with no recent history of default.

**25. CASH AND CASH EQUIVALENTS**

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	2,087	12,957	16,152	14,118
Cash in hand	<u>53</u>	<u>5</u>	<u>3</u>	<u>3</u>
	<u>2,140</u>	<u>12,962</u>	<u>16,155</u>	<u>14,121</u>
Denominated in:				
RMB	1,713	12,638	16,016	14,079
US\$	<u>427</u>	<u>324</u>	<u>139</u>	<u>42</u>
Cash and cash equivalents	<u>2,140</u>	<u>12,962</u>	<u>16,155</u>	<u>14,121</u>

Bank balances carry interest rate at market rates which was 0.35% per annum as at 31 December 2016, 2017 and 2018 and 30 June 2019.

**26. TRADE AND BILLS PAYABLES**

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	47,143	32,787	47,908	31,153
Bills payables	<u>6,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>53,143</u>	<u>32,787</u>	<u>47,908</u>	<u>31,153</u>

An ageing analysis of the trade payables as at the end of each of the Track Record Period, based on the invoice date, is as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Within 1 month	1,079	13,182	13,714	26,615
1 to 3 months	4,360	14,404	20,619	2,449
3 to 6 months	3,088	4,872	10,416	1,348
Over 6 months	38,616	329	3,159	741
	<u>47,143</u>	<u>32,787</u>	<u>47,908</u>	<u>31,153</u>

Trade payables are non-interest bearing and have a credit term ranging from one to two months after invoice date.

## 27. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Accounts payable for acquisition of property, plant and equipment	184	361	190	493
Accounts payable for acquisition of intangible assets	—	28	9	9
Accrued installation costs	9,133	11,461	12,176	9,731
Interest payable	—	676	451	566
Education and construction levies	1,305	1,802	1,487	1,215
Provision for listing expenses	—	581	3,934	8,938
Salaries and bonuses payable	1,067	620	633	614
Value-added-tax payable	8,583	10,896	8,307	6,201
Other payables and accruals	3,174	3,088	3,268	3,188
	<u>23,446</u>	<u>29,513</u>	<u>30,455</u>	<u>30,955</u>

The carrying amounts of accruals and other payables at the each of the reporting period and of the Track Record Period approximate their fair values. All of the accruals and other payables are non-interest bearing, expected to be settled within one year or repayable on demand.

## 28. LEASE LIABILITIES

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Maturity analysis — contractual undiscounted cash flows:				
Less than 1 year	215	695	845	857
1 to 2 years	647	672	850	830
2 to 5 years	2,091	2,166	2,091	1,685
Over 5 years	1,321	574	—	—
Total undiscounted lease liabilities	<u>4,274</u>	<u>4,107</u>	<u>3,786</u>	<u>3,372</u>
Analysed for reporting purpose as:				
Current liabilities	183	549	713	743
Non-current liabilities	<u>3,675</u>	<u>3,173</u>	<u>2,818</u>	<u>2,444</u>
	<u>3,858</u>	<u>3,722</u>	<u>3,531</u>	<u>3,187</u>

The effective interest rate profile of the lease liabilities are disclosed in Note 40(c)(i).

## Amounts recognised in the consolidated statement of financial position

	<i>RMB'000</i>
At 1 January 2016	4,408
Interest charged to profit or loss	313
Payments during the year	<u>(863)</u>
At 31 December 2016 and 1 January 2017	3,858
Interest charged to profit or loss	203
Payments during the year	<u>(339)</u>
At 31 December 2017 and 1 January 2018	3,722
Addition	479
Interest charged to profit or loss	158
Payments during the year	<u>(828)</u>
At 31 December 2018 and 1 January 2019	3,531
Interest charged to profit or loss	71
Payments during the period	<u>(415)</u>
At 30 June 2019	<u><u>3,187</u></u>

## Amounts recognised in the consolidated statement of profit or loss

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Interest on lease liabilities	313	203	158	79	71
Expenses relating to short-term leases	<u>149</u>	<u>263</u>	<u>200</u>	<u>97</u>	<u>114</u>
	<u><u>462</u></u>	<u><u>466</u></u>	<u><u>358</u></u>	<u><u>176</u></u>	<u><u>185</u></u>

## Amounts recognised in the consolidated statement of cash flows

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Interest on leases	313	203	158	79	71
Repayment of lease liabilities	550	136	670	289	344
Total cash outflows for leases	<u>863</u>	<u>339</u>	<u>828</u>	<u>368</u>	<u>415</u>

## 29. BANK BORROWINGS

At 31 December 2016, 2017 and 2018 and 30 June 2019, the analysis of the carrying amount of bank borrowings was as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Repayable within 1 year:</b>				
Unsecured bank loans	—	—	43,500	49,500
Secured bank loans	—	28,500	2,884	49,271
Guaranteed bank loans	—	11,000	4,900	—
Secured and guaranteed bank loans	<u>22,000</u>	<u>24,000</u>	<u>27,000</u>	<u>—</u>
	<u>22,000</u>	<u>63,500</u>	<u>78,284</u>	<u>98,771</u>

At 31 December 2016, 2017 and 2018 and 30 June 2019, all bank borrowings were denominated in RMB and bearing interest at the rates ranging 5.14% to 5.50%, 4.35% to 5.44%, 4.35% to 6.20%, and 4.35% to 6.70%, per annum, respectively.

Included in the secured bank loans at 31 December 2016, 2017 and 2018 and at 30 June 2019 were factoring loans of NIL, NIL, approximately RMB2,884,000 and RMB20,790,000, respectively, arising from factoring trade and bills receivables under the factoring arrangement with Customer I as referred to in Note 22(a).



Note:

- (a) At 31 December 2016, 2017 and 2018 and 30 June 2019, bank borrowings totalling approximately RMB22,000,000, RMB24,000,000, RMB29,884,000 and RMB49,271,000 were secured by the following land use rights, leasehold buildings, trade receivables and bills receivables of the Group, respectively:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying value of the pledged assets:				
Land use rights	1,088	8,559	8,386	8,300
Leasehold buildings	10,218	9,967	9,313	8,986
Trade receivables	—	—	3,567	25,621
Bills receivables	—	—	—	1,517
	<u>11,306</u>	<u>18,526</u>	<u>21,266</u>	<u>44,424</u>

- (b) At 31 December 2016, 2017 and 2018 and 30 June 2019, certain bank borrowings of approximately RMB22,000,000, RMB35,000,000, RMB27,000,000, and NIL were jointly guaranteed by Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively.

At 31 December 2016, 2017 and 2018 and 30 June 2019, certain bank borrowings of approximately RMB18,000,000, RMB35,000,000, NIL and NIL, respectively, were guaranteed by an independent third party, Changzhou Qianghua (as referred to in Note 36(b) below), which is a supplier of raw materials of the Group throughout the Track Record Period.

- (c) At 31 December 2016, 2017 and 2018 and 30 June 2019, bank borrowings of NIL, approximately RMB28,500,000, and NIL, and NIL were jointly secured by the bank deposits jointly owned by Mr. Shen and Mrs. Shen of NIL, approximately RMB30,000,000, NIL and NIL, respectively.

At 31 December 2018, a bank borrowing of approximately RMB4,900,000 was secured by the personal insurance policy in favour of Mrs. Shen for an insured sum of approximately RMB5,900,000.

- (d) At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group had banking and other borrowings facilities totaling approximately RMB45,000,000, RMB45,000,000, RMB94,500,000 and RMB77,981,000, respectively, which were utilised to the extent of approximately RMB22,000,000, RMB35,000,000, RMB75,400,000 and RMB77,981,000, respectively, and the Group's available unused credit facilities amounted to approximately RMB23,000,000, RMB10,000,000, RMB19,100,000 and NIL, respectively.

**30. OTHER BORROWINGS**

At 31 December 2016, 2017 and 2018 and 30 June 2019, the analysis of the carrying amount of other borrowings was as follows:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
<b>Repayable within 1 year:</b>				
Unsecured other borrowings				
(Notes (a) and (b))	—	20,000	—	—
	—	20,000	—	—

*Note:*

- (a) On 8 June 2017 and 3 August 2017, JiaChen Floor and an independent third party lender, 常州市美侖木業有限公司 (Changzhou Meilun Wood Industry Co., Ltd\*) (“Changzhou Meilun”) entered into a loan agreement, under which Changzhou Meilun provided short-term loans of approximately RMB6,000,000 and RMB8,000,000 to JiaChen Floor, respectively. At 31 December 2017, the two loans of approximately RMB6,000,000 and RMB8,000,000 were unsecured, interest bearing at the rate of 5.44% per annum and were fully repaid on 9 February 2018 and 11 February 2018, respectively.
- (b) On 19 January 2017, JiaChen Floor and 深圳前海華威資產管理有限公司 (Shenzhen Qianhai Huawei Asset Management Co., Ltd\*) (“Qianhai Huawei”), entered into a loan agreement, under which Qianhai Huawei provided a short-term loan of approximately RMB6,000,000 to JiaChen Floor. At 31 December 2017, the short-term loan amounted to approximately RMB6,000,000 which was unsecured, bearing interest at the rate of 5.44% per annum and repayable on 18 January 2018. On 18 January 2018, JiaChen Floor and Qianhai Huawei entered into a supplemental loan agreement, based on which, Qianhai Huawei extended the repayment date of the loan from 18 January 2018 to 31 December 2018, with other terms remained unchanged. In the opinion of the directors of the Company, there was no significant change in the fair value of this loan and its carrying amount at 18 January 2018 when its maturity was extended to 31 December 2018. This loan was fully repaid by JiaChen Floor during the year ended in December 2018.

20% and 80% of the registered capital of Qianhai Huawei are respectively owned by an independent third party and another private company, which is established in the PRC and all of its registered capital are owned by Ms. Yan, her parents and two sisters. Ms. Yan, through Crystal Breeze Ventures, has held 1.27% equity interest in the Company. Neither Ms. Yan nor any of her family members has participated in the management of the Group during the Track Record Period.

## 31. INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## (a) Taxation in the consolidated statements of financial position represents:

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax payable				
At the beginning of the year/period	1,830	5,344	2,101	4,860
Provision for the year/period	3,902	3,622	6,788	2,697
Tax paid	(388)	(6,865)	(4,029)	(4,962)
Tax payable	<u>5,344</u>	<u>2,101</u>	<u>4,860</u>	<u>2,595</u>

## (b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Track Record Period are as follows:

	Provision for asset impairment	Other temporary differences	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2016	621	(89)	532
Credited to profit or loss	<u>58</u>	<u>378</u>	<u>436</u>
At 31 December 2016 and 1 January 2017	679	289	968
Credited to profit or loss	<u>497</u>	<u>—</u>	<u>497</u>
At 31 December 2017 and 1 January 2018	1,176	289	1,465
Credited to profit or loss	<u>1,464</u>	<u>192</u>	<u>1,656</u>
At 31 December 2018 and 1 January 2019	2,640	481	3,121
Credited to profit or loss	<u>798</u>	<u>—</u>	<u>798</u>
At 30 June 2019	<u>3,438</u>	<u>481</u>	<u>3,919</u>

**(c) Deferred tax assets and liabilities not recognised:**

At the end of each of the Track Record Period, potential deferred tax liabilities in respect of undistributed profits of PRC subsidiaries have not been provided as the Group can control the dividend policy of these subsidiaries in the PRC and these PRC subsidiaries of the Company have no plans to distribute profits that are subject to PRC dividend withholding tax in the foreseeable future.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the aggregate amounts of undistributed profits of JiaChen Floor, which is the key operating subsidiary of the Group in the PRC, for which the deferred tax liabilities have not been recognised, were approximately RMB35,317,000, RMB54,919,000 and RMB77,278,000 and RMB83,568,000, respectively. No deferred tax liability has been recognised in respect of these temporary differences because the Group can control the dividend policy of JiaChen Floor and accordingly, the Group can control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Apart from the above, there were no other material unrecognised deferred tax assets and liabilities at 31 December 2016, 2017 and 2018 and 30 June 2019.

**32. SHARE CAPITAL AND RESERVES**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity.

**(a) Share Capital**

The Company was incorporated in the Cayman Islands on 7 July 2017 as an exempted company with limited liability and with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each.

The Company allotted and issued 5,099 (including 1 subscriber ordinary share of HK\$0.01), 3,125 and 1,776 new ordinary shares of HK\$0.01 each of the Company, credited as fully paid, to Jiachen Investment, Xinchun Investment and Yilong Investment, which are beneficially owned by Mr. Shen, Mrs. Shen and Mr. Shen MH, respectively, upon its incorporation on 7 July 2017, and 1 additional new ordinary share of HK\$0.01 each of the Company, credited as fully paid, to Jiachen Investment on 15 March 2018, in exchange of which, on 23 January 2018, the Company indirectly obtained a total of 97.74% equity interests in JiaChen Floor from Mr. Shen, Mrs. Shen and Mr. Shen MH, resulting from their capital contributions in form of all their then direct beneficial interests in, totaling, 98.73% of the registered capital of JiaChen Floor (as enlarged after completion of the capital contribution by Victor Best Investment as referred to in Note 2(a)(vii)) to Changzhou Jintai, an indirect 99%-owned subsidiary of the Company, in the First Equity Swap as further detailed in Note 2(a)(viii) above.

As disclosed in Note 2(a)(vii), immediately prior to the First Equity Swap completed on 23 January 2018, Victor Best Investment, a direct wholly-owned subsidiary of Rui Xing Holdings, had paid up capital contribution of RMB1,735,000 to JiaChen Floor for 1.27% of its enlarged registered capital based on an agreement entered into between Mr. Shen, Mrs. Shen and Mr. Shen MH and Victor Best Investment on 18 December 2017. On 15 March 2018, the Company allotted and issued 129 new ordinary shares of HK\$0.01 each of the Company, credited as fully paid, to Crystal Breeze Ventures in exchange for the entire issued capital of Rui Xing Holdings in the Second Equity Swap completed on 15 March 2018 as further detailed in Note 2(a)(ix).

Since 15 March 2018, pursuant to the Reorganisation as detailed in Note 2(a), and up to the date of this report, the Company has indirectly held a total of 99.01% equity interests in JiaChen Floor.

Since 15 March 2018 and up to the date of this report, there are 10,130 ordinary shares of HK\$0.01 each of the Company in issue, of which, 50.34%, 30.85%, 17.54% and 1.27% are held by Jiachen Investment, Xincheng investment, Yilong Investment and Crystal Breeze Ventures, respectively.

The owners of the shares of the Company are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

At 1 January 2016, 31 December 2016 and 2017, the share capital of the Group in the amount of approximately RMB60,192,000, RMB60,192,000 and RMB60,192,000, respectively, represented 99%, 99% and 99% of the registered capital of JiaChen Floor that were indirectly transferred to the Group by Mr. Shen, Mrs. Shen and Mr. Shen MH under the First Equity Swap completed on 23 January 2018 and for the purpose of this report, as set out in the basis of presentation in Note 2(b), it has been presented as if 99% of registered capital of JiaChen Floor had been held by the Group prior to the beginning of the Track Record Period.

At 31 December 2018, the share capital of the Group was RMB88 (equivalent to HK\$101.30) which represented the nominal value of 10,130 ordinary shares of HK\$0.01 of the Company issued under the First Equity Swap and Second Equity Swap in accordance with the Reorganisation pursuant to which the Company has held, indirectly a total of 99.01% of registered capital of JiaChen Floor. The excess of 99.01% of registered capital of JiaChen Floor, that were indirectly transferred to the Company as to 97.74% under the First Equity Swap on 23 January 2018 and 1.27% under Second Equity Swap on 15 March 2018, over the nominal value of these 10,130 ordinary shares of HK\$0.01 of the Company issued therefor, totaling approximately RMB61,927,000 was reclassified from the share capital of the Group to "Share Premium" during the year ended 31 December 2018, as referred to in Note 32(d)(i).

**(b) Capital reserve of the Group**

The Group's capital reserve arose from the Reorganisation as referred to in Note 2(a) above and included mainly the following:

- (i) 99% of deemed contribution of approximately RMB740,000 by Mr. Shen, in his capacity as one of the Controlling Shareholders of JiaChen Floor, the Company and the Group, arising from the transfer of 51% equity interest in Jia Li Si by JiaChen Floor to Mr. Shen, as mentioned in Note 2(a)(i) above, represented the difference between the consideration received by JiaChen Floor of RMB1,148,000 from Mr. Shen and the investment cost in Jia Li Si of RMB408,000. In accordance with the basis of presentation as disclosed in Note 2(b), Jia Li Si was deemed as having been carved-out and transferred to Mr. Shen at the beginning of the Track Record Period.
- (ii) 99% of deemed contribution of approximately RMB848,000 by Mr. Shen, in his capacity as one of the Controlling Shareholders of JiaChen Floor, the Company and the Group, arising from the transfer of 84.77% equity interest in Jiachen Machinery Plant by JiaChen Floor to Mr. Shen, as mentioned in Note 2(a)(ii) above, represented the difference between the consideration of approximately RMB11,698,000 received by JiaChen Floor from Mr. Shen over the cost of investment in Jiachen Machinery Plant of approximately RMB10,850,000. In accordance with the basis of presentation as disclosed in Note 2(b), Jiachen Machinery Plant was deemed as having been carved out and transferred to Mr. Shen at the beginning of the Track Record Period.

**(c) Statutory reserve of the Group**

In accordance with the PRC Company Law, certain subsidiaries of the Company which are domestic subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserve until the reserve reaches 50% of their respective registered capital. Subject to certain restrictions set out in the PRC Company Law, part of the statutory reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of the relevant domestic subsidiaries.

## (d) Statements of changes in equity of the Company

	Reserves						Total
	Share capital	Share Premium	Capital Reserve	Contributed Surplus	Retained Profits	Subtotal	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		(Note (i))	(Note (ii))	(Note (iii))			
<b>At 1 January 2017</b>	—	—	—	—	—	—	—
Issue of 10,000 new ordinary shares of HK\$0.01 each of the Company upon incorporation on 7 July 2017 (Note 2(a)(iii))	—	—	—	—	—	—	—
Loss for the year	—	—	—	—	—	—	—
<b>At 31 December 2017</b>	—	—	—	—	—	—	—
Effects of First Equity Swap on 23 January 2018 (Notes 2(a)(iii) and (viii))	—	60,192	11,155	62,183	—	133,530	133,530
Issuance of 1 new ordinary share of HK\$0.01 each of the Company on 15 March 2018 (Note 2(a)(iii))	—	—	—	—	—	—	—
Issuance of 129 new ordinary shares of HK\$0.01 each of the Company in the Second Equity Swap on 15 March 2018 (Note 2(a)(ix))	—	1,735	—	—	—	1,735	1,735
Loss for the year	—	—	—	—	—	—	—
<b>At 31 December 2018</b>	—	61,927	11,155	62,183	—	135,265	135,265
Loss for the period	—	—	—	—	(12)	(12)	(12)
<b>At 30 June 2019</b>	—	61,927	11,155	62,183	(12)	135,253	135,253

	Reserves						Total
	Share capital	Share Premium	Capital Reserve	Contributed Surplus	Retained Profits	Subtotal	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		(Note (i))	(Note (ii))	(Note (iii))			
<b>At 1 January 2018</b>	—	—	—	—	—	—	—
Effects of First Equity Swap on 23 January 2018 (Notes 2(a)(iii) and (viii))	—	60,192	11,155	62,183	—	133,530	133,530
Issuance of 1 new ordinary share of HK\$0.01 each of the Company on 15 March 2018 (Note 2(a)(iii))	—	—	—	—	—	—	—
Issuance of 129 new ordinary shares of HK\$0.01 each of the Company in the Second Equity Swap on 15 March 2018 (Note 2(a)(ix))	—	1,735	—	—	—	1,735	1,735
Loss for the period	—	—	—	—	—	—	—
<b>At 30 June 2018 (unaudited)</b>	<u>—</u>	<u>61,927</u>	<u>11,155</u>	<u>62,183</u>	<u>—</u>	<u>135,265</u>	<u>135,265</u>

(i) *Share Premium of the Company*

Under the Companies Law of Cayman Islands, the funds at the share premium account are distributable to the Company's shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

At 31 December 2018, the share premium represented the excess of the capital contributions of (a) approximately RMB60,192,000 attributable to 97.74% of registered capital of JiaChen Floor that were indirectly transferred to the Company under the First Equity Swap as referred to in Note 2(a)(viii), over the nominal value totaling RMB100 in respect of a total of 10,001 ordinary shares of HK\$0.01 of the Company allotted and issued to Jiachen Investment (wholly-owned by Mr. Shen), Xinchen Investment (wholly-owned by Mrs. Shen), Yilong Investment (wholly-owned by Mr. Shen MH as referred to in Note 2(a)(iii), and (b) approximately RMB1,735,000 in respect of 1.25% of registered capital of JiaChen Floor indirectly transferred to the Company under Second Equity Swap over the nominal value of HK\$1.29 in respect of 129 ordinary shares of HK\$0.01 of the Company allotted and issued to Crystal Breeze Ventures under the Second Equity Swap as referred to in Note 2(a)(ix), under the Reorganisation.



At 31 December 2017, the share premium of the Company was NIL as the Reorganisation was not yet completed.

*(ii) Capital reserve of the Company*

At 31 December 2018, the capital reserve of the Company represented the gain arising from the Reorganisation under which a total of 97.7427% equity interests of JiaChen Floor was indirectly transferred by Mr. Shen, Mrs. Shen and Mr. Shen MH to the Group under the First Equity Swap on 23 January 2018.

At 31 December 2017, the capital reserve of the Company was NIL as the Reorganisation was not yet completed.

*(iii) Contributed surplus of the Company*

The contributed surplus represented the excess of the net assets of JiaChen Floor over the nominal value amounting to approximately RMB88 (equivalent to HK\$101.30) in respect of a total of 10,130 ordinary new shares of HK\$0.01 each of the Company allotted and issued by the Company to Jiachen Investment (wholly-owned by Mr. Shen), Xinchun Investment (wholly-owned by Mrs. Shen) and Yilong Investment (wholly-owned by Mr. Shen MH), in the First Equity Swap as referred to in Note 2(a)(iii), and Crystal Breeze Ventures in the Second Equity Swap as referred to in Note 2(a)(ix), in accordance with the Reorganisation, and share premium of approximately RMB61,927,000, as set out in Note 32(d)(i), in relation to Reorganisation involving a total of 99.01% of registered capital of JiaChen Floor, of which, 97.74% and 1.27% were indirectly transferred to the Company under the First Equity Swap as referred to in Note 2(a)(viii) and the Second Equity Swap as referred to in Note 2(a)(ix), respectively.

**(e) Distributable reserves**

At 31 December 2016, 2017 and 2018 and 30 June 2019, the distributable reserves of the Group amounted to approximately RMB36,889,000, approximately RMB56,491,000 and approximately RMB78,846,000 and approximately RMB85,136,000, respectively.

During the Track Record Period, no dividend was declared and paid to the shareholders of the Company.

### 33. NON-CONTROLLING INTERESTS AND MATERIAL PARTIALLY-OWNED SUBSIDIARIES

Upon completion of the First Equity Swap on 23 January 2018 as part of the Reorganisation as set out in Note 2(a)(viii), Mr. Shen, Mrs. Shen and Mr. Shen MH have continued to hold a total of 0.99% equity interests in JiaChen Floor through their direct holdings of a total of 1% of the registered capital of Changzhou Jintai to which a total of 98.73% equity interests in JiaChen Floor was transferred by Mr. Shen, Mrs. Shen and Mr. Shen MH on 23 January 2018. In accordance with the basis of presentation as set out in Note 2(b), all of these 0.99% and 1% of equity interests in JiaChen Floor and Changzhou Jintai, which are held by Mr. Shen, Mrs. Shen and Mr. Shen MH but not held by the Company and the Group since the completion of the Reorganisation and up to the date of this report, have been presented as non-controlling interests at the beginning of the Track Record Period (as for JiaChen Floor) and since the date of establishment (as for Changzhou Jintai), respectively.

During the Track Record Period and up to the date of this report, JiaChen Floor is key operating entity of the Group. Since the consolidated statements of profit or loss and other comprehensive income, consolidated statements of cash flows, consolidated statements of financial position of the Group for the Track Record Period were mainly represented by that of JiaChen Floor, which is a material non-wholly owned subsidiary of the Group and the Company, the financial statements of JiaChen Floor for the Track Record Period are not separately disclosed.

Changzhou Jintai has no other material transactions apart from those relating to the Reorganisation and it has no material contributions to the operating results, cash flows, assets and liabilities of the Group, since its date of establishment during the Track Record Period.

### 34. PLEDGE OF ASSETS

At each reporting period end of the Track Record Period, the following assets of the Group were pledged for the Group's bank and other borrowings:

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights	1,088	8,559	8,386	8,300
Leasehold buildings	10,218	9,967	9,313	8,986
Trade receivables	—	—	3,567	25,621
Bills receivables	—	—	—	1,517
	<u>11,306</u>	<u>18,526</u>	<u>21,266</u>	<u>44,424</u>

**35. COMMITMENTS****(a) Operating lease commitments**

*The Group as lessee*

The Group leases certain of its staff quarter under operating lease arrangements. The leases are negotiated for terms ranging from one year to three years during the Track Record Period. Certain leases are cancellable with notice periods ranging from one to three months.

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	57	123	185	116

Upon the Group's election to early adopt HKFRS 16 as further detailed in Note 3(a) above, the Group recognised lease liability for all leases with a term of more than twelve months. The resulting impact on the consolidated statement of profit or loss and the consolidated statement of cash flows are disclosed in Note 28.

**(b) Capital commitments**

The Company and the Group had no material capital commitments at 31 December 2016, 2017 and 2018 and 30 June 2019.

**36. CONTINGENT LIABILITIES**

- (a) During year ended 31 December 2016, JiaChen Floor provided corporate guarantees to the extent of approximately RMB11,000,000 and approximately RMB7,000,000 in favour of a bank for bank loans granted to two independent third party suppliers, 常州市強華鍍錫薄板有限公司 (Changzhou Qianghua Tinning Thin Board Co., Ltd\*) ("Changzhou Qianghua") and 常州市康美木業有限公司 (Changzhou Kangmei Wood Industry Co., Ltd\*), ("Changzhou Kangmei"), respectively. These two corporate guarantees were fully released upon the full settlement of the relevant bank loans by Changzhou Qianghua and Changzhou Kangmei in February 2017 and October 2017, respectively. In the opinion of the directors of the Company, the fair values of the corporate guarantees provided to the two suppliers were insignificant, as the probability of defaults by these two suppliers were considered to be low at 31 December 2016 and during the period up to the respective dates of their releases.

- (b) At 31 December 2016, 2017 and 2018 and 30 June 2019, as set out in Note 29(b), Changzhou Qianghua provided corporate guarantees for JiaChen Floor's bank borrowings of approximately RMB18,000,000, RMB35,000,000, NIL and NIL, respectively, which were drawn down and applied by JiaChen Floor towards settling the trade debts payable to Changzhou Qianghua. In the opinion of the directors of the Company, the fair value of the corporate guarantee provided by this supplier was insignificant, as the probability of defaults by JiaChen Floor was considered to be low at 31 December 2016, 2017 and 2018 and 30 June 2019.

Other than the above, the Group and the Company did not provided any guarantees for its suppliers or other parties and did not have other material contingent liabilities at each reporting period end of the Track Record Period.

### 37. RELATED PARTY TRANSACTIONS

During the Track Record Period and up to the date of this report, the Group has been under the same control by Mr. Shen, Mrs. Shen and Mr. Shen MH and Mr. Shen, who owns 50.34% beneficial interest of the Company through Jiachen Investment, is the ultimate controlling party.

#### (a) Relationship

<b>Name of the related parties</b>	<b>Relationship with the Company</b>
Jiachen Investment Limited ("Jiachen Investment")	Being wholly owned by Mr. Shen, has directly held 50.34% of the issued capital of the Company after the Reorganisation and at the date of this report.
Xinchen Investment Limited ("Xinchen Investment")	Being wholly-owned by Mrs. Shen, has directly held 30.85% of the issued capital of the Company after the Reorganisation and at the date of this report.
Yilong Investment Limited ("Yilong Investment")	Being wholly-owned by Mr. Shen MH, has directly held 17.54% of the issued capital of the Company after the Reorganisation and at the date of this report.
Mr. Shen	Sole beneficial owner of Jiachen Investment and an executive director of the Company.
Mrs. Shen or Ms. Zhang	Sole beneficial owner of Xinchen Investment and an executive director of the Company.
Mr. Shen MH	Sole beneficial owner of Yilong Investment and an executive director of the Company.

Name of the related parties	Relationship with the Company
Mr. Chen	General manager of JiaChen Floor throughout the Track Record Period, chief executive officer and executive director of the Company since 19 June 2019.
章玲燕 (Ms. Zhang Lingyan)	Supervisor and office administration manager of JiaChen Floor, a niece of Mrs. Shen and Mr. Shen and a cousin of Mr. Shen MH.
朱龍珍 (Ms. Zhu Long Zhen)	Mother-in-law of Ms. Zhang Lingyan.
章亞琴 (Ms. Zhang Ya Qin)	Sister of Mrs. Shen.
趙林章 (Mr. Zhao Lin Zhang)	Spouse of Ms. Zhang Ya Qin.
趙浩煥 (Mr. Zhao Hao Huan)	Head of Purchase Department of JiaChen Floor up to 31 December 2017, son of Ms. Zhang Ya Qin and Mr. Zhao Lin Zhang and a nephew of Mrs. Shen and Mr. Shen.
常州市佳辰機房設備有限公司 (Changzhou Jiachen Machinery Plant Co., Ltd*) ("Jiachen Machinery Plant")	15.23% and 84.77% of its registered capital are owned by Mrs. Shen and Mr. Shen, respectively. On 26 December 2016, as part of the Reorganisation, 84.77% of its registered capital was transferred by JiaChen Floor to Mr. Shen as referred to in Note 2(a)(ii).
常州市佳麗斯石塑地板 有限公司 (Changzhou Jia Li Si Stone Sculpture Floor Co., Ltd*) ("Jia Li Si")	Prior to 12 December 2016, 51% of registered capital of Jia Li Si was held by JiaChen Floor and on 12 December 2016, as part of the Reorganisation, it was first transferred to Mr. Shen who subsequently transferred it to the other shareholder of Jia Li Si, with whom Mr. Shen, Mrs. Shen and Mr. Shen MH have no relationship, on 22 December 2016 as referred to in Note 2(a)(i).
江蘇佳申樂商貿有限公司 (Jiangsu Jia Shen Le Trading Co., Ltd*) ("Jia Shen Le")	It is wholly-owned by Mr. Shen, who acquired 61% of its registered capital from JiaChen Floor on 26 December 2016, as part of the Reorganisation, as referred to in Note 2(a)(ii).

In accordance with the basis of presentation as disclosed in Note 2(b), Jiachen Machinery Plant, Jia Li Si and Jia Shen Le, being former subsidiaries of JiaChen Floor, have been presented as if they had been carved out and excluded from the Group at the beginning of the Track Record Period.

## b) Transactions with related parties

Other than those transactions and balances disclosed elsewhere in the Historical Financial Information, the following transactions were carried out with related parties during each of the Track Record Period:

Name of related party	Nature of transactions	Year ended 31 December			Six months ended
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
Jiachen Machinery Plant	Disposal of plant and equipment	348	—	—	—
	Purchase of plant and equipment	491	—	—	—

The above transactions were carried out in the ordinary course of business of the Group and at the terms mutually agreed by the respective parties.

## c) Amount due from a shareholder and director

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Non-trade in nature:				
Mrs. Shen	275	—	—	—
Maximum outstanding balance during the year/period	275	—	—	—

The amount due from Mrs. Shen was unsecured, interest-free and repayable on demand.

## d) Amounts due to shareholders and directors

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade in nature:				
Mr. Shen	14,678	3	3	3
Mr. Shen MH	500	14	849	18
Mrs. Shen	—	—	—	—
	<u>15,178</u>	<u>17</u>	<u>852</u>	<u>21</u>

Prior to 1 January 2016, an amount due to Mrs. Shen was approximately RMB11,416,000 which was fully repaid by the Group on 30 December 2016.

At 31 December 2018, an amount due to Mr. Shen MH was approximately RMB849,000 which was fully repaid by the Group by May 2019.

These amounts due are unsecured, interest-free and repayable on demand.

Subsequent to 30 June 2019, all the above current balances payable to Mr. Shen and Mr. Shen MH were settled by the Group.

The interests implicit on the advances from the above shareholders and directors of the Company during the Track Record Period are set out in Note 37(i).

## e) Amount due to a related party

	As at 31 December			As at
	2016	2017	2018	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-trade in nature:				
Jiachen Machinery Plant	—	—	—	—

Prior to 1 January 2016, an amount due by the Group of approximately RMB4,814,000 was unsecured, interest-free and fully repaid by the Group on 30 December 2016.

The interest implicit on the advances from the above related party, over which Mr. Shen and Mrs. Shen have control during the Track Record Period, is set out in Note 37(i).

## f) Loans from related parties

	As at 31 December			As at
	2016	2017	2018	30 June
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
<b>Current liabilities</b>				
Non-trade in nature:				
Ms. Zhu Long Zhen ( <i>Notes (i) and (v)</i> )	—	—	—	—
	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Non-current liabilities</b>				
Non-trade in nature:				
Mr. Zhao Lin Zhang ( <i>Notes (ii), (iv) and (v)</i> )	—	3,270	—	—
Ms. Zhang Ya Qin ( <i>Notes (iii), (iv) and (v)</i> )	—	3,500	—	—
	—	6,770	—	—
	<u>—</u>	<u>6,770</u>	<u>—</u>	<u>—</u>

*Note:*

- (i) During the year ended 31 December 2016, the Group obtained other short-term loans of approximately RMB3,000,000, RMB11,000,000 and RMB6,000,000 from Ms. Zhu Long Zhen, to whom all the proceeds of these loans to the Group were ultimately provided by Mrs. Shen, which were unsecured, interest-free and fully repaid during the year ended 31 December 2016. During the years ended 31 December 2017 and 2018 and six months ended 30 June 2019, there was no loan payable to Ms. Zhu Long Zhen.

At 31 December 2016, 2017 and 2018 and 30 June 2019, the loan payable to Ms. Zhu Long Zhen of NIL, NIL, NIL and NIL, respectively, was unsecured, interest-free and repayable within one year.

- (ii) On 20 September 2017, the Group and Mr. Zhao Lin Zhang entered into a loan agreement, pursuant to which, the Group obtained a loan of approximately RMB3,270,000 from Mr. Zhao Lin Zhang to whom all the proceed of the loan to the Group was ultimately provided by Mrs. Shen. At 31 December 2016, 2017 and 2018 and 30 June 2019, the loan payable to Mr. Zhao Lin Zhang of NIL, approximately RMB3,270,000, NIL and NIL, respectively, was unsecured, interest-free and repayable on 19 September 2019.
- (iii) On 9 October 2017, the Group and Ms. Zhang Ya Qin entered into a loan agreement, pursuant to which, the Group obtained a loan of approximately RMB3,500,000 from Ms. Zhang Ya Qin to whom all the proceed of the loan to the Group was ultimately provided by Mrs. Shen. At 31 December 2016, 2017 and 2018 and 30 June 2019, the loan payable to Ms. Zhang Ya Qin of NIL, approximately RMB3,500,000, NIL and NIL, respectively, was unsecured, interest-free and repayable on 8 October 2019.



- (iv) The two loans from Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin, to whom all the proceeds of these two loans to the Group were ultimately provided by Mrs. Shen in 2017, were fully repaid by the Group in August 2018. There was no outstanding loan payable for Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin at 31 December 2018 and 30 June 2019.

Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin are the parents of Mr. Zhao Hao Huan, being the Head of Purchase Department of the Group for the period up to 31 December 2017 during the Track Record Period and a nephew of Mr. Shen and Mrs. Shen.

- (v) Ms. Zhu Long Zhen, Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin are the relatives of Mrs. Shen and close family members of Ms. Zhang Lingyan and Mr. Zhao Hao Huan, respectively, being two of the key management personnel of the Group which is controlled by Mr. Shen, Mrs. Shen and Mr. Shen MH, when the above interest-free loans were made to the Group during the Track Record Period. Ms. Zhu Long Zhen, Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin acted as nominees of Mrs. Shen for the purpose of providing the Group with the above interest-free loans, of which, all the loan proceeds were ultimately provided by Mrs. Shen at no interest during the Track Record Period.

The interests implicit on the above loans payable to Ms. Zhu Long Zhen, Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin during the Track Record Period are set out in Note 37(i).

**(g) Financial assistance rendered by the shareholders for the Group's borrowings**

- (i) At each reporting end of the Track Record Period, the shareholders of the Company provided guarantees for bank borrowings of the Group as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Personal guarantees for bank borrowings</b>				
<i>(Note 29(b))</i>				
- jointly provided by Mr. Shen, Mrs. Shen and Mr. Shen MH	22,000	35,000	27,000	—

- (ii) At 31 December 2016, 2017 and 2018, bank deposits jointly owned by Mr. Shen and Mrs. Shen of NIL, approximately RMB30,000,000 and NIL were pledged to secure the bank borrowings of the Group of NIL, approximately RMB28,500,000 and NIL, respectively. At 31 December 2018, the pledge of the bank deposits of Mr. Shen and Mrs. Shen was fully released when the relevant bank borrowings of approximately RMB28,500,000 were fully repaid by the Group during the year ended 31 December 2018.

- (iii) At 31 December 2018, personal insurance policy of Mrs. Shen with an insured sum of approximately RMB5,900,000 has been pledged to secure a bank borrowing of approximately RMB4,900,000. There was no such personal insurance policy of Mrs. Shen, Mr. Shen and Mr. Shen MH pledged for the Group's borrowings at 31 December 2016 and 2017.
- (iv) In the opinion of the directors of the Company, the fair value of the financial assistance in forms of the personal guarantees, pledge of personal bank deposits and personal insurance policy, as disclosed above, as security for the Group's bank borrowings was insignificant as the probability of the Group's default in the repayment of the relevant bank borrowings was considered to be low.

**(h) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 12 and the highest paid employees as disclosed in Note 13, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Salaries and other emoluments	395	809	750	406	396
Pension scheme contributions	82	265	196	121	71
	<u>477</u>	<u>1,074</u>	<u>946</u>	<u>527</u>	<u>467</u>

The above remuneration to key management personnel of the Group is included in "staff costs" (Note 10).

**(i) Interest on loans from related parties and amounts due to shareholders**

For the purpose of this report, interests implicit on the amounts due to the shareholders and directors, a related party and loans from related parties, as disclosed in (d), (e) and (f) above, respectively, are recognised and charged to the profit or loss for the respective year/period during the Track Record Period as follows:

Name of related party	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Mr. Shen	500	1,102	—	—	—
Mr. Shen MH	32	6	—	—	—
Mrs. Shen	45	—	—	—	—
Jiachen Machinery Plant	198	—	—	—	—
Ms. Zhu Long Zhen	664	—	—	—	—
Mr. Zhao Lin Zhang	—	56	104	83	—
Ms. Zhang Ya Qin	—	44	112	89	—
	1,439	1,208	216	172	—

The above implicit interests, which are determined with reference to prevailing bank borrowing rates of 5.4%, 5.11% and 5.46% per annum, on the outstanding interest-free current account balances payable to Mr. Shen, Mrs. Shen and Mr. Shen MH, being the shareholders and directors of the Company, and Jiachen Machinery Plant, being a related company controlled by Mr. Shen and Mrs. Shen, and the interest-free loans payable to Ms. Zhu Long Zhen, Mr. Zhao Lin Zhang and Ms. Zhang Ya Qin who acted as nominees of Mrs. Shen for the purpose of providing the Group with these interest-free loans, as further disclosed in Note 37(f), of which, all the loan proceeds were ultimately provided by Mrs. Shen, were recognised as finance costs charged to the consolidated statements of profit or loss and credited as deemed contributions from the shareholders of the Company dealt with in the consolidated statements of changes in equity for the three years ended 31 December 2016, 2017 and 2018, respectively, during the Track Record Period.

## 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## (a) Reconciliation of liabilities arising from financing activities and amount due to a related party

The table below details changes in the Group's liabilities from financing activities and amount due to a related party, including cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities:

	Financing activities						Total
	Bank borrowings	Other borrowings	Loans from related parties	Amounts due to shareholders and directors	Lease liabilities	Amount due to a related party	
	RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 37(f))	RMB'000 (Note 37(d))	RMB'000 (Note 28)	RMB'000 (Note 37(e))	RMB'000
<b>At 1 January 2016</b>	18,000	946	2,796	20,144	4,408	4,814	51,108
<b>Changes from cash flows:</b>							
Proceeds from new borrowings	22,000	—	20,000	—	—	—	42,000
Advances received from a related party	—	—	—	—	—	2,452	2,452
Repayment of borrowings	(18,000)	(946)	(22,796)	—	—	—	(41,742)
Payment of lease liabilities	—	—	—	—	(550)	—	(550)
Repayments of advances to shareholders/related party	—	—	—	(4,966)	—	(7,266)	(12,232)
Interest paid	(1,185)	(94)	—	—	(313)	—	(1,592)
Total changes from cash flows	2,815	(1,040)	(2,796)	(4,966)	(863)	(4,814)	(11,664)
<b>Other non-cash changes:</b>							
Interest expenses	1,185	94	664	577	313	198	3,031
Deemed contributions (Note 37(i))	—	—	(664)	(577)	—	(198)	(1,439)
Unpaid interest	—	—	—	—	—	—	—
Total other non-cash changes	1,185	94	—	—	313	—	1,592
<b>At 31 December 2016 and 1 January 2017</b>	22,000	—	—	15,178	3,858	—	41,036

Financing activities							
	Bank borrowings	Other borrowings	Loans from related parties	Amounts due to shareholders and directors	Lease liabilities	Amount due to a related party	Total
	<i>RMB'000</i> <i>(Note 29)</i>	<i>RMB'000</i> <i>(Note 30)</i>	<i>RMB'000</i> <i>(Note 37(f))</i>	<i>RMB'000</i> <i>(Note 37(d))</i>	<i>RMB'000</i> <i>(Note 28)</i>	<i>RMB'000</i> <i>(Note 37(e))</i>	<i>RMB'000</i>
<b>Changes from cash flows:</b>							
Proceeds from new borrowings	63,500	20,000	6,770	—	—	—	90,270
Repayment of borrowings	(22,000)	—	—	—	—	—	(22,000)
Payment of lease liabilities	—	—	—	—	(136)	—	(136)
Repayments of advances to shareholders	—	—	—	(15,161)	—	—	(15,161)
Interest paid	(1,593)	—	—	—	(203)	—	(1,796)
Total changes from cash flows	<u>39,907</u>	<u>20,000</u>	<u>6,770</u>	<u>(15,161)</u>	<u>(339)</u>	<u>—</u>	<u>51,177</u>
<b>Other non-cash changes:</b>							
Interest expenses	1,593	676	100	1,108	203	—	3,680
Deemed contributions (Note 37(i))	—	—	(100)	(1,108)	—	—	(1,208)
Unpaid interest	—	(676)	—	—	—	—	(676)
Total other non-cash changes	<u>1,593</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203</u>	<u>—</u>	<u>1,796</u>
<b>At 31 December 2017 and 1 January 2018</b>	<u>63,500</u>	<u>20,000</u>	<u>6,770</u>	<u>17</u>	<u>3,722</u>	<u>—</u>	<u>94,009</u>
<b>Changes from cash flows:</b>							
Proceeds from new borrowings	87,284	—	—	—	—	—	87,284
Proceeds of advances from a shareholder and director	—	—	—	1,829	—	—	1,829
Repayment of borrowings	(72,500)	(20,000)	(6,770)	—	—	—	(99,270)
Payment of lease liabilities	—	—	—	—	(670)	—	(670)
Repayments of advances to shareholders	—	—	—	(994)	—	—	(994)
Interest paid	(3,972)	(693)	—	—	(158)	—	(4,823)
Total changes from cash flows	<u>10,812</u>	<u>(20,693)</u>	<u>(6,770)</u>	<u>835</u>	<u>(828)</u>	<u>—</u>	<u>(16,644)</u>

	Financing activities						Total
	Bank borrowings	Other borrowings	Loans from related parties	Amounts due to shareholders and directors	Lease liabilities	Amount due to a related party	
	RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 37(f))	RMB'000 (Note 37(d))	RMB'000 (Note 28)	RMB'000 (Note 37(e))	
<b>Other non-cash changes:</b>							
Interest expenses	3,972	468	215	1	158	—	4,814
Deemed contributions (Note 37(i))	—	—	(215)	(1)	—	—	(216)
Addition of lease liabilities	—	—	—	—	479	—	479
Transfer of accrued interest	—	225	—	—	—	—	225
<b>Total other non-cash changes</b>	<b>3,972</b>	<b>693</b>	<b>—</b>	<b>—</b>	<b>637</b>	<b>—</b>	<b>5,302</b>
<b>At 31 December 2018 and 1 January 2019</b>	<b>78,284</b>	<b>—</b>	<b>—</b>	<b>852</b>	<b>3,531</b>	<b>—</b>	<b>82,667</b>
<b>Changes from cash flows:</b>							
Proceeds from new borrowings	55,271	—	—	—	—	—	55,271
Proceeds of advances from a shareholder and director	—	—	—	21	—	—	21
Repayment of borrowings	(34,784)	—	—	—	—	—	(34,784)
Payment of lease liabilities	—	—	—	—	(344)	—	(344)
Repayments of advances to shareholders	—	—	—	(852)	—	—	(852)
Interest paid	(3,504)	—	—	—	(71)	—	(3,575)
<b>Total changes from cash flows</b>	<b>16,983</b>	<b>—</b>	<b>—</b>	<b>(831)</b>	<b>(415)</b>	<b>—</b>	<b>15,737</b>
<b>Other non-cash changes:</b>							
Interest expenses	3,619	—	—	—	71	—	3,690
Unpaid interest	(115)	—	—	—	—	—	(115)
<b>Total other non-cash changes</b>	<b>3,504</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>71</b>	<b>—</b>	<b>3,575</b>
<b>At 30 June 2019</b>	<b>98,771</b>	<b>—</b>	<b>—</b>	<b>21</b>	<b>3,187</b>	<b>—</b>	<b>101,979</b>

	Financing activities						Total
	Bank borrowings	Other borrowings	Loans from related parties	Amounts due to shareholders and directors	Lease liabilities	Amount due to a related party	
	RMB'000 (Note 29)	RMB'000 (Note 30)	RMB'000 (Note 37(f))	RMB'000 (Note 37(d))	RMB'000 (Note 28)	RMB'000 (Note 37(e))	
<b>At 1 January 2018</b>	63,500	20,000	6,770	17	3,722	—	94,009
<b>Changes from cash flows: (unaudited)</b>							
Proceeds from new borrowings	40,784	—	—	—	—	—	40,784
Proceeds of advances from a shareholder and director	—	—	—	17	—	—	17
Repayment of borrowings	(28,000)	(14,000)	—	—	—	—	(42,000)
Payment of lease liabilities	—	—	—	—	(289)	—	(289)
Repayments of advances to shareholders	—	—	—	(14)	—	—	(14)
Interest paid	(1,909)	—	—	—	(79)	—	(1,988)
<b>Total changes from cash flows (unaudited)</b>	<u>10,875</u>	<u>(14,000)</u>	<u>—</u>	<u>3</u>	<u>(368)</u>	<u>—</u>	<u>(3,490)</u>
<b>Other non-cash changes: (unaudited)</b>							
Interest expenses	1,909	248	172	—	79	—	2,408
Deemed contributions (Note 37(i))	—	—	(172)	—	—	—	(172)
Addition of lease liabilities	—	—	—	—	479	—	479
Unpaid interest	—	(248)	—	—	—	—	(248)
<b>Total other non-cash changes (unaudited)</b>	<u>1,909</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>558</u>	<u>—</u>	<u>2,467</u>
<b>At 30 June 2018 (unaudited)</b>	<u>76,284</u>	<u>6,000</u>	<u>6,770</u>	<u>20</u>	<u>3,912</u>	<u>—</u>	<u>92,986</u>

**(b) Major non-cash transactions**

- (i) During the year ended 31 December 2017, approximately RMB7,580,000, out of deposits of approximately RMB9,572,000 paid in 2016, was applied to settle the consideration of approximately RMB7,580,000 for converting the Group's collectively-owned land use rights to state-owned land use rights, based on an agreement entered into by the Group and the Land Bureau on 12 May 2017, as referred to in Note 17(d) and Note 23(e).

- (ii) During the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, the Group entered into lease arrangements with a total present value of future lease payments at the inception of the leases of NIL, NIL, approximately RMB479,000 and NIL, respectively, which were included in the right-of-use assets.
- (iii) As disclosed in Note 37(i), during the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019, non-cash interest implicit on the current account balances of amounts due to the shareholders and directors of the Company and a related party and loans payable to related parties totaled approximately RMB1,439,000, RMB1,208,000, RMB216,000 and NIL, respectively.

### 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Track Record Period are as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets at amortised costs:</b>				
Trade and bills receivables	43,250	104,715	123,181	141,788
Deposits and other receivables	14,717	5,286	5,228	3,633
Amounts due from a shareholder and director	275	—	—	—
Restricted bank deposits and cash and cash equivalents	6,122	15,576	18,490	18,002
	64,364	125,577	146,899	163,423
<b>Financial liabilities at amortised costs:</b>				
Trade and bills payables	53,143	32,787	47,908	31,153
Amount due to shareholders	15,178	17	852	21
Accruals and other payables	23,446	29,513	30,455	30,955
Lease liabilities	3,858	3,722	3,531	3,187
Loans from related parties	—	6,770	—	—
Bank borrowings	22,000	63,500	78,284	98,771
Other borrowings	—	20,000	—	—
	117,625	156,309	161,030	164,087



**40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES**

Exposure to credit, liquidity and interest rate risks arise in the normal course of business of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

**(a) Credit risk**

The Group's credit risk is primarily attributable to its cash and cash equivalents, trade and bills receivables and contract assets (including retention monies receivable), and deposits and other receivables. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

The Group's customers in respect of supply and installation of access flooring plates primarily consist of companies with strong and reputable financial background. To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each of trade receivables and contract assets (including retention monies receivable) to ensure that adequate impairment provision is made for the irrecoverable amounts.

Cash and cash equivalents held by the Group are mainly deposited in commercial banks with sound reputation and their credit risk is considered low.

In order to minimise credit risk in respect of contract assets, trade and bills receivables and other receivables, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not obtain collateral from customers.

In respect of contract assets and trade receivables, the Group's exposures to credit risk is influenced mainly by the individual characteristics of each customer. Contract assets have substantially the same characteristics as the trade receivables for the same types of the contracts. The Group's contract customers are mainly the famous and large property developers and large state-owned enterprises with high credit rating and their payment history with the Group are considered to be good. There are no material disputes or claims received from the customers and the Group considered that there has not been a significant change in credit quality of the customers. The default risk of the industry and country in which customers operate also has an influence on credit risk.

At 31 December 2016, 2017 and 2018 and 30 June 2019, 10%, 5%, 9% and 25% of the combined total of contract assets and trade receivables were due from the Group's largest debtor, respectively, and 29%, 19%, 25% and 38% of the combined total of contract assets and trade receivables were due from the Group's top five debtors' balances, respectively.

**(b) Liquidity risk**

In the management of the liquidity risk, the Group regularly monitors and maintains its liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirements in the short and long term.

All non-interest bearing financial liabilities of the Group are carried at amounts not materially different from their contractual undiscounted cash flow as these financial liabilities are with maturities within one year or repayable on demand at the end of the reporting period. Bank and other borrowings are repayable within 1 - 2 years from the end of reporting period.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date on which the Group can be required to pay.

	As at 31 December 2016					
	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	53,143	—	—	—	53,143	53,143
Accruals and other payables	23,446	—	—	—	23,446	23,446
Amounts due to shareholders and directors	15,178	—	—	—	15,178	15,178
Lease liabilities	215	647	2,091	1,321	4,274	3,858
Bank borrowings	22,585	—	—	—	22,585	22,000
	<u>114,567</u>	<u>647</u>	<u>2,091</u>	<u>1,321</u>	<u>118,626</u>	<u>117,625</u>

## As at 31 December 2017

	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	32,787	—	—	—	32,787	32,787
Accruals and other payables	29,513	—	—	—	29,513	29,513
Amounts due to shareholders and directors	17	—	—	—	17	17
Lease liabilities	695	672	2,166	574	4,107	3,722
Loans from related parties	—	6,770	—	—	6,770	6,770
Bank borrowings	65,580	—	—	—	65,580	63,500
Other borrowings	20,416	—	—	—	20,416	20,000
	<u>149,008</u>	<u>7,442</u>	<u>2,166</u>	<u>574</u>	<u>159,190</u>	<u>156,309</u>

## As at 31 December 2018

	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	47,908	—	—	—	47,908	47,908
Accruals and other payables	30,455	—	—	—	30,455	30,455
Amounts due to shareholders and directors	852	—	—	—	852	852
Lease liabilities	845	850	2,091	—	3,786	3,531
Bank borrowings	81,452	—	—	—	81,452	78,284
	<u>161,512</u>	<u>850</u>	<u>2,091</u>	<u>—</u>	<u>164,453</u>	<u>161,030</u>

## As at 30 June 2019

	Repayable on demand or within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	31,153	—	—	—	31,153	31,153
Accruals and other payables	30,955	—	—	—	30,955	30,955
Amounts due to shareholders and directors	21	—	—	—	21	21
Lease liabilities	857	830	1,685	—	3,372	3,187
Bank borrowings	101,964	—	—	—	101,964	98,771
	<u>164,950</u>	<u>830</u>	<u>1,685</u>	<u>—</u>	<u>167,465</u>	<u>164,087</u>

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations in the near future when they become due.

**(c) Interest rate risk**

The Group's interest rate risk arises primarily from bank deposits, lease liability, obligations under finance leases, bank and other borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

*(i) Interest rate profile*

The following table details the interest rate profile of the Group's net interest bearing liabilities (being interest-bearing financial liabilities less pledged bank deposits and cash at banks) at the end of the reporting period:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	Effective Interest rate	Amount	Effective Interest rate	Amount	Effective Interest rate	Amount	Effective Interest rate	Amount
	RMB'000		RMB'000		RMB'000		RMB'000	
<b>Fixed rate instruments:</b>								
Lease liabilities	4.90% -		4.90% -		4.90% -		4.90% -	
(Note 28)	6.72%	3,858	6.72%	3,722	5.44%	3,531	5.44%	3,187
Bank borrowings	5.44% -				4.35% -		4.35% -	
(Note 29)	5.50%	22,000	5.44%	44,500	6.20%	78,284	6.70%	98,771
Other borrowings								
(Note 30)	—	—	5.44%	20,000	—	—	—	—
Less: Restricted bank deposits	1.35% -		1.35% -		1.35% -		1.35% -	
(Note 24)	3.25%	(3,982)	1.75%	(2,614)	1.75%	(2,335)	2.25%	(3,881)
Cash at banks	0.30% -		0.30% -		0.30% -		0.30% -	
(Note 25)	0.35%	(2,087)	0.35%	(12,957)	0.35%	(16,152)	0.35%	(14,118)
		19,789		52,651		63,328		83,959
		-----		-----		-----		-----
<b>Variable rate instruments:</b>								
Bank borrowings								
(Note 29)	—	—	4.35%	19,000	—	—	—	—
Total net interest-bearing borrowings		19,789		71,651		63,328		83,959
		=====		=====		=====		=====

*(ii) Sensitivity analysis*

As at 31 December 2016, 2017 and 2018 and 30 June 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB298,000, RMB784,000, RMB522,000 and RMB631,000 for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the amounts of interest-bearing borrowings outstanding at the end of the reporting period being outstanding for the whole reporting period. The analysis is performed on the same basis for the Track Record Period.

**(d) Currency risk**

The Group is exposed to currency risk primarily through sales that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("US\$"). At present, the Group has no hedging policy with respect to its foreign exchange exposure.

*(i) Exposure to currency risk*

The following table details the Group's major exposure at the each reporting period end of Track Record Period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the reporting period end date. Differences resulting from the translation of the financial statements of non-PRC group entities into the Group's presentation currency are excluded.

	<b>Exposure to US\$ (expressed in Renminbi)</b>			
	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other receivables	5,154	8,742	4,776	4,357
Cash and bank balances	427	324	139	42
	<u>5,581</u>	<u>9,066</u>	<u>4,915</u>	<u>4,399</u>

*(ii) Sensitivity analysis*

As at 31 December 2016, 2017 and 2018 and 30 June 2019, it is estimated that a general increase/decrease of 5% in foreign exchange rate, with all variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB279,000, RMB453,000, RMB246,000 and RMB220,000 for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2019.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the each reporting period end of Track Record Period. The analysis has been performed on the same basis for the Track Record Period.

**(e) Concentration risk**

During the Track Record Period, the Group's largest customer, Customer I and top five customers had contributions to the Group's revenue as follows:

	<u>Top Five Customers</u>	<u>Largest Customer</u>	<u>Customer I</u>
	%	%	%
For the three years ended 31 December:			
- 2016	22.68	5.93	—
- 2017	18.61	6.33	1.67
- 2018	21.36	5.22	5.20
For the six months ended 30 June:			
- 2019	45.37	29.42	29.42
- 2018 (unaudited)	26.22	6.75	3.43

If the largest customer, Customer I or the top five customers terminate their business relationships with the Group and the Group fails to find new customers, it may have adverse impact on the Group's financial position and results of operations. Therefore, the Group's management keeps closely monitoring transactions with these major customers.

**(f) Capital risk management**

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of equity, amount due to a related party, amounts due to shareholders, lease liabilities, loans from related parties, bank borrowings and other borrowings. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce borrowings. The Group monitors capital on the basis of debt-to-equity ratio. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including loans from related parties) less cash and cash equivalents and restricted bank deposits. The debt-to-equity ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 were as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to shareholders and directors	15,178	17	852	21
Lease liabilities	3,858	3,722	3,531	3,187
Loans from related parties	—	6,770	—	—
Bank borrowings	22,000	63,500	78,284	98,771
Other borrowings	—	20,000	—	—
	41,036	94,009	82,667	101,979
Less: Cash and cash equivalents and restricted bank deposits	(6,122)	(15,576)	(18,490)	(18,002)
Net debt	34,914	78,433	64,177	83,977
Total equity	101,746	123,612	150,414	157,473
Debt-to-equity ratio	34.31%	63.45%	42.67%	53.33%

Neither the Company nor the Group is not subject to externally imposed capital requirements.

**(g) Fair values measurement**

The carrying amounts of all financial assets and liabilities carried at cost or amortised cost approximate their respective fair values as at 31 December 2016, 2017 and 2018 and 30 June 2019.

**41. EVENTS AFTER THE TRACK RECORD PERIOD**

- (a) Subsequent to 30 June 2019, the Group obtained borrowings of approximately RMB16,079,000 from a bank, with the pledge of trade receivables of approximately RMB19,772,000, under the factoring arrangement with Customer I as detailed in Note 22(a), for financing its working capital.
  
- (b) Subsequent to 30 June 2019 and on 2 September 2019, the Group obtained new credit facility from a financial institution amounting to approximately RMB9,000,000 for financing its working capital.

Apart from the above, there has been no other significant event since the end of the Track Record Period.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2019.

\* *The English translation of the company names is for reference only. The official names of these entities are in Chinese.*



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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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*The following information does not form part of the Accountants' Report from Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' report set out in Appendix I to this prospectus.*

**A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited 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 illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 as if Global Offering had taken place on 30 June 2019.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company 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 had the Global Offering been completed as at 30 June 2019 or any future date. It is prepared based on the consolidated net tangible assets as of 30 June 2019 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	<b>Audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2019</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company per Share</b>	
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>	<i>HK\$ equivalent</i> <i>(Note 5)</i>
Based on the Offer Price of HK\$0.53 per share	<u>151,294</u>	<u>93,936</u>	<u>245,230</u>	<u>0.25</u>	<u>0.28</u>
Based on the Offer Price of HK\$0.60 per share	<u>151,294</u>	<u>108,104</u>	<u>259,398</u>	<u>0.26</u>	<u>0.29</u>

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## APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*Notes:*

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as of 30 June 2019 is arrived at after deducting other intangible assets of RMB166,000 and capitalised prepaid listing expenses of RMB4,454,000, which are not tangible assets and shall be deducted against net proceeds from the Global Offering, from the consolidated equity attributable to owners of the Company of RMB155,914,000 as at 30 June 2019, as shown in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.53 and HK\$0.60 per share, being the lower end to higher end of the stated offer price range, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB17,816,000 which have been accounted for prior to 30 June 2019) paid or payable by the Company.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share are calculated based on 1,000,000,000 shares in issue immediately following the completion of the Global Offering without taking into account or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased under the general mandates for the allotment and issue or repurchase of the Shares.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1 = RMB0.88. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### REPORT FROM THE REPORTING ACCOUNTANTS ON PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



國富浩華（香港）會計師事務所有限公司  
**Crowe (HK) CPA Limited**  
香港 銅鑼灣 禮頓道77號 禮頓中心9樓  
9/F Leighton Centre,  
77 Leighton Road,  
Causeway Bay, Hong Kong

### INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

#### TO THE DIRECTORS OF JIACHEN HOLDING GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of JiaChen Holding Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The pro forma financial information consists of the pro forma statement of adjusted consolidated net tangible assets as at 30 June 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 31 December 2019 (the "Prospectus"). The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described on pages II-1 to II-2 of Appendix II to the prospectus.

The pro forma financial information has been compiled by the directors to illustrate the impact of the Global Offering (as defined in the Prospectus) of shares of the Company on the Group's financial position as at 30 June 2019 as if the Global Offering had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 June 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

#### **Directors' Responsibilities for the Pro Forma Financial Information**

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("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 accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 pro forma financial information.

The purpose of pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the 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 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

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**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 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 pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Crowe (HK) CPA Limited**  
*Certified Public Accountants*  
Hong Kong, 31 December 2019

Leung Chun Wa  
Practising Certificate Number P04963

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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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 7 July 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

### 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 19 December 2019 and will be effective upon 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

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### *(iii) Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

### *(iv) Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

***(v) Power of the Company to purchase its own shares***

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.



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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### *(vii) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (b) Directors

#### (i) *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

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## APPENDIX III    SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

***(iv) Borrowing powers***

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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## APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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### (v) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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*(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.

*(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

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A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

***(ix) Proceedings of the Board***

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

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### (c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

### (d) Meetings of member

#### (i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

#### (ii) *Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.



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At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

### *(iii) Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

### *(iv) Requisition of general meetings*

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general 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

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transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

*(v) Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*(v) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

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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.

### *(vi) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and 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 summarised financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The 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;
- (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

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- (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.

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.

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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 summarised 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.

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

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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 7 July 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 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;

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- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

### **(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.



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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.

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.

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### **(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

### **(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

### **(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 (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company;  
or

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(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 19 July 2017.

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 (2013 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.

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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" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 July 2017. Our Company has established a place of business in Hong Kong at 22/F, 3 Lockhart Road, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 27 October 2017. Mr. Li Wen Tao of House F8, No. 222 Tai Mei Tuk, Tai Po, New Territories, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of certain provisions of the Articles and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each. The following sets out the changes in the share capital since the date of our Company's incorporation:

- (a) on 7 July 2017, one Share of par value of HK\$0.01 was allotted and issued as fully paid up to Reid Services Limited as initial subscriber, which was transferred to Jiachen Investment on the same day;
- (b) on 7 July 2017, 5,098 Shares, 3,125 Shares and 1,776 Shares of par value of HK\$0.01 were allotted and issued, credited as fully paid, to Jiachen Investment, Xinchun Investment and Yilong Investment, respectively;
- (c) on 15 March 2018, (i) one Share was allotted and issued, credited as fully paid, to Jiachen Investment; and (ii) 129 Shares were allotted and issued, credited as fully paid, to Crystal Breeze Ventures, pursuant to the terms of the Share Swap Agreement;
- (d) pursuant to resolutions in writing of all Shareholders passed on 19 December 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value of HK\$0.01 each, by the creation of an additional 4,962,000,000 new Shares of par value of HK\$0.01 each, each ranking *pari passu* in all respects with the Shares in issue at the date of the resolutions; and

- (e) immediately following the completion of the Capitalisation Issue and the Global Offering and without taking into account any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 4,000,000,000 Shares will remain unissued.

Save for the above and as mentioned in the paragraph headed “A. Further information about our Company — 4. Resolutions in writing of all our Shareholders passed on 19 December 2019” below in this appendix, the exercise of any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting of our Company, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in the paragraph headed “Changes in share capital of our Company” above, the sections headed “History, Reorganisation and Corporate Structure”, “Relationship with Controlling and Substantial Shareholders”, “Share Capital” and “Accountants’ Report” in Appendix I to this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

### **3. Changes in share capital of our subsidiaries**

Our subsidiaries are referred to in the Accountants’ Report as set out in Appendix I to this prospectus.

Save as disclosed in the section “History, Reorganisation and Corporate Structure”, there are no changes in the share capital of our subsidiaries within the two years preceding the date of this prospectus.

### **4. Resolutions in writing of all our Shareholders passed on 19 December 2019**

Pursuant to the resolutions in writing of all our Shareholders passed on 19 December 2019, among others:

- (a) the Memorandum and the Articles were approved and adopted and be effective upon the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000, divided into 38,000,000 Shares of par value of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value of HK\$0.01 each by the creation of an additional 4,962,000,000 Shares of par value of HK\$0.01 each which will, when issued and paid, rank *pari passu* in all respects with the existing issued shares;
- (c) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Global Offering and Shares to be issued as mentioned in this prospectus (including any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Capitalisation Issue); (ii) the entering into of the Price Determination



Agreement on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering; and
- (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the sub-paragraph headed “E. Share Option Scheme” below in this appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme;
- (d) conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares under the Global Offering, our Directors were authorised to allot and issue a total of 749,989,870 Shares credited as fully paid at par to each of the holders of Shares whose names appear on the register of members of our Company as at the date of the resolutions (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued by fraction of a Share) by way of capitalising the sum of HK\$7,499,898.70 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares (the “**Capitalisation Issue**”);
- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or under the Global Offering, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, Shares with an aggregate number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Global Offering but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (d) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law or any applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

- (f) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase, on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, Shares with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Global Offering but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law or any applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority given to our Directors, whichever occurs first; and
- (g) the general unconditional mandate as mentioned in sub-paragraph (e) above was extended by the addition to the aggregate number of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate number of the Shares purchased by our Company under the mandate to repurchase Shares referred to in sub-paragraph (f) above.

## 5. Corporate reorganisation

In preparation for the Global Offering, our Group undertook the Reorganisation. For further details, please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus.

## 6. Repurchase of our Shares

### *(a) Relevant legal and regulatory requirements*

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase the Shares that are listed on the Stock Exchange subject to certain restrictions. The mandate is required to be given by way of an ordinary resolution passed by the Shareholders in a general meeting.

### *(b) Shareholders’ approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing of all our Shareholders passed on 19 December 2019, our Directors were granted a general unconditional mandate to repurchase up to 10% of the total number of Shares in issue immediately following the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our Company's securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. Such mandate will expire at the earliest of (i) the conclusion of our Company's next annual general meeting; (ii) the date by which our Company's next annual general meeting is required by the Companies Law or any applicable law of the Cayman Islands and the Articles to be held; or (iii) such mandate being revoked or varied by ordinary resolutions of the Shareholders in a general meeting (the "**Relevant Period**").

*(c) Source of funds*

Our Company's repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Company's Articles and the applicable laws of the Cayman Islands. Our Company may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Company may make repurchases out of the profit, share premium or out of the proceeds of a fresh issue of Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of our Company's share premium account. If authorised by the Articles and subject to the Companies Law, repurchase may also be made out of capital.

*(d) Reasons for repurchases*

Our Directors believe that it is in our Company's and its Shareholders' best interests for our Directors to have a general authority to execute repurchases of the Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made when our Directors believe that the repurchases will benefit our Company and its Shareholders.

*(e) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules, the Companies Law 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 in accordance with the trading rules of the Stock Exchange from time to time.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared to 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 the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

*(f) Share capital*

The exercise in full of the current Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), could accordingly result in up to 100,000,000 Shares being repurchased by our Company during the Relevant Period.

*(g) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any of the Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles, the Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our Company's voting rights is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert 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. Save as aforesaid, our Directors are not aware of any consequences of any repurchases which would arise under the Takeovers Code.

No connected person of our Company has notified our Group that he or it has a present intention to sell his or its Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.






**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY****1. Summary of material contracts**

Our Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (a) the capital increase subscription agreement (增資協議) dated 18 January 2018 and entered into among Changzhou Jingang, Mr. Shen, Ms. Zhang and Mr. Shen MH pursuant to which Mr. Shen, Ms. Zhang and Mr. Shen MH agreed to subscribe for Changzhou Jintai's increased registered capital of RMB5,100, RMB3,100 and RMB1,800, respectively, representing 0.51%, 0.31% and 0.18% of the equity interest in Changzhou Jintai after the increase of registered capital, respectively, in consideration of Mr. Shen, Ms. Zhang and Mr. Shen MH contributing 50.34%, 30.85% and 17.54% of the equity interest, respectively, in JiaChen Floor to Changzhou Jintai;
- (b) the share swap agreement dated 15 March 2018 entered into between Crystal Breeze Ventures and our Company pursuant to which Crystal Breeze Ventures agreed to sell and our Company agreed to purchase one share of US\$1.00 each in the share capital of Rui Xing Holdings in consideration of our Company allotting and issuing 129 Shares to Crystal Breeze Ventures, credited as fully paid;
- (c) the Deed of Indemnity;
- (d) the Deed of Non-Competition; and
- (e) the Hong Kong Underwriting Agreement.

**2. Intellectual property rights**

- (a) As at the Latest Practicable Date, JiaChen Floor had registered the following trademarks in the following jurisdictions which we believe are material to our business:

Trademark	Place of registration	Class	Registration number	Registration Date	Expiry Date
	PRC	19	690721	21 May 1994	20 May 2024
	PRC	19	7723610	21 November 2010	20 November 2020
	PRC	19	9248980	28 December 2013	27 December 2023
	PRC	6	13231925	14 August 2015	13 August 2025
	Hong Kong	6	304188583	28 June 2017	27 June 2027

- (b) As at the Latest Practicable Date, JiaChen Floor was the registered owner of the following patents which we believe are material to our business:

<u>No.</u>	<u>Patent</u>	<u>Registration Number</u>	<u>Place of registration</u>	<u>Application Date</u>	<u>Expiry Date</u>
1	Flat network floor panel (平鋪式網絡地板)	ZL201420647106.6	PRC	31 October 2014	30 October 2024
2	Anti-static calcium sulfate floor panel (硫酸鈣防靜電地板)	ZL201420646652.8	PRC	31 October 2014	30 October 2024
3	Anti-static steel raised access floor panel (防靜電全鋼架空活動地板)	ZL201420647015.2	PRC	31 October 2014	30 October 2024
4	Network floor panel (網絡地板)	ZL201420643561.9	PRC	31 October 2014	30 October 2024
5	Calcium sulfate network floor panel (硫酸鈣網絡地板)	ZL201420647255.2	PRC	31 October 2014	30 October 2024
6	Network floor panel (catching grooved) (扣槽式網絡地板)	ZL201420646330.3	PRC	31 October 2014	30 October 2024
7	Floor panel with adjustable vents (通風口可調型地板)	ZL201420646673.X	PRC	31 October 2014	30 October 2024
8	Ventilated floor panel (通風型地板)	ZL201420646691.8	PRC	31 October 2014	30 October 2024
9	Pressed base network floor panel (壓腳型網絡地板)	ZL201420646369.5	PRC	31 October 2014	30 October 2024
10	Synthetic plastics base (合成塑料支座)	ZL201420647282.X	PRC	31 October 2014	30 October 2024
11	Calcium sulfate network floor panel (catching grooved) (扣槽式硫酸鈣網絡地板)	ZL201420647213.9	PRC	31 October 2014	30 October 2024
12	An underlying wire casing network floor panel (一種線槽下置的網絡地板)	ZL201720157977.3	PRC	21 February 2017	20 February 2027
13	An easy-to-install anti-static floor panel (一種便於安裝的防靜電地板)	ZL201720158111.4	PRC	21 February 2017	20 February 2027
14	A ventilation panel with adjustable wind direction (一種可調節風向的通風板)	ZL201720157980.5	PRC	21 February 2017	20 February 2027

No.	Patent	Registration Number	Place of registration	Application Date	Expiry Date
15	A wire casing network floor panel (一種線槽網絡地板)	ZL201720157978.8	PRC	21 February 2017	20 February 2027
16	An anti static calcium sulfate floor panel (一種硫酸鈣防靜電地板)	ZL201720157979.2	PRC	21 February 2017	20 February 2027
17	A ventilation panel with air purification function (一種具有空氣淨化功能的通風板)	ZL201720250188.4	PRC	15 March 2017	14 March 2027
18	A ventilated floor panel with floor heating (一種具有地暖效果的通風地板)	ZL201720249975.7	PRC	15 March 2017	14 March 2027
19	An anti-cracking GRC network floor panel (一種防開裂的GRC網絡地板)	ZL201720546668.5	PRC	16 May 2017	15 May 2027
20	A soundproofing and sound absorbing anti-static calcium sulfate floor panel (一種隔音吸音效果良好的硫酸鈣防靜電地板)	ZL201720250065.0	PRC	15 March 2017	14 March 2027
21	An expandable calcium sulfate network floor panel (一種可擴展的硫酸鈣網絡地板)	ZL201720250105.1	PRC	15 March 2017	14 March 2027
22	A strong GRC network floor panel (一種強度良好的GRC網絡地板)	ZL201720546623.8	PRC	16 May 2017	15 May 2027
23	A graphene machinery floor panel with sterilizing function (一種具有殺菌功能的石墨烯機房地板)	ZL201720546656.2	PRC	16 May 2017	15 May 2027
24	A calcium sulfate network floor panel with humidification function (一種具有加濕功能的硫酸鈣網絡地板)	ZL201720250141.8	PRC	15 March 2017	14 March 2027
25	A good drainage graphene machinery floor panel (一種排水良好的石墨烯機房地板)	ZL201720546658.1	PRC	16 May 2017	15 May 2027
26	A GRC network floor panel that can place cable (一種能夠放置線纜的GRC網絡地板)	ZL201720546666.6	PRC	16 May 2017	15 May 2027

No.	Patent	Registration Number	Place of registration	Application Date	Expiry Date
27	An OA network floor panel with good supporting (一種支撐效果良好的OA網絡地板)	ZL201820506564.6	PRC	10 April 2018	9 April 2028
28	An OA network floor panel with good supporting strength (一種支撐強度良好的OA網絡地板)	ZL201820507878.8	PRC	10 April 2018	9 April 2028
29	A wire storage OA network floor panel (一種便於儲線的OA網絡地板)	ZL201820508197.3	PRC	10 April 2018	9 April 2028
30	An easy-to-disassemble OA network floor panel (一種便於拆裝的OA網絡地板)	ZL201820511948.7	PRC	10 April 2018	9 April 2028
31	A cross rib enhanced network raised floor panel (一種交叉肋加強型網絡架空地板)	ZL201820742682.7	PRC	18 May 2018	17 May 2028
32	A flooring system layout method for constructing machinery room (一種用於機房建設的地板系統鋪設方法)	ZL201610878545.1	PRC	9 October 2016	8 October 2036
33	An easy-to-install cement engineered floor panel (一種便於組裝的水泥複合地板)	ZL201920261235.4	PRC	28 February 2019	27 February 2029
34	A new cement engineered floor panel (一種新型水泥複合地板)	ZL201920265178.7	PRC	1 March 2019	28 February 2029
35	A cement engineered floor panel with heat retention function (一種具有保溫功能的水泥複合地板)	ZL201920261698.0	PRC	1 March 2019	28 February 2029

- (c) As at the Latest Practicable Date, JiaChen Floor had registered the following domain names which we believe are material to our business:

Domain names	Registration Date	Expiry Date
jiachencn.com.cn	19 April 2004	19 April 2025
jiachencn.com	15 July 2017	15 July 2027



## C. DISCLOSURE OF INTERESTS

## 1. Disclosure of interests

*(a) Interests and short positions of our Directors and the chief executive of our Company in the share capital following the completion of the Capitalisation Issue and the Global Offering*

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the interests of our Directors and chief executive in the equity or debt securities of our Company or any 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/or short positions 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 under the Listing Rules, to be notified to our Company and the Stock Exchange, in each case, once our Shares are listed will be as follows:

Name of Director/ Chief Executive	Capacity/ Nature of Interest	Number of Shares <sup>(Note 1)</sup>	Percentage of shareholding immediately following the completion of the Capitalisation Issue and the Global Offering <sup>(Note 2)</sup>
Mr. Shen <sup>(Note 3)</sup>	Interest in a controlled corporation	377,625,000	37.76%
Ms. Zhang <sup>(Note 4)</sup>	Interest in a controlled corporation	231,375,000	23.14%
Mr. Shen MH <sup>(Note 5)</sup>	Interest in a controlled corporation	131,475,000	13.15%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

- (3) Mr. Shen owns 100% of the issued share capital of Jiachen Investment, which, in turn, holds 377,625,000 Shares. Accordingly, Mr. Shen is deemed to be interested in 377,625,000 Shares held by Jiachen Investment by virtue of the SFO.
- (4) Ms. Zhang owns 100% of the issued share capital of Xinchon Investment, which, in turn holds 231,375,000 Shares. Accordingly, Ms. Zhang is deemed to be interested in 231,375,000 Shares held by Xinchon Investment by virtue of the SFO.
- (5) Mr. Shen MH owns 100% of the issued share capital of Yilong Investment, which, in turns, holds 131,475,000 Shares. Accordingly, Mr. Shen MH is deemed to be interested in 131,475,000 Shares held by Yilong Investment by virtue of the SFO.

***(b) Interests and short positions of our Substantial Shareholders in the share capital following the completion of the Capitalisation Issue and the Global Offering***

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, 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 of the subsidiaries:

<b>Name of Shareholder</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares</b> <small>(Note 1)</small>	<b>Percentage of shareholding immediately following the completion of the Capitalisation Issue and the Global Offering</b> <small>(Note 2)</small>
Jiachen Investment <small>(Note 3)</small>	Beneficial owner	377,625,000	37.76%
Mr. Shen <small>(Notes 3 and 5)</small>	Interest in a controlled corporation	377,625,000	37.76%
	Interest of spouse	<u>231,375,000</u>	<u>23.14%</u>
		609,000,000	60.90%
Xinchon Investment <small>(Note 4)</small>	Beneficial owner	231,375,000	23.14%
Ms. Zhang <small>(Notes 4 and 5)</small>	Interest in a controlled corporation	231,375,000	23.14%
	Interest of spouse	<u>377,625,000</u>	<u>37.76%</u>
		609,000,000	60.90%

<u>Name of Shareholder</u>	<u>Capacity/ Nature of interest</u>	<u>Number of Shares</u> <i>(Note 1)</i>	<u>Percentage of shareholding immediately following the completion of the Capitalisation Issue and the Global Offering</u> <i>(Note 2)</i>
Yilong Investment <i>(Note 6)</i>	Beneficial owner	131,475,000	13.15%
Mr. Shen MH <i>(Note 6)</i>	Interest in a controlled corporation	131,475,000	13.15%
Ms. Liu Hui <i>(Note 7)</i>		Interest of spouse	131,475,000

*Notes:*

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).
- (3) Jiachen Investment is wholly-owned by Mr. Shen. By virtue of the SFO, Mr. Shen is deemed to be interested in all of the Shares held by Jiachen Investment.
- (4) Xinchun Investment is wholly-owned by Ms. Zhang. By virtue of the SFO, Ms. Zhang is deemed to be interested in all of the Shares held by Xinchun Investment.
- (5) Mr. Shen and Ms. Zhang are spouses. By virtue of the SFO, Mr. Shen is deemed to be interested in all of the Shares which are held by Ms. Zhang and Ms. Zhang is deemed to be interested in all of the Shares which are held by Mr. Shen.
- (6) Yilong Investment is wholly owned by Mr. Shen MH. By virtue of the SFO, Mr. Shen MH is deemed to be interested in all of the Shares held by Yilong Investment.
- (7) Mr. Shen MH and Ms. Liu Hui are spouses. By virtue of the SFO, Ms. Liu Hui is deemed to be interested in all of the Shares which are held by Mr. Shen MH.

**D. FURTHER INFORMATION ABOUT OUR DIRECTORS****1. Directors' service contracts**

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by (i) our Company giving to any Director not less than three months' prior notice in writing or (ii) by any Director giving to our Company not less than one month's prior notice in writing.

Each of our Directors is entitled to the respective basic salary under their respective service contracts or appointment letters set out below. A Director may not vote on any resolution regarding the increment of annual salary and the amount of the discretionary bonus payable to him or her.

The current basic annual salaries of our Directors under the current service contracts or appointment letters with our Company are as follows:

<u>Name</u>	<u>Annual Amount</u>
Mr. Shen	RMB300,000
Ms. Zhang	RMB180,000
Mr. Shen MH	RMB180,000
Mr. Chen	RMB240,000
Mr. Ma Ving Lung	HK\$120,000
Ms. Shi Dongying	HK\$120,000
Mr. Yu Chun Kau	HK\$120,000

Our Company has not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determinable by our Company within one year without payment of compensation (other than statutory compensation).

**2. Directors' remuneration during the Track Record Period**

For the three years ended 31 December 2018 and the six months ended 30 June 2019, the aggregate of the remuneration paid and benefits in kind granted to our Directors was approximately RMB416,000, RMB972,000, RMB852,000 and RMB421,000, respectively.

Save as disclosed above, no other emoluments have been paid or are payable to our Directors by our Group.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including discretionary bonus) for the financial year ending 31 December 2019 will approximately be RMB900,000.

### 3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

### 4. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives has any interest or short position in our Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning 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 or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once our Shares are listed;
- (b) none of our Directors or experts referred to under the paragraph headed “7. Consents” in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any members of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of any Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (f) so far as is known to our Directors, as at the Latest Practicable Date, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

**E. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by written resolutions of all our Shareholders passed on 19 December 2019:

**1. Purpose**

The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to our Company.

**2. Who may join**

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to our Company, any of the subsidiaries or any entity (the “**Invested Entity**”) in which our Company holds an equity interest;
- (b) any non-executive Directors (including independent non-executive directors) of our Company, any of the subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to our Company or any of its subsidiaries or any Invested Entity;
- (d) any customer of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity; and
- (f) any Shareholders or any shareholder of any of its subsidiaries or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity, and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Company to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by our Directors from time to time on the basis of the participants’ contribution to the development and growth of our Group. In order for a person to satisfy our Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as our Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

### 3. Maximum number of Shares

- (a) The maximum number of Shares to be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 30% of our Company's issued share capital from time to time. No options may be granted under any schemes of our Company or the subsidiary of our Company if such grant will result in the maximum number being exceeded.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange which amounts to 100,000,000 Shares (the "**General Mandate Limit**").
- (c) Subject to (a) above and without prejudice to (d), our Company may issue a circular to its Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek approval of its Shareholders in general meeting to refresh the General Mandate Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme or exercised options) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted.
- (d) Subject to (a) above and without prejudice to (c) above, our Company may issue a circular to its Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek separate Shareholders' approval in general meeting to grant options beyond the General Mandate Limit or, if applicable, the limit referred to in (c) above to participants specifically identified by our Company before such approval is sought.

### 4. Maximum entitlement of each participant and connected persons

- (a) Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (the "**Individual Limit**").

- (b) Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the Shareholders in general meeting with such participant and his close associates abstaining from voting (or his associates if the participant is a connected person). The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(a) of the Listing Rules.
- (c) In addition to the Shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or Substantial Shareholder or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (d) Where any grant of options to a Substantial Shareholder or an independent non-executive Director 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) under the Share Option Scheme or any other share option schemes of our Company to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate more than 0.1% of the Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by the Shareholders. Our Company must send a circular to the Shareholders. All of the connected persons must abstain from voting in favour at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

#### **5. Minimum period of holding an option and performance target**

Our Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

#### **6. Subscription price for Shares**

The subscription price of a Share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as the Board in its absolute discretion shall determine, provided that such price shall



not be less than the highest of (i) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the date of grant of the option (which must be a Business Day); and (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a Business Day). A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

**7. Rights are personal to grantee**

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

**8. Time of exercise of option**

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

**9. Rights on ceasing employment or death**

If the grantee of an option, who is an employee of our Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Group or Invested Entity for any reason other than death, ill-health or retirement in accordance with his contract of employment or certain other grounds, before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine, in which case the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which date shall be the last day on which the grantee was actually at work with our Group or the relevant Invested Entity, whether salary is paid in lieu of notice or not. Failing such exercise, the option will lapse.

If the grantee of an option, who is an employee of our Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercising the option in full, the grantee or, if appropriate his lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or any Invested Entity, whether salary is paid in lieu of notice or not (or such longer period as our Directors may determine), failing which it will lapse.

**10. Rights on a general offer, a compromise or arrangement**

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees (or his personal

representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional or such scheme or arrangement is formally proposed to the Shareholders, a grantee (or his personal representative(s)) shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

#### **11. Rights on winding-up**

In the event of an effective resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee of an option (or his personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to our Company elect to exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two Business Days prior to the proposed general meeting of our Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his options, to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of our Company.

#### **12. Ranking of Shares**

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of our Company's Memorandum of Association and the Articles for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

#### **13. Period of the Share Option Scheme**

Unless terminated by our Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

**14. Alteration of the Share Option Scheme**

The Share Option Scheme may be altered in any respect by a resolution of the Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or prospective grantees without the prior sanction of any resolution of our Company in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the applicable requirements under the Listing Rules. Any change to the authority of our Directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

**15. Effect of alterations to capital**

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital or otherwise howsoever, then, in any such case, our Company shall instruct the auditors for the time being or an independent financial adviser to our Company to certify in writing the adjustment, if any, to be made either generally or as regards any particular grantee, to (a) the number of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised), and/or (b) the subscription price of any unexercised option, and/or (c) the maximum number of Shares referred to in the sub-paragraph headed “E. Share Option Scheme — 3. Maximum number of Shares” above in this appendix, and an adjustment as so certified by the auditors or the independent financial adviser to our Company shall be made, provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of our Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; (iv) the issue of Shares or securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and (v) for the avoidance of doubt, any adjustments shall be made in compliance with the Listing Rules and the “Supplementary Guidance on Main Board Listing Rule 17.03(13) and the note immediately after the rule” set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 or other relevant guidance as the Stock Exchange may from time to time issue. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled.

**16. Cancellation of options**

Our Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as our Directors may in their absolute

discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where our Company cancels any options granted and offer to grant or grant new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the cancelled options) within each of the limits as referred of in the sub-paragraph headed “E. Share Option Scheme — 3. Maximum number of Shares” above in this appendix.

#### **17. Conditions of the Share Option Scheme**

The Share Option Scheme is conditional on (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on the Stock Exchange, which Shares may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme; (ii) upon the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners) and such obligation not being terminated in accordance with the terms of the Underwriting Agreements; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

#### **18. Termination of the Share Option Scheme**

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any outstanding options granted prior to such termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme and outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. Details of the options granted, including options exercised or outstanding, under the Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to shareholders of our Company seeking approval of the first new scheme to be established after such termination.

#### **19. Status of the Listing Rules**

The Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

#### **20. Present status of the Share Option Scheme**

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme, as described above.

**F. OTHER INFORMATION****1. Tax and other indemnity**

Our Substantial Shareholders entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its subsidiaries) (being the contract referred to in the paragraph headed “B. Further information about the business of our Company — 1. Summary of material contracts” in this appendix) to provide indemnities in respect of, among other matters, (i) taxation resulting from income, profits or gains earned, accrued or received on or before the date when the Global Offering becomes unconditional; and (ii) non-compliance incidents of our Group as disclosed in the section headed “Business — Legal Compliance” in this prospectus.

**2. Litigation**

Neither our Company nor any of our subsidiaries are involved in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

**3. The Sponsor**

The Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules and has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

The Sponsor’s fee is approximately HK\$6 million and is payable by our Company.

**4. Preliminary expenses**

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK\$46,280 and were paid by our Company.

**5. Promoters**

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding to the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to, or is proposed to be paid, allotted or given to, any promoter in connection with the Global Offering or the related transactions described in this prospectus.

## 6. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this prospectus are as follows:

<u>Name</u>	<u>Qualifications</u>
Dakin Capital Limited	A licensed corporation carrying on type 6 (advising on corporate finance) regulated activity under the SFO
Crowe (HK) CPA Limited	Certified Public Accountants
Beijing Dentons Law Offices, LLP	PRC legal advisers to our Company
China Insights Consultancy Limited	Industry consultant
Appleby	Cayman Islands legal advisers to our Company
PKF Business Advisory Limited	Internal Control Consultant

## 7. Consents

Each of the experts referred to paragraph 6 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 8. Share register

Our share register will be maintained in Hong Kong by our Hong Kong Branch Share Registrar, Tricor 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 our Hong Kong Branch Share Registrar.

## 9. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of the Directors nor any of the parties listed in the paragraph headed “Consents” in this appendix has any direct or indirect interest in the promotion of our Company or any of the subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any of the subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of the subsidiaries;

- (b) none of the Directors nor any of the parties listed in the paragraph headed “7. Consents” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business;
- (c) save for the Underwriting Agreements, none of the parties listed in the paragraph headed “7. Consents” in this appendix:
  - (i) is interested legally or beneficially in any of the Shares or any shares in any of the subsidiaries; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities;
- (d) 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 from any other stock exchange;
- (e) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (f) our Company has not issued or agreed to issue any founder shares, management shares or deferred shares;
- (g) our Company has no outstanding convertible debt securities;
- (h) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and our Company has not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (i) within the two years preceding the date of this prospectus, 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 in or debentures of our Company;
- (j) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this prospectus to any of the promoters of our Company nor is any such securities or amount or benefit intended to be paid or allotted or given;
- (k) since 30 June 2019 (being the date to which the latest audited consolidated financial information of our Group were made up and up to the date of this prospectus), there has been no material adverse change in the financial or trading position or prospects of our Company;
- (l) there is no arrangement under which future dividends are waived or agreed to be waived;

- (m) the Global Offering does not involve the exercise of any right of pre-emption or the transfer of subscription rights;
- (n) as at the date of this prospectus, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong;
- (o) there has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 12 months preceding the date of this prospectus;
- (p) the English text of this prospectus shall prevail over the Chinese text; and
- (q) none of our Company or any of our subsidiaries is presently listed on any stock exchange or traded on any trading system.

#### **10. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) so far 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 Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



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**APPENDIX V            DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the written consents referred to in the section headed “Statutory and General Information — F. Other Information — 7. Consents” in Appendix IV to this prospectus, (ii) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further information about the business of our Company — 1. Summary of material contracts” in Appendix IV to this prospectus, and (iii) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Kwok Yih & Chan of Suites 2103-05, 21st Floor, 9 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum and the Articles;
- (2) the Accountants’ Report prepared by Crowe (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (3) the unaudited pro forma financial information of our Group prepared by Crowe (HK) CPA Limited, the text of which is set out in Appendix II to this prospectus;
- (4) the audited financial statements of the companies comprising our Group for each of the years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019;
- (5) the material contracts referred to in the section headed “Statutory and General Information — B. Further information about the business of our Company — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (6) the service contracts and appointment letters referred to in the section headed “Statutory and General Information — D. Further information about our Directors — 1. Directors’ service contracts” in Appendix IV to this prospectus;
- (7) the written consents referred to in the section headed “Statutory and General Information — F. Other information — 7. Consents” in Appendix IV to this prospectus;
- (8) the PRC legal opinions issued by Beijing Dentons Law Offices, LLP, our PRC Legal Advisers, in respect of our Group’s business operations in the PRC;
- (9) rules of the Share Option Scheme;
- (10) the CIC Report;

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**APPENDIX V      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
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- (11) the Companies Law;
- (12) the letter of advice prepared by Appleby, summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus; and
- (13) the internal control report prepared by PKF Business Advisory Limited, our Group's internal control consultant.

**JiaChen Holding Group Limited**  
**佳辰控股集團有限公司**