



MEIGU

MEIGU Technology Holding Group Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8349

PLACING



Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



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CHINA
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KGI Capital Asia Limited

IMPORTANT

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



MEIGU Technology Holding Group Limited 美国科技控股集团有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares : 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Placing Price : Not more than HK\$0.35 per Placing Share and expected to be not less than HK\$0.30 per Placing Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value : HK\$0.01 per Share
Stock Code : 8349

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



KGI Capital Asia Limited

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

The Placing Price is expected to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Friday, 6 January 2017 or such later date as may be agreed by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company. The Placing Price will be not more than HK\$0.35 per Placing Share and is currently expected to be not less than HK\$0.30 per Placing Share unless otherwise announced. If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by that date or such later date as agreed by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Placing will not become unconditional and will not proceed.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk factors" to this prospectus.

Prospective investors of the Placing Shares should note that the Sole Global Coordinator (for itself and on behalf of the Underwriters) is entitled to terminate its obligations under the Underwriting Agreement by means of a notice in writing given by the Sole Global Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set out under the paragraph headed "Grounds for termination" in the section headed "Underwriting" to this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Global Coordinator (for itself and on behalf of the Underwriters) terminate the Underwriting Agreement, the Placing will not proceed and will lapse.

29 December 2016

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

EXPECTED TIMETABLE

Expected Price Determination Date^(Note 2) on or before Friday, 6 January 2017

Announcement of the determination of the Placing Price and
the level of indication of interest in the Placing to be published

(a) on the website of the Stock Exchange at www.hkexnews.hk; and

(b) on the website of our Company at nantongrate.com^(Note 3)

on or before Thursday, 12 January 2017

Allotment of the Placing Shares to placees

(or their designated person(s)) on or about Thursday, 12 January 2017

Deposit of share certificates for the Placing Shares into

CCASS on or about^(Notes 4 and 5) Thursday, 12 January 2017

Dealings in the Shares on GEM expected to commence at

9:00 a.m. on Friday, 13 January 2017

Notes:

1. All times and dates refer to Hong Kong local times and dates.
2. The Price Determination Date is expected to be on or before Friday, 6 January 2017. If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by that date or such later date as agreed by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Placing will not become unconditional and will not proceed.
3. None of our Company's website or any information contained in our Company's website forms part of this prospectus.
4. The share certificate for the Placing Shares are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Underwriters and/or the placing agents. The share certificates for the Placing Shares allotted and issued to the placees are expected to be deposited directly into CCASS on or before Thursday, 12 January 2017 for credit to the respective CCASS Participants' or the CCASS Investor Participants' stock accounts designated by the Sole Global Coordinator (for itself and on behalf of the Underwriters), the placees or their agents (as the case may be). No temporary documents or evidence of title will be issued by our Company.
5. All share certificates for the Placing Shares will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. If the Placing does not become unconditional or the Underwriting Agreement is terminated in accordance with its terms, we will make an announcement on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at nantongrate.com as soon as possible.

Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" of this prospectus.

If there is any change to the above expected timetable, we will make an appropriate announcement on the Stock Exchange's website at www.hkexnews.hk and on our Company's website at nantongrate.com to inform investors accordingly.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. We, the Sole Sponsor and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.

There are risks associated with any investment in companies listed on GEM. Some of the particular risks relating to investing in the Placing Shares are set out in the section headed “Risk factors” to this prospectus. You should read that particular section carefully before you decide to invest in Placing Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary of Technical Terms” to this prospectus.

OVERVIEW

We are an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of fibreglass reinforced plastic (玻璃鋼) (“FRP”) products. Our major products consist of: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products, with our FRP Grating products being our most popular product contributing approximately 87.7%, 78.0% and 77.2% of our total revenue for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively.

As stated in the Sullivan Report, in 2015, we were among the top 1.0% of the FRP manufacturers in the PRC in terms of production capacity and revenue generated with a market share of approximately 0.05% in the FRP market in the PRC. In addition, we ranked first in the FRP Grating products market in the PRC in 2015 with approximately 1.4% market shares in terms of revenue, according to Sullivan. In addition to the PRC market, we sell our products to overseas markets including but not limited to the U.S., U.K., France, Canada, Germany and Indonesia. Revenue from the overseas markets contributed approximately 58.5%, 48.1% and 47.3% of our total revenue for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively.

FRP is a composite material made of glass fibre and resins. FRP is characterised by its long-lasting service life, high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion, and anti-erosion properties. It also features an environmentally friendly production process due to (i) the ease and availability of raw materials compared with wood resources which are considered as non-renewable mainly because of the long replant cycle, according to Sullivan, and (ii) the lower energy consumption during the production process compared with metal and aluminum products. In light of these properties, FRP has been increasingly used as an alternative to metals in aggressive environment to reduce maintenance costs. Most of our products are used in corrosive environments such as chemical factories, and used as drainage covers, marine decks, stairs, platforms and walkways across various industries.

As a leading manufacturer of FRP products in the PRC, we were one of the five industry practitioners invited to participate in the drafting the People’s Republic of China Building Materials Industry Standard – Fibreglass Reinforced Thermosetting Resin Carrier Grating Industry Standards* (中華人民共和國建材行業標準—玻璃纖維增強熱固性樹脂承載型格柵行業標準) in 2007. In addition, along with 12 domestic academic institutions, industry associations and other industry practitioners, we participated in the drafting of PRC National Standards – Pultruded fibre reinforced polymer composites structural profiles* (中華人民共和國國家標準—結構用纖維增強複合材料拉擠型材) in 2015. The participants were selected to participate in the drafting of these industry standards based on their market positions and experience in the FRP industry in the PRC. These non-statutory standards are recommended by the PRC government as the fundamental parameters to be satisfied at delivering FRP products.

OUR BUSINESS MODEL AND PRODUCTS

We manufacture FRP products of various shapes, dimensions and specifications based on the requirements provided by our customers. With diversified production equipment in our self-owned production base in Nantong, Jiangsu, the PRC, we have the capability to research, develop and manufacture tailor-made FRP products to meet the diversified needs of our customers.

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

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
FRP Grating products	47,092	87.7	43,978	78.0	20,239	80.8	21,531	77.2
USCG Approved Phenolic Grating products	2,550	4.8	6,531	11.6	2,747	11.0	4,886	17.5
FRP Subway Evacuation Platform products	3,889	7.2	3,471	6.1	839	3.3	67	0.3
Epoxy Wedge Strip products	141	0.3	2,425	4.3	1,226	4.9	1,397	5.0
Total	53,672	100.0	56,405	100.0	25,051	100.0	27,881	100.0

To ensure the quality of our products, we closely monitor product quality throughout the production process and our stringent quality control procedures have been accredited with ISO 9001:2008 quality management system certification. We also conduct in-house researches such that we could (i) develop and offer new FRP products that find wider applications; and (ii) improve the quality of our existing FRP products. Additional pre-sale services such as carrying out structural calculations and designing engineering drawings are also offered to our customers free-of-charge when requested so as to promote and facilitate the use and adoption of our products.

We generally price our products on a cost-plus basis, taking into account, among other things, (i) production costs such as cost of raw materials; (ii) our targeted profit margin; (iii) the prevailing market condition; and (iv) the exchange rate (for overseas customers).

Competitive Strengths

We believe that our success is primarily attributable to (i) being an established and leading FRP products manufacturer in the PRC with strong capabilities to produce quality and customised FRP products for diversified use globally; (ii) having quality control and production capabilities that have been recognised by the relevant PRC government authorities and accredited by international certification organisations; (iii) being a key participant in the formulation of various FRP products industry standards in the PRC, and a major FRP products research and development force; and (iv) possessing an experienced management team.

For further details of our competitive strengths, please refer to the section headed “Business – Competitive Strengths” in this prospectus.

Business strategies, future plans and use of proceeds

Our Group intends to strengthen our market position and increase our market share by (i) continuing to consolidate our market position both domestically and globally, particularly in the FRP Subway Evacuation Platform and Epoxy Wedge Strips segments; (ii) further developing our products according to the expected growth trend as a result of the PRC’s macroeconomic policies in promoting “Belt and Road Initiatives”; (iii) expanding our research and development capabilities; (iv) continuing to utilise our industry expertise to play a critical role in the formulation of industry standards; and (v) enhancing internal control and management systems.

For further details of our business strategies, please refer to the section headed “Business – Business Strategies” in this prospectus.

Reasons and benefits of the Listing

Our Directors believe that the Listing will not only enhance our profile and visibility, increase corporate transparency, enhance corporate governance, strengthen our competitiveness, but also provide us with broader shareholder base for better liquidity in the

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Company's shares and access to additional capital for growth from the Placing and after Listing to implement our future plans as set out in the sections headed "Future Plans and Use of Proceeds" and "Business – Our Business Strategies" and this section of the prospectus. For the detailed reasons and benefits of Listing, please see the section headed "Future Plans and Use of Proceeds – Reasons for the Listing" in this prospectus.

Use of proceeds

We estimate that the net proceeds to be received by us from the Placing, after deducting the to be incurred underwriting commission and related expenses payable by our Company in the aggregate amount of approximately HK\$18.4 million, will be approximately HK\$13.6 million based on the Placing Price of HK\$0.32 per Placing Share (being the mid-point of the indicated Placing Price range and assuming the Offer Size Adjustment Option is not exercised). We intend to apply the net proceeds from the Placing as follows:

Intended use	Amount	Approximate percentage of net proceeds
Enhancement of the existing production processes	HK\$6.5 million	47.7%
Further development of our products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"	HK\$5.4 million	40.0%
Expansion of our research and development capabilities	HK\$0.6 million	4.0%
Working capital and other general corporate purpose	HK\$1.1 million	8.3%

For details relating to our use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus.

PRODUCTION OPERATIONS AND FACILITIES

Our production base which is situated in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC is equipped with 75 moulding and pultrusion facilities grouped under five workshops, which allow us to manufacture moulded FRP products and pultruded FRP products, as well as to repair and perform finishing works on our finished goods.

The following table sets forth the estimated production capacity, production volumes and utilisation rates of our production lines for our major products during the Track Record Period:

	Estimated production capacity ^(Note 1)			Actual production volume			Average utilisation rate ^(Note 2)			Utilisation rate to achieve breakeven ^(Note 3)
	For the year ended		For the six	For the year ended		For the six	For the year ended		For the six	
	31 December 2014	2015	months ended 30 June 2016	31 December 2014	2015	30 June 2016	31 December 2014	2015	30 June 2016	
FRP Grating	326,856 m ²	326,856 m ²	163,428 m ²	169,193 m ²	136,381 m ²	77,329 m ²	51.8%	41.7%	47.3%	22.1%
USCG Approved Phenolic Grating	41,736 m ²	41,736 m ²	20,868 m ²	4,112 m ²	11,776 m ²	8,866 m ²	9.8%	28.2%	42.5%	9.0%
FRP Subway Evacuation Platform	17,100 m ²	17,100 m ²	8,550 m ²	7,000 m ²	5,263 m ²	78 m ²	40.9%	30.8%	0.9%	11.4%
Epoxy Wedge Strip	189,000 m	220,500 m	110,250 m	2,073 m	46,178 m	91,502 m	1.1%	20.9%	83.0%	12.5%

Notes:

- The estimated production capacity is calculated for illustration purpose only, based on the total daily production facility output, and by assuming 360 working days per year (and 90 working days per quarter), 8 working hours per day for moulded products and 3 shifts per day for pultrusion products.
- Calculated by dividing production volumes by estimated production capacity for the year.
- Calculated by dividing the amount of production volume required to achieve breakeven by the estimated production capacity. The amount of production volume required to achieve breakeven is calculated by dividing the amount of revenue required to achieve breakeven by the average selling price for the two years ended 31 December 2015 and the six months ended 30 June 2016. The amount of revenue required to achieve breakeven is calculated by dividing the average fixed costs for the two years ended 31 December 2015 and the six months ended 30 June 2016 by the average gross profit margin for the corresponding period.

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Please refer to the section headed “Business – Production Operation and Facilities” to this prospectus for further details.

CUSTOMERS, SALES AND MARKETING

We have maintained credible business relationships with a number of high-profile customers domestically and globally. The principal markets of our Group are the PRC, the U.S. and the U.K. which in total accounted for approximately 94.2%, 94.9% and 95.3% of our total revenue for the two years ended 31 December 2015 and six months ended 30 June 2016, respectively. The following table illustrates the breakdown of our Group’s total revenue by geographical area during the Track Record Period:

	Revenue for the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
PRC	22,280	41.5	29,273	51.9	11,040	44.1	14,693	52.7
U.S.	23,146	43.1	17,315	30.7	8,928	35.6	7,330	26.3
U.K.	5,137	9.6	6,953	12.3	3,656	14.6	4,553	16.3
Others ^(Note)	3,109	5.8	2,864	5.1	1,427	5.7	1,305	4.7
Total	53,672	100.0	56,405	100.0	25,051	100.0	27,881	100.0

Note: Others include but not limited to France, Canada, Germany and Indonesia.

For the two years ended 31 December 2014 and 2015 and six months ended 30 June 2016, our Group’s sales to our top five customers accounted for approximately 54.5%, 42.5% and 46.0% of our total revenue respectively, and sale to our largest customer accounted for approximately 21.1%, 11.1% and 11.8% of our total revenue respectively. All of our top five customers during the Track Record Period are Independent Third Parties. Please refer to the section headed “Business – Customers” in this prospectus for further details of our major customers during the Track Record Period.

PROCUREMENT, RAW MATERIALS AND SUPPLIERS

The principal raw materials used in our production include (i) glass fibre and (ii) resin, which are sourced from manufacturers and distributors in the PRC.

The following table sets out the breakdown of our Group’s total cost of raw materials used during the Track Record Period:

	Year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Glass Fibre	5,209	22.2	7,814	30.5	4,129	36.5	4,195	36.5
Resin	12,254	52.2	10,398	40.6	3,702	32.7	3,762	32.7
Others ^(Note)	6,000	25.6	7,396	28.9	3,478	30.8	3,534	30.8
Total	23,463	100.0	25,608	100.0	11,309	100.0	11,491	100.0

Note: Others include but not limited to pigment paste, styrene, catalyst, aluminium oxide and other chemicals which are consumables used in manufacturing our FRP products.

During the Track Record Period, we purchased raw materials and production equipment from 87, 93 and 58 suppliers, respectively. For the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our five largest suppliers accounted for approximately 51.1%, 38.4% and 48.0% of our total costs of sale respectively, and our largest

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supplier accounted for approximately 30.0%, 18.0% and 14.1% of our total costs of sale respectively. All of our top five suppliers during the Track Record Period are Independent Third Parties. Please refer to the section headed “Business – Suppliers” in this prospectus for further details of our major suppliers during the Track Record Period.

Sales to a customer located in Russia

Russia is not subject to comprehensive sanctions adopted by the U.S., the European Union, the United Nations or Australia. International Sanctions targeting Russia prohibit or otherwise restrict certain specific types of transactions and activities involving Sanctioned Persons. During the Track Record Period, we had product sales in connection with a customer located in Russia. The total revenue generated from sales to Russia for the year ended 31 December 2015 amounted to RMB279,985 or approximately 0.5% of our total revenue for the same periods. We did not have any product sales to Russia in the year ended 31 December 2014 or the six months ended 30 June 2016. Our sole contracting party in Russia is not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the U.S., the European Union, the United Nations or Australia and therefore is not a target of International Sanctions. As advised by DLA Piper Hong Kong, our legal adviser as to International Sanctions laws, our historical sales in Russia during the Track Record Period do not implicate the applicability of International Sanctions on our Group, our Shareholders or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and HKSCC Nominees. For further details, please refer to the section headed “Business – Customers, Sales and Marketing – Sales to a Customer located in Russia” in this prospectus.

SUMMARY OF KEY FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as at and for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, as applicable.

	For the year ended 31 December		For the six months ended 30 June	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Revenue	53,672	56,405	25,051	27,881
Cost of sales	(34,565)	(35,141)	(17,540)	(18,352)
Gross profit	19,107	21,264	7,511	9,529
Profit before taxation	6,233	8,087	2,159	415
– of which, included Listing expenses	Nil	577	Nil	3,744
Profit/(loss) and total comprehensive income/loss for the year/period	4,232	5,325 ^(Note 1)	1,461	(1,109) ^(Note 1)
<i>Adjusted net profit excluding the one-off Listing expenses</i>	4,232	5,902 ^(Note 2)	1,461	2,635 ^(Note 2)

Notes:

- (1) Inclusive of one-off Listing expenses of approximately RMB0.6 million and RMB3.7 million for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively.
- (2) Adjusted net profit excluding the one-off Listing expenses is calculated by net profit for the period excluding the one-off Listing expenses amounting to approximately RMB0.6 million and RMB3.7 million for the year ended 31 December 2015 and six months ended 30 June 2016, respectively. The terms of adjusted net profit excluding the one-off Listing expenses are not defined under HKFRS. Please see section headed “Financial Information – Non-HKFRS Measures” in this prospectus for details.

SUMMARY

	As at 31 December		As at 30 June	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	18,787	17,968	17,016	17,016
Current assets	67,061	51,220	47,035	47,035
Current liabilities	54,162	34,398	34,299	34,299
Net current assets	12,899	16,822	12,736	12,736
Total assets less current liabilities	31,686	34,790	29,752	29,752
Non-current liabilities	1,634	1,169	1,565	1,565
Net assets	30,052	33,621	28,187	28,187
	For the year ended 31 December		For the six months ended 30 June	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)	
Operating cash flow before changes in working capital	10,333	12,089	4,081	1,645 ^(Note)
Net cash generated from operating activities	9,861	27,246	2,460	479 ^(Note)
Net cash (used in)/generated from investing activities	(977)	339	(209)	(48)
Net cash (used in)/generated from financing activities	(9,755)	(13,447)	(1,112)	(5,786)
Net (decrease)/increase in cash and cash equivalents	(871)	14,138	1,139	(5,355)
Cash and cash equivalents at beginning of the year/period	1,449	578	578	14,716
Cash and cash equivalents at end of the year/period	578	14,716	1,717	9,361

Note: Inclusive of one-off Listing expenses of approximately RMB3.7 million and prepaid Listing expenses of approximately RMB1.4 million.

The following table sets forth a breakdown of the average selling price and the sales volume by product categories during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume
FRP Grating products (m ²)	297.2	158,467	300.5	146,346	288.5	70,154	271.3	79,363
USCG Approved Phenolic Grating products (m ²)	624.4	4,084	586.7	11,132	579.9	4,738	536.5	9,106
FRP Subway Evacuation Platform products (m ²)	555.6	7,000	659.6	5,262	638.7	1,313	854.7	78
Epoxy Wedge Strip products (m)	68.0	2,073	52.8	45,962	73.9	16,602	15.0	92,845

The following table sets forth our gross profits and gross profit margins by product categories for the Track Record Period.

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	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	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 (unaudited)	%	RMB'000	%
FRP Grating products	16,489	35.0	15,935	36.2	5,946	29.4	7,070	32.8
USCG Approved Phenolic Grating products	1,176	46.1	2,972	45.6	945	34.4	1,830	37.5
FRP Subway Evacuation Platform products	1,734	44.6	1,344	38.7	271	32.3	15	22.4
Epoxy Wedge Strip products	(292) ^(Note)	— ^(Note)	1,013	41.8	349	28.5	614	44.0
Total	19,107	35.6	21,264	37.7	7,511	30.0	9,529	34.2

Note:

We experienced a gross loss for our Epoxy Wedge Strip products for the year ended 31 December 2014, mainly because the cost of sales for the year ended 31 December 2014 has taken into account the one-off expensed trial cost during the same year prior to the launching of such products. Excluding the one-off expensed trial cost, our gross profit and gross profit margin for our Epoxy Wedge Strip products for the year ended 31 December 2014 amounted to approximately RMB42,000 and 29.8%, respectively.

For further details and analysis of our financial information, please refer to the section headed “Financial Information” in this prospectus.

Selected key financial ratio

The following table sets forth our selected key financial ratios during the Track Record Period:

Formulae	As at/for the year ended 31 December		As at/for the six months ended 30 June 2016	
	2014	2015		
Gross profit margin	Gross profit/revenue x 100%	35.6%	37.7%	34.2%
Net profit margin	Net profit/revenue x 100%	7.9%	9.4%	(4.0%) ^(Note 2)
Adjusted net profit margin	Adjusted net profit/revenue x 100% (Note 1)	7.9%	10.5%	9.5%
Gearing ratio	Total bank borrowings/total equity x 100%	133.1%	59.5%	71.0%
Current ratio	Current assets/current liabilities	1.2x	1.5x	1.4x
Quick ratio	(Current assets – inventories)/current liabilities	1.1x	1.4x	1.2x
Return on equity	Net profit/average balance of total equity x 100%	15.1%	16.7%	8.9% ^(Note 3)
Return on assets	Net profit/average balance of total assets x 100%	7.6%	10.3%	6.2% ^(Note 3)

Notes:

- (1) The adjusted net profit margin is calculated by dividing the net profit (excluding the one-off Listing expenses amounting to approximately RMB0.6 million and RMB3.7 million for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively) by the revenue for the respective year/period multiplied by 100%. The terms of adjusted net profit margin and adjusted net profit are not defined under HKFRS. Please see section headed “Financial Information – Non-HKFRS Measures” in this prospectus for details.
- (2) Negative net profit margin was calculated based on the net loss recorded for the six months ended 30 June 2016.
- (3) Calculated based on the trailing twelve months net profit, divided by using average balance as at 31 December 2015 and 30 June 2016.

Our gearing ratio decreased from approximately 133.1% as at 31 December 2014 to 59.5% as at 31 December 2015 mainly because of the decrease in bank borrowings from approximately RMB40.0 million as at 31 December 2014 to RMB20.0 million as at 31 December 2015 owing to (i) settlement of bank borrowings by our Group; and (ii) increased

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net cash generated from operating activities to fulfill general working capital requirement of our Group. Our gearing ratio increased to approximately 71.0% as at 30 June 2016, mainly due to the reduction of the total equity balance as a result of (i) recognition of loss of the period amounting to RMB1.2 million; (ii) acquisition of the non-controlling interest of RMB0.5 million; and (iii) addition of the equity-settled share-based payments of RMB0.1 million. The total amount of bank borrowings remained unchanged during the period. Due to the incurrence of Listing expenses amounting to approximately RMB3.7 million during the six months ended 30 June 2016, a negative net profit margin of (4.0%) was recorded during the period. As a result, our return on equity and return on assets had reported a decrease from the year ended 31 December 2015 to the six months ended 30 June 2016. Please refer to the section headed “Financial Information – Selected Key Financial Ratio” in this prospectus for further details of our selected key financial ratio.

LISTING EXPENSES

Our Listing expenses mainly include underwriting commissions and professional fees in relations to the Listing. The total expenses (based on the mid-point of our indicative Placing Price range for the Listing) for the Listing is estimated to be approximately HK\$23.5 million, of which approximately HK\$5.1 million was charged to our profit or loss for the year ended 31 December 2015 and the six months ended 30 June 2016. Of the remaining amount of approximately HK\$18.4 million to be expensed, a prepaid Listing expenses of approximately HK\$1.7 million as at 30 June 2016 will be charged against equity, and a further incurred amount of approximately HK\$3.4 million from 30 June 2016 up to the date of this prospectus will be charged against profit or loss, both upon Listing. The balances of approximately HK\$13.3 million will be charged directly against the gross proceeds to be raised upon Listing. Of the same approximately HK\$18.4 million Listing expenses, approximately HK\$11.6 million will be charged to the profit or loss for the year ending 31 December 2016; and the remaining HK\$6.8 million (including HK\$1.7 million) will be capitalised as deferred expenses and be charged against equity upon Listing.

In view of the above, prospective investors should note that the financial results of our Group for the year ending 31 December 2016 will be adversely affected by the non-recurring expenses in relation to the Listing, and the Company is expected to incur a net loss for the year ending 31 December 2016.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the date of this prospectus, we continued to focus on our principal business of research and development, production and sale of FRP products. Our Group’s business model, revenue structure, financial performance, profitability and cost structure remained unchanged since 30 June 2016. Based on our Group’s unaudited management accounts, the revenue for the ten months ended 31 October 2016 demonstrated mild increase as compared to the corresponding period for 2015. This was mainly due to the increase in sales of our USCG Approved Phenolic Grating products and Epoxy Wedge Strip products, partially offset by the decrease in sales of our FRP Subway Evacuation Platform products. The Directors confirm that despite passing of the June 2016 Referendum by U.K. voters to exit the European Union, the Group did not experience any significant changes in the sales to customers in the U.K. subsequent to the Track Record Period and up to the date of this prospectus. Moreover, the overall gross profit margin for the ten months ended 31 October 2016 slightly increased as compared to that for the corresponding period in 2015, mainly due to continuous decreases of raw material prices of resin during the period. In addition, we have entered into a sale and purchase agreement for the sale of FRP Subway Evacuation Platform products with a PRC customer on 4 August 2016 at the consideration of approximately RMB6.3 million. Save as discussed in this paragraph and for the Listing expenses as disclosed above, our Directors confirmed that (i) there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there have been no material adverse change in the operation, financial or trading position, or prospect of our Group; and (iii) there had been no event which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus, since 30 June 2016 (being the date to which the latest audited consolidated financial statements of our Group were prepared) and up to the date of this prospectus. Our Group expects to record net loss and net operating cash outflow for the year ending 31 December 2016.

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CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon exercise of the Offer Size Adjustment Option), each of Munsing and Singa will directly own approximately 34.10% and approximately 40.90% of the issued share capital of our Company respectively, and Mr. Shen, Mr. Jiang, Munsing and Singa will together form a group of Controlling Shareholders within the meaning of the GEM Listing Rules and together control 75% of the issued share capital of our Company. Munsing and Singa are investment-holding companies and have not commenced any substantive business activities as at the Latest Practicable Date. In order to avoid any potential competition between our Company and our Controlling Shareholders, our Controlling Shareholders have entered into the Deed of Non-competition with our Company and have irrevocably and unconditionally undertaken that neither they nor any of their associates would engage in any business that competes directly or indirectly or may compete with the core business activity of any member of our Group. For further details of our Controlling Shareholders and the Deed of Non-competition, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

Our Controlling Shareholders have been parties acting in concert (having the meaning ascribed to it under the Takeovers Code) in the course of the Reorganisation and will continue to be parties acting in concert (having the meaning ascribed to it under the Takeovers Code) until such arrangement is terminated in writing by them pursuant to the Concert Party Deed. For details, please refer to the section headed “History, Reorganisation and Development – Concert Party Deed” in this prospectus.

PLACING STATISTICS^(Note 1)

Placing size:	100,000,000 Placing Shares, representing approximately 25.0% of the issued share capital of our Company upon completion of the Placing
Offer Size Adjustment Option ^(Note 2) :	Up to 15% of the Placing Shares initially available under the Placing
Placing Price:	HK\$0.30 to HK\$0.35 per Placing Share

	Based on a Placing Price of HK\$0.30 per Share	Based on a Placing Price of HK\$0.35 per Share
Market capitalisation of our Shares ^(Note 3)	HK\$120.0 million	HK\$140.0 million
Unaudited pro forma adjusted net tangible asset value per Share ^(Note 4)	HK\$0.112	HK\$0.124

Notes:

1. All statistics in this table are on the assumption that the Offer Size Adjustment Option is not exercised.
2. In connection with the Placing, our Company granted to the Sole Global Coordinator (for itself and on behalf of the Underwriters) the Offer Size Adjustment Option to cover over-allocations under the Placing (if any). Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue, at the final Placing Price, up to an aggregate of 15,000,000 additional new Shares, representing 15% of the Placing Shares initially available under the Placing. Please refer to the section headed “Structure and Conditions of the Placing – Offer Size Adjustment Option” for further details.
3. The calculation of our market capitalisation is based on the assumption that 400,000,000 Shares in aggregate will be issued immediately upon completion of the Placing and the Capitalisation Issue prior to the exercise of the Offer Size Adjustment Option.
4. The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in “Unaudited Pro Forma Financial Information” in Appendix II of this prospectus and on the basis of a total of 400,000,000 Shares in issue immediately after the completion of the Capitalisation Issue and the Placing.

DIVIDEND

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, Nantong Meigu declared dividends of approximately RMB12.0 million, nil and nil respectively to its then shareholders, namely Prosperous Composite and Nantong Jianke. The dividend payable to Prosperous Composite of approximately RMB10.2 million was net off against the dividend receivables of Prosperous Composite due to the accounting consolidation of audited

SUMMARY

financial statements of our Company upon completion of the Reorganisation. Of the RMB1.8 million dividends declared by Nantong Meigu to Nantong Jianke, approximately RMB1.0 million had been settled in 2015 by setting off against the amounts due from Nantong Jianke. The remaining dividends of approximately RMB0.8 million payable to Nantong Jianke was fully settled as at 30 June 2016.

We currently do not have any specific dividend policy. Our Directors may recommend a payment of dividends in the future taking into account our results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant. Any declaration and payment as well as the amount of the dividends will be at the absolute discretion of our Directors and will be subject to our constitutional documents and the Company Law, including the approval of our Shareholders. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future. Please refer to the section headed “Financial Information – Dividend and Distributable Reserves” in this prospectus for further details.

RISK FACTORS

There are certain risks involved in our operations which could also harm our business, financial condition and operation results. In particular, (i) our results of operations depend on the conditions of the industries in which our customers operate, especially the construction, railway, wind power and marine engineering industries; (ii) lack of long-term sales contract with customers; (iii) our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may have a material adverse effect on our business, results of operations and financial condition; and (iv) any quality deficiency in our FRP products or failure to maintain or renew our USCG, ABS or DNV certifications may materially and adversely affect our business, financial condition and results of operations. In addition, the passing of the June 2016 Referendum by U.K. voters to exit the European Union has caused political and economic instability, which may in turn lower the demand for our products market and adversely impact our revenue and cash flow generated from the U.K. market owing to, among other things, (i) potential depreciation of British pound against U.S. dollars resulting in higher purchase price for our U.K. customers; (ii) significant decrease in income level and purchase power of our U.K. customers; and (iii) change in taxation or tariff regime disfavouring the export of our products to the U.K..

REGULATORY COMPLIANCE

During the Track Record Period, we were involved in certain non-compliance incidents in relation to: (i) non-compliance with the Construction Quality Management Regulations (建設工程質量管理條例) relating to the failure to obtain building ownership certificate construction permit and certificate of practical completion for a property situated in our product base; (ii) non-compliance with the Lending General Provisions (貸款通則) in respect of entering into loan arrangements with certain related parties of the Company; and (iii) non-compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法). For details of such historical non-compliance incidents, please refer to the section headed “Business – Compliance and Legal Proceedings” in this prospectus.

DEFINITIONS

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

“Articles” or “Articles of Association”	the amended and restated articles of association of our Company (as amended from time to time) adopted on 16 December 2016, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open to the public for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the allotment and issue of 299,999,250 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as further described in the paragraph headed “Written resolutions of our Shareholders passed on 16 December 2016” under the section headed “Statutory and General Information – A. Further information about our Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	MEIGU Technology Holding Group Limited (美固科技控股集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 January 2016
“Company Law”	the Company Law (as revised) of the Cayman Islands, as amended, supplemented and/or otherwise modified from time to time
“Compliance Adviser”	KGI Capital Asia Limited
“Compliance Adviser Agreement”	a compliance adviser agreement dated 20 June 2016 entered into between our Company and the Compliance Adviser pursuant to the requirement of Rule 6A.19 of the GEM Listing Rules, further details of which are set out in the paragraph headed “Compliance Adviser” under the section headed “Directors, senior management and employees” in this prospectus
“Concert Party Deed”	a confirmatory deed dated 16 December 2016 and entered into among Mr. Jiang, Mr. Shen, Munsing and Singa to confirm and record the agreement and understanding among the parties for the acknowledgement of their acting in concert (having the meaning as ascribed to it under the Takeovers Code) relationship
“Controlling Shareholders”	the group of controlling shareholders (having the meaning ascribed to it in the GEM Listing Rules) of our Company, namely Mr. Jiang, Mr. Shen, Munsing and Singa

DEFINITIONS

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Deed of Indemnity”	the deed of indemnity dated 16 December 2016 and executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Statutory and General Information – D. Other information – 1. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 16 December 2016 and executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders – Non-competition undertakings” in this prospectus
“Director(s)” or “our Directors”	the director(s) of our Company
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) passed by the National People’s Congress of the PRC on 16 March 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time
“Frankly Smart”	Frankly Smart Group Limited (誠智集團有限公司), a company incorporated in the BVI on 20 November 2015 with limited liability and wholly-owned by Mr. Huei
“Gazette”	the official publication of the Government for statutory notices for public tenders
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Government”	the government of Hong Kong

DEFINITIONS

“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries at the relevant time or, where the context refers to any time prior to our Company becoming the holding company of our present subsidiaries, such subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and “we”, “our” or “us” shall be construed accordingly
“HK\$” or “Hong Kong dollars”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial shareholders (within the meaning of the GEM Listing Rules) of our Company, our subsidiaries or any of their respective associates
“International Sanctions”	sanction-related laws and regulations issued, administered and enforced by the U.S., the European Union, the United Nations or Australia
“June 2016 Referendum”	a non-binding referendum that took place on 23 June 2016 in the U.K. to determine whether the U.K. would continue to be a member of the European Union
“Latest Practicable Date”	20 December 2016, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“ Listing ”	listing of the Shares on GEM
“ Listing Date ”	the date on which dealings of our Shares on GEM first commence, which is expected to be Friday, 13 January 2017
“ Listing Division ”	the Listing Division of the Stock Exchange
“ Main Board ”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM and which, for avoidance of doubt, excludes GEM
“ Memorandum ” or “ Memorandum of Association ”	the amended and restated memorandum of association of our Company (as amended from time to time) adopted on 16 December 2016, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus
“ MOFCOM ”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches
“ Mr. Cao ”	Mr. Cao Dezhi (曹德志先生), one of the founders of Nantong Meigu
“ Mr. Chen ”	Mr. Chen Xin (陳鑫先生), one of the founders of Nantong Meigu and the brother-in-law of Mr. Jiang
“ Mr. Huei ”	Mr. Huei Huei-Jen (惠惠仁先生), the sole shareholder of Frankly Smart
“ Mr. Jiang ”	Mr. Jiang Guitang (姜桂堂先生), one of our Controlling Shareholders, our executive Director and our chief executive officer
“ Mr. Lin ”	Mr. Lin Guangquan (林廣銓先生), a former shareholder of Prosperous Composite
“ Mr. Shen ”	Mr. Shen Weixing (沈衛星先生), one of our Controlling Shareholders
“ Ms. Chen ”	Ms. Chen Lihua (陳麗華女士), the sister-in-law of Mr. Jiang and the sole proprietor of Nantong Jianke

DEFINITIONS

“Ms. Gong”	Ms. Gong Hui (龔慧女士), the spouse of Mr. Shen
“Ms. Shi”	Ms. Shi Dongying (施冬英女士), our executive Director and our compliance officer
“Munsing”	Munsing Developments Limited (萬星發展有限公司), a company incorporated in the BVI on 8 October 2015 with limited liability which is wholly-owned by Mr. Shen, and one of our Controlling Shareholders
“Nantong Jianke”	Nantong Jianke Engineering and Technology Service Centre* (南通建科工程技術服務中心), a sole proprietorship enterprise established by Ms. Chen on 28 May 2003 in the PRC and a then shareholder of Nantong Meigu
“Nantong Meigu”	Nantong Meigu Composite Materials Company Limited* (南通美固複合材料有限公司), a limited liability company established on 24 April 2003 under the laws of the PRC and an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation
“Nomination Committee”	the nomination committee of the Board
“OFAC”	the Office of Foreign Assets Control of the U.S. Department of the Treasury
“Offer Size Adjustment Option”	the option to be granted by our Company to the Sole Global Coordinator under the Underwriting Agreement to require our Company to issue up to an additional 15,000,000 Shares, representing 15% of the number of the Placing Shares, at the Placing Price to cover over-allocation in the Placing, details of which are described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of our Company at the Placing Price as further described in the section headed “Structure and conditions of the Placing” in this prospectus

DEFINITIONS

“Placing Price”	the final placing price per Placing Shares in Hong Kong dollars (exclusive of any brokerage fee, SFC transaction levy and Stock Exchange trading fee) of being not more than HK\$0.35 and expected to be not less than HK\$0.30, at which the Placing Shares are to be subscribed for and issued, or purchased and sold, and which is to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price determination Date, as described in the section headed “Structure and Conditions of the Placing – Placing Price” in this prospectus
“Placing Shares”	the 100,000,000 Shares initially being offered by our Company for purchase at the Placing Price pursuant to the Placing, subject to the Offer Size Adjustment Option as mentioned in the section headed “Structure and conditions of the Placing” in this prospectus
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau Special Administrative Region and Taiwan
“PRC Legal Advisers”	Beijing Dentons Law Offices, LLP, the legal advisers of our Company as to the PRC law
“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Placing Price
“Price Determination Date”	the date on which the Placing Price is expected to be fixed, which is expected to be on Friday, 6 January 2017
“Prosperous Composite”	Prosperous Composite Material Co., Ltd., a company incorporated in the BVI on 7 November 2006 with limited liability and a direct wholly-owned subsidiary of our Company
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the corporate reorganisation of our Group prior to the issue of this prospectus, details of which are set out in the section headed “History, Reorganisation and Development – Reorganisation” in this prospectus

DEFINITIONS

“ Risk Management Committee ”	the risk management committee of the Board
“ RMB ”	Renminbi, the lawful currency of the PRC
“ SAFE ”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“ SAIC ”	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“ Sanctioned Country(ies) ”	country(ies) which is/are to the target of economic sanctions administered by the U.S., the European Union, the United Nations or Australia
“ Sanctioned Person(s) ”	certain person(s) and entity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List, OFAC’s Sectoral Sanctions Identifications (SSI) List, or other restricted parties lists maintained by the U.S., the European Union, the United Nations or Australia
“ 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 nominal value of HK\$0.01 each in the share capital of our Company
“ Shareholder(s) ”	holder(s) of the Share(s)
“ Singa ”	Singa Dragon International Ventures Limited (龍祥國際投資有限公司), a company incorporated in the BVI on 7 December 2015 with limited liability which is wholly-owned by Mr. Jiang, and one of our Controlling Shareholders
“ Sole Global Coordinator ”, “ Sole Bookrunner ”, and “ Sole Lead Manager ”	KGI Capital Asia Limited
“ Sole Sponsor ”	KGI Capital Asia Limited
“ sq.m. ” or “ m² ”	square metres

DEFINITIONS

“ Stock Exchange ”	The Stock Exchange of Hong Kong Limited
“ subsidiary(ies) ”	has the meaning ascribed to it under the Companies Ordinance
“ Sullivan ”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent research and consulting organisation engaged by our Company to prepare the Sullivan Report
“ Sullivan Report ”	the industry report prepared by Sullivan
“ Takeovers Code ”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“ Track Record Period ”	the period comprising the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016
“ U.K. ”	the United Kingdom
“ Underwriters ”	KGI Capital Asia Limited, Gransing Securities Co., Limited and VC Brokerage Limited
“ Underwriting Agreement ”	the conditional underwriting agreement dated 28 December 2016 entered into among our Company, Mr. Jiang, Ms. Shi, Mr. Cheng Dong, the Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Underwriters in relation to, <i>inter alia</i> , the underwriting of the Placing Shares, further details of which are set out in the section headed “Underwriting” in this prospectus
“ U.S. ”	the United States of America
“ USD ”	U.S. dollars, the law currency of the U.S.
“ % ”	per cent.

In this prospectus, the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction” and “substantial shareholder” shall have the meanings given to such terms in the GEM Listing Rules, unless the context otherwise requires.

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

* *for identification purpose only*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanation of certain terms used in this prospectus in connection with our Company and our business. The terminologies and their given meanings may not correspond to the standard meanings or usage of such terms adopted in the industry.

“ABS”	American Bureau of Shipping, a classification society acting for the U.S. Government as an agent to develop and verify maritime construction and safety standards
“BOM”	Bill of materials, a list of the raw materials, components and assemblies required to manufacture a product
“CAGR”	Compound annual growth rate
“crosstie”	a rectangular support for the rails in railroad tracks
“die”	a specialised tool used in manufacturing industries to cut or shape material mostly using a press
“DNV”	Det Norske Veritas Germanischer Lloyd, a worldwide classification society providing maritime and offshore technical assessments and classification
“EACC”	Beijing East Allreach Certification Centre (北京東方縱橫認證中心), a certification centre in the PRC
“epoxy”	a term used to denote both the basic components and the cured end products of epoxy resins
“epoxy resin”	advanced thermosetting resins used in FRP composites
“Epoxy Wedge Strip”	one of our products, being a FRP product in the shape of a strip manufactured mainly by pultruding glass fibre and epoxy resin to form strips of various dimensions as specified by our customers
“fibreglass”	a material made from fine fibres of glass and used as a reinforcing agent for polymer products
“FRP”	fibreglass reinforced plastic, a composite material made of thermosetting resins and glass fibre

GLOSSARY OF TECHNICAL TERMS

“FRP Grating”	one of our products, being a standard FRP product in shape of a grating manufactured mainly by moulding or pultruding glass fibre and resin to form grating of various dimensions as specified by our customers
“FRP Subway Evacuation Platform”	one of our products, being a FRP product in the shape of a grating manufactured mainly by pultruding glass fibre and phenol formaldehyde resin to form grating of various dimensions as specified by our customers
“Guangzhou Institute of Measurement and Detection* (廣州計量檢測技術研究院)”	a statutory metrology verification institution in the PRC
“Intertek ETL SEMKO Testing Services”	a testing, inspection and certification company
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the management system of business organisations
“ISO 9001”	the International Standard for Quality Management Systems. It specifies requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements, and aims to enhance customer satisfaction through the effective application of the system. ISO 9001:2008 is the current version of ISO 9001
“JEC”	An international composites industry organisation
“Level 2 Fire Integrity Requirements”	fire test requirements on FRP grating products set by USCG, fulfilment of which entails that such products are intended to be satisfactory for use in open deck areas where groups of people are likely to assemble such as temporary safe refuge or lifeboat embarkation areas, and are also acceptable for services and functions described for Level 3 Fire Integrity Requirements

GLOSSARY OF TECHNICAL TERMS

“Level 3 Fire Integrity Requirements”	fire test requirements on FRP grating products set by USCG, fulfilment of which entails that such products are intended to be satisfactory for use in egress routes and any areas that may require access for firefighting, rescue or emergency operations during exposure to or shortly after exposure to a transitory hydrocarbon or cellulosic fire
“mould”	also referred to as “mold”, a rigid hollowed-out block used for moulding
“moulding”	also referred to as “molding”, a process of manufacturing by shaping liquid or flexible raw material using a mould
“National Fire Proof Building Materials Quality Testing Centre* (國家防火建築材料質量檢驗中心)”	a national product quality supervision and inspection agency in the PRC
“phenol”	also referred to as “carbolic acid”, is a colourless crystalline solid and aromatic compound
“phenolic resin”	made by combining phenol and an organic compound called aldehyde
“pultrusion”	a continuous solidifying process whereby reinforcing fibres are saturated with a liquid polymer resin and then pulled through a heated die and solidified to form a part
“USCG”	United States Coast Guard, a branch of the United States Armed Forces
“USCG Approved Phenolic Grating”	one of our products, being a FRP product in the shape of a grating manufactured mainly by moulding or pultruding glass fibre and phenol formaldehyde resin to form grating of various dimensions as specified by our customers, and being certified for meeting the Level 2 Fire Integrity Requirements as specified by USCG

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS MAY NOT MATERIALISE

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe”, “expect”, “aim”, “intend”, “project”, “will”, “may”, “plan”, “consider”, “anticipate”, “seek”, “should”, “would” or similar expressions or the negative thereof, are forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, *inter alia*, the following:

- future development, trends and conditions in the industry and markets in which we operate
- expansion, consolidation or other trends in the industry in which we operate
- regulations and restrictions
- general political and economic conditions in Hong Kong and internationally
- macroeconomic measures taken by the Hong Kong and/or the PRC governments to manage economic growth
- our business prospects
- the competition for our business activities and the actions and development of our competitors
- financial condition and performance of our Group
- our dividend policy
- changes to our use of capital expenditures
- realisation of the benefits of our business plan and strategies

FORWARD-LOOKING STATEMENTS

We believe that the sources of information and assumptions contained in such forward-looking statements are appropriate sources for such statements and have taken reasonable care in extracting and reproducing such information and assumptions. We have no reason to believe that information and assumptions contained in such forward-looking statements are fake or misleading or that any fact has been omitted that would render such forward-looking statements inaccurate or misleading in any material respect. Additional factors that could cause actual performance or achievements of our Group to differ materially include, but are not limited to those discussed under the section headed “Risk factors” and elsewhere in this prospectus.

These forward-looking statements are based on current plans and estimates, and apply only as of the date they are made. We undertake no obligation to update or revise any forward-looking statements in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Placing Shares. You should pay particular attention to the fact that the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of our Group could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO THE BUSINESS OF OUR GROUP

Our results of operations depend on the conditions of the industries in which our customers operate, especially the construction, railway, wind power and marine engineering industries

A majority of our products sold to our customers are directly or indirectly used in the construction, railway, wind power and marine engineering industries, and hence our business may be affected, directly or indirectly, by changes in supply and demand within these industries. Our plan to expand our production capacity is heavily based on our anticipation of the growth in demand of our customers' products, which is in turn driven by the growth of the construction, railway, wind power and marine engineering industries. According to Sullivan, the growth rates of the FRP market, the FRP Grating products market and the USCG Approved Phenolic Grating products market in the PRC are expected to slowdown from a CAGR of approximately 9.0%, 7.1% and 36.7% for the period 2010 to 2015 to a CAGR of approximately 6.7%, 4.0% and 15.5% for the period 2015 to 2019, respectively, which may have a negative effect on the demand for our products and our business, prospects, financial conditions and results of operation may be adversely affected. In addition, if the growth in the construction, railway, wind power and marine engineering industries does not match our expectations, demand for our products may in turn be lower than anticipated and the utilisation rate of our production facilities may be adversely affected. Moreover, the construction, railway, wind power and marine engineering industries are characterised by changing and increasing sophisticated customer demands and evolving industry standards and laws and regulations. Therefore, we expect competition in the industries in which our customers operate to continue to intensify and consolidate. Any events that have an adverse effect on the demand for our customers' products could materially and adversely affect the utilisation rate of our production facilities and our business, prospects, financial conditions and results of operations.

Furthermore, the investment plans of our customers in the construction, railway, wind power and marine engineering industries may be impacted by changes in government initiatives and international arrangements aimed at global environmental protection, which in turn may be affected by various factors such as changes in the political landscape, political commitments to reduction in gas emissions and the interactions between political, economic and social dimensions regarding the construction, railway, wind power and marine engineering industries in our key markets. Please refer to the paragraph headed "Risks Relating to the

RISK FACTORS

Industry in which we Operate – Any uncertainties or adverse changes in government investments, initiatives and policies affect the construction, railway, wind power or marine engineering industries or other industries in which our customers operate may adversely affect our business, prospects and results of operations” for details of the associated risks.

Lack of long-term sales contract with customers

During the Track Record Period, we did not maintain long-term sales contracts with our customers obligating them to place orders with us that would secure future revenue for us. Instead, we sell our products based on individual purchase orders. Going forward, we cannot assure you that any of our customers will place purchase orders with us in the future, or that the volume or price of our customers’ purchase orders will be consistent with their past orders or meet our future expectations. As a result, our results of operations may vary significantly from period to period, and the sales volume and selling price of our products are subject to fluctuation and uncertainty. Any one of the following events may cause material fluctuations or declines in our revenue and have a material adverse effect on our prospects, results of operations and financial condition:

- reduction in the volume or price of products purchased from us by one or more of our major customers;
- delay or cancellation of procurement by our customers due to the change in their business plans;
- the decision by one or more of our major customers to select one or more of our competitors to supply FRP products;
- the loss of one or more of our major customers and our failure to identify and obtain additional customers that can replace the lost sales volume at satisfactory pricing or upon similar terms; and
- the failure or inability of our major customers to make timely payment for our products and services.

If any of such incidents took place, we cannot assure you that we would be able to obtain orders from other customers to timely replace such lost sales on comparable terms, or at all, in which case our business, results of operations, financial condition and prospects may be materially and adversely affected.

Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may have a material adverse effect on our business, results of operational and financial conditions

During the Track Record Period, there was a notable concentration in our customer base. Our Group’s top five customers collectively accounted for approximately 54.5%, 42.5% and 46.0% of our total revenue for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively.

RISK FACTORS

There may be risks associated with having a small number of major customers contributing a significant portion of revenue. We cannot assure you that we will be able to maintain or improve our relationship with our major customers, and we cannot assure you that we will be able to continue to supply products to them at current levels on similar terms, or at all. In addition, our business is to a large extent affected by the businesses of our major customers. Any deterioration in the businesses of our major customers could lead to a decline in their purchase orders placed with us or a change in our business relationships with our major customers. Our use of resources and management attention to continue our business relationships with our major customers and meet their purchase orders may also reduce resources devoted to our other customers and business activities. Moreover, as many of our customers are major international distributions or PRC-based corporate customers who have stronger market positions than we do, we may have limited bargaining power when negotiating with them. We may continue to offer long credit periods or concede to certain requests made by certain customers in order to maintain good relations with them.

We sell some of our FRP products to overseas customers who are generally distributors, over which we have limited control

During the Track Record Period and up to the date of this prospectus, our overseas customers had been generally distributors and we have a seller-buyer relationship with them. These distributors are typically overseas manufacturers and distributors of FRP products who outsource the manufacturing of FRP products to us to lower their production costs. For the two years ended 31 December 2015 and the six months ended 30 June 2016, our sales to distributors amounted for approximately 58.5%, 48.1% and 47.3% of our total revenue, respectively.

We may not be able to successfully maintain our existing overseas customers or establish relationships with new customers who are distributors

For the two years ended 31 December 2015 and the six months ended 30 June 2016, we sold our FRP products to 26, 26 and 19 distributors respectively, out of which 10, 19 and 16 were recurring customers, and the revenue generated from these recurring customers amounted to approximately RMB30.0 million, RMB26.2 million and RMB12.9 million, respectively. Our Group has not entered into any long-term agreement with our existing overseas customers who are distributors. We cannot assure you that we will be able to maintain our relationships with these customers or to develop relationships with new customers of the same nature on favourable terms. If a significant number of our overseas customers who are distributors cease to purchase our products and our Group is unable to find suitable replacement customers of the same nature, our Group's business and results of operations may be adversely affected.

We have little control our overseas customers who are distributors

Since the distributors are considered as end-customers of our Group, we do not exert any control over such customers or their respective distribution channels. In particular, (i) we have no ownership, managerial or contractual control over any of such distributors or their sales, pricing and marketing activities. Since they are considered as end-customers of our Group; (ii)

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we have no restrictions on the distributors regarding their geographical coverage, sales target, minimum purchase requirements or target customers; and (iii) our distributors are not required to provide us with any information regarding their sales, inventory levels and customers' demands of our products. As such, we may not be able to accurately track the sales and inventory levels of such distributors in relation to our products, and we may not be able to timely gather sufficient information and data regarding the market demand and consumers' preferences for our products. Failure to accurately track sales and inventory levels of our distributors and timely gather market information may cause us to incorrectly predict sales trends and impede us from quickly aligning our marketing and product strategies in response to market changes. Further, as we have little control over the actions and practices of such distributors, our reputation and business may be adversely affected if our distributors fail to comply with relevant laws and regulations.

The occurrence of any of the events above could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial condition and results of operations.

Any quality deficiency in our FRP products or failure to maintain or renew our USCG, ABS or DNV certifications may materially and adversely affect our business, financial conditions and results

We differentiate our business by delivering products of consistent high quality, as some of our customers require our products to meet different industry technical standards and other requirements imposed by the relevant certification organisations such as USCG, ABS and DNV. Please refer to the section headed "Business – Quality Control" in this prospectus for more details.

There is no assurance that the quality inspection and testing procedures currently perused by our quality control department may be effectively complied with at all times. In the event that our staff members failed to comply with such quality inspection and testing procedures, defective products may be delivered to our customers. In addition, any changes in the relevant industry standards or failure to maintain or renew USCG, ABS or DNV certifications may have an adverse effect on our sales. In order to renew such certifications, our products must be able to pass various tests conducted by the relevant accreditation organisations on a recurring basis. There can be no assurance that our products will be able to pass the tests in the future. Moreover, significant quality defects in our product may damage our reputation and lead to loss of customers and future sales as well as giving rise to potential compensation claims by affected customers, and materially and adversely affect our business, financial condition and results of operations.

Our top five suppliers accounted for a substantial portion of our costs of sale and fluctuations in the price of raw materials or disruption to the supply of raw materials may have a material adverse effect on our business, results of operations and financial condition

The major raw materials used in our production include (i) glass fibre and (ii) resin, which are sourced from manufacturers and distributors in the PRC. For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our top five suppliers accounted for

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approximately 51.1%, 38.4% and 48.0% of our total costs of sale respectively. In particular, approximately 30.0%, 18.0% and 14.1% of our total costs of sale were attributable to our largest supplier for each of the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively. If any of our top suppliers were to substantially reduce the amount of goods provided to us or to terminate the business relationship with us entirely, there can be no assurance that we would be able to identify new suppliers for replacement in a timely manner. Moreover, there can be no assurance that the provision of goods and services from new suppliers in replacement, if any, would be on commercially comparable terms. As such, our operations and financial performance may be adversely affected.

In addition, the growth of our business has led to our increasing demand for our major raw materials. For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our costs of raw materials used represented approximately 67.9%, 72.8% and 62.6% of our costs of sale respectively. Although we monitor the price of raw materials and adjust our price quotations accordingly, we may not be able to directly and timely pass on any increase in the price of raw materials to our customers, which may have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we maintain a minimum inventory level for our commonly used raw materials to ensure sufficient supply of raw materials for our production needs. In setting the minimum inventory level, we take into account, among others, the delivery time and daily depletion rate of the raw materials, as well as our anticipation of the demand for our products. To maintain the minimum inventory level for commonly used raw materials, our Group may place orders with our suppliers prior to receiving purchase orders for our products from customers. Therefore, the orders from our Group to the suppliers are, to an extent, based on the demand for our products as anticipated by our management, the production department and the procurement department. If we incorrectly estimate customer demand, we may misallocate resources which may lead to excess inventory. Inventory obsolescence may result in our Group having to make adjustments to write down our inventory to lower the cost or net realisable value and may have a material adverse effect on our results of operations.

Our cash flow may deteriorate due to potential mismatch in time between receipt of payments from our customers and payments to our suppliers, and we may take a long time to collect our trade and bills receivables

While our suppliers generally grant us a credit term of 60 to 180 days from date of billing invoices, we generally give credit terms ranging from cash on delivery to one year after billing date to our customers. As a result, there are often time lags between receiving payments from our customers and making payments to our suppliers, resulting in potential cash flow mismatch. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and trade and bills receivable turnover days. For the two years ended 31 December 2015 and the six months ended 30 June 2016, our trade payable turnover days were approximately 101 days, 98 days and 100 days respectively while our trade and bills receivables turnover days were approximately 158 days, 187 days and 187 days respectively, which are further discussed in the section headed “Financial Information” in this prospectus. The relatively high trade and bills receivables turnover days suggest that we may take a relatively long time to collect our trade and bills receivables.

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There can be no assurance that our clients will settle their payments on time or at all. We rely on cash inflow from our customers and partially the short-term borrowings from banks to meet our payment obligations to our suppliers, and our cash inflow is dependent on prompt settlement of payments by our customers. Therefore, delayed payments from our customers may pose difficulties for us to manage our working capital and/or adversely impact our liquidity. Nevertheless, even if our customers settle such payments on time and in full, there can be no assurance that we would not experience any significant cash flow mismatch. In addition, there can be no assurance that our cash flow management measures could function properly or at all. If there were any significant and substantial cash flow mismatch, we might have to raise funds by resorting to internal resources and/or additional banking facilities in order to meet our payment obligations in full and on time, and our cash flows and financial position may be materially and adversely affected.

Our Group has in place a credit policy to monitor the recoverability of our trade and bills receivables on an ongoing basis, and, when appropriate, provides for impairment for these trade and bills receivables. As at 31 December 2014 and 2015 and 30 June 2016, allowance for doubtful debts amounted to RMB1.1 million, RMB1.9 million and RMB1.5 million, respectively, which primarily related to the trade receivables from customers that our Directors considered to be uncollectible based on their recent repayment history and results of Company searches conducted on such customers. There is no assurance that we will not record further impairment losses in the future even if our credit policy for monitoring the recoverability of our trade and bills receivables are in place. In the event that any material amount of trade receivables is considered to be uncollectible, impairment will be made accordingly, and our financial condition and results of operations may be materially and adversely affected.

We may not be able to continuously enhance our product portfolio and offer high quality new projects, which may materially and adversely affect our business, prospects, financial condition and results of operation

Our growth and future success rely heavily on our ability to expand customer base by enhancing our product portfolio and strengthening our market position. Our ability to successfully attract and maintain the relationships with our customers depends largely on (i) our ability to anticipate and effectively respond to changing customers' demands and preferences; (ii) anticipate and respond to changes in the policy directives and competitive landscape; (iii) identify and adopt evolving technologies; and (iv) develop and upgrade our products that fit the needs of our potential and existing customers. If we fail to successfully develop and upgrade products that could gain market acceptance, achieve technological feasibility, or meet prescribed industrial standards, our business, prospects, financial condition and results of operations may be materially and adversely affected.

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Our Group is reliant on customers in the PRC, the U.S. and the U.K., and any impairment to our ability to do business in these countries may adversely affect our results of operations

The principal markets of our Group are the PRC, the U.S. and the U.K., which in total accounted for approximately 94.2%, 94.9% and 95.3% of our total revenue for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively. Our Group is, therefore, presently dependent on sales to customers in the PRC, the U.S. and the U.K., and any impairment to our Group's ability to do business in these countries may adversely impact our sales revenue, business and results of operations. Any adverse changes in the political, economic or social conditions, legal or regulatory requirements or tariff regime in the PRC, the U.S. or the U.K. could result in material disruptions to the business of our customers in these countries, which could, in turn, materially and adversely affect our Group's business. Although we have taken steps to diversify our business geographically and to expand our presence in other countries, there is no assurance that we will succeed or that we will be able to reduce our dependence on the PRC, the U.S. or the U.K. significantly or at all. If our Group is unable to expand and diversify our customer base, our business, financial condition and results of operations may be materially and adversely affected.

In particular, the passing of the June 2016 Referendum by U.K. voters to exit the European Union has caused volatility in the capital markets and affected global markets, including currencies, causing the British pound to significantly depreciate against U.S. dollars. As our U.K. customers generally settle their payments in U.S. dollars, such depreciation would imply a higher purchase price for our existing and potential U.K. customers. In addition, several credit rating agencies have downgraded the U.K.'s rating due to uncertainty as to the U.K.'s policy framework, economic prospects, fiscal and external performance, and the role of British pound as a reserve currency. Demand for our products from the U.K. market may decrease due to the uncertainties and changing market conditions in the U.K., in particular the depreciation of British pound against the U.S. dollars, which may adversely impact our revenue and cash flow generated from the U.K. market. In the event of prolonged political and/or economic instability in the U.K., significant income level decrease of our customers in the U.K. or change in taxation or tariff regime of the U.K. market, our business, prospect, financial condition and results of operations may be adversely affected.

Our Group relies solely on a single production base in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC. Any disruption to our Group's production at such production base could materially and adversely affect our business, financial condition and results of operation

We manufacture all of our products in our self-owned production base situated in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC. Our Group relies heavily on such production base, which could be substantially damaged by natural or other disasters, such as floods, fires, earthquakes and typhoons, which could be costly and time consuming to restore and could disrupt our operations. Our Group may incur additional costs and may experience a disruption in the supply of products to customers until appropriate production facilities become

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available and operational. In addition, any disruption or delay in our production could adversely affect our ability to produce sufficient amount of products, which in turn could impair our ability to meet the demand of our customers. In such cases, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to higher impairment risks in relation to our production equipment, which may adversely affect our results of operations

Our Group determines the estimated useful lives, residual values and related depreciation charges for our Group's production equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. Our Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or we will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The actual useful lives of our production equipment may differ from their estimated useful lives and their actual realisable values may differ from their estimated residual values, subject to external factors and market conditions that are beyond our control. Internal and external sources of information are reviewed at the end of each reporting period to identify indications that our production equipment may be impaired. If the value of our production equipment is over-estimated, the over-estimated amounts will be recognized as impairment losses. As our business model requires us to equip ourselves with abundant sets of production equipment, we are subject to higher impairment risks in relation to our production equipment, which may have a material adverse effect on our result of operations.

There may also be technical advances in respect of the production equipment in the future. As technology advances, any technological developments in the methodology, machinery and equipment and any other factors which are related to the manufacture of FRP products may have an adverse effect on our business operations. Our production equipment may become obsolete and our competitive advantages may be adversely affected. There is no assurance that there will not be any technological developments in the future that will not have a negative effect on our business operations and financial position.

We may not be able to adequately protect our intellectual property rights, which may have a material adverse effect on our business, financial condition and results of operations

Our patents, trademarks and other intellectual property rights are important to our business. To protect our intellectual property rights, we have registered patents and trademarks in the PRC and Hong Kong. Please refer to the section headed "Business – Intellectual Properties" in this prospectus for further details. We cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property. Moreover, existing laws in the PRC are still developing and may not protect intellectual property rights to the same extent as similar laws of other countries. Any significant leakage of our confidential information or infringement of the proprietary technologies and processes used in producing specific FRP products could weaken our competitive position and have a material adverse effect on our business, results of operations and financial condition.

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In addition, claims may be brought against us by, or we may assert claims against, other parties involving disputes in relation to intellectual property rights. If we are unable to resolve such claims through negotiations, we may face costly legal proceedings, which may divert the resources and efforts of our management and technical personnel away from our daily business operations and thereby have a material adverse effect on our business, results of operations and financial condition. Furthermore, if we are not successful in these proceedings, we could lose our proprietary rights and may be subject to substantial liabilities or even disruptions to our business operations.

Our ability to enhance production capabilities and technology is subject to risks and uncertainties

Our future success depends partly on our ability to enhance our production capabilities, such as increasing our production utilisation rate, improving our production efficiency, acquiring and upgrading manufacturing or testing equipment and enhancing our existing production processes. To achieve the desired level of economies of scale in operations and to deliver a larger amount of high quality products at a competitive cost level, we need to continue to expand our existing production capacity and improve our production technology, which will require substantial capital expenditure and dedicated management attention.

We cannot assure you that we will be able to obtain any necessary additional financing in time on reasonable terms or at all, due to a number of factors such as the general market conditions for financing activities by FRP manufacturers, the prevailing economic and political conditions and our future financial position. In the event that we cannot finance the purchase of the equipment we need and consequently we fail to expand our production capacity or enhance our production capabilities and technology to satisfy our customers' requirements, our growth prospects may be limited. Moreover, we also cannot assure you that these plans will be implemented successfully or on time, or at all, within budget, or may result in the anticipated benefits.

In addition, our ability and efforts to enhance our production capabilities are subject to other significant risks and uncertainties, including:

- unexpected delays and overruns;
- availability of the necessary technology or equipment from third parties or our internal research and development department;
- diversion of management attention and other resources; and
- interruptions caused by natural disasters or other unforeseen events.

Furthermore, there is no assurance that our production capabilities may not achieve the expected benefits.

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We are subject to risks associated with our targeted international markets

As we market and sell our products in many countries, our business is subject to various risks beyond our control, such as changes in laws, regulations and politics affecting the FRP industry and the instability of foreign economics and governments. The uncertainty of the legal environment in some regions could limit our ability to enforce our rights and grow our business. Our operations in countries with less developed legal systems lead to several risks, including legal uncertainty, civil disturbance, economic and governmental instability, and the imposition of exchange controls. Changes in the laws or regulations of the jurisdictions in which we operate, including with respect to taxation, could have an adverse effect on our business, financial condition and results of operations.

Our Group's insurance coverage may not adequately protect us against certain risks

Although we have maintained insurance in respect of potential damage to our production plant, facilities, machinery equipment and vehicles, certain types of risks, such as product liability risks, are not covered by insurance. Our products may contain latent defects or flaws. Any defects or errors in our products or return of defective products by customers could lead to delay or loss of revenue, incurring additional expenditure to correct the problems, adversely affect customer relationships and liability claims against our Group. In the event that any of our products (i) fail to meet the specifications and requirements of our customers; (ii) are defective; or (iii) result in our customers' financial losses or personal injuries, we may be subject to product liability claims and other claims for compensation. As lawsuits are inherently expensive to defend, we may incur significant legal costs regardless of the outcome of the claim. In addition, management and other resources from our business operations will be diverted. Moreover, product defects and any resulting complaint or negative publicity could lead to decrease in sale of our products. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, the risk in relation to the collectability of our trade receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Our Group's assets could be affected by any of the above and other catastrophic events over which we have no control. In addition, any damage suffered by our Group in excess of our limited insurance coverage may materially and adversely impact our results of operation.

Some of the above-mentioned risks may cause personal injuries, consequential loss of profits or environmental damage. These may result in disruption of operations and the imposition of civil or criminal penalties upon our Group, which may not be covered by our current insurance policies.

Given the nature of our operations and business, there can be no assurance that our insurance coverage is sufficient to cover all losses relating to our properties and assets and the liabilities may arising from our operations. If our Group's insurance is insufficient to cover such losses and liabilities, our business, financial condition and results of operations may be adversely affected.

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Our historical non-compliance could lead to imposition of penalties or other liabilities

We previously did not comply with certain statutory requirements under the relevant PRC laws and regulations. As a result of these non-compliance incidents, we may be exposed to penalties or other liabilities. For details of such historical non-compliance incidents, please refer to the section headed “Business – Compliance and Legal Proceedings” in this prospectus.

During the Track Record Period, we had not obtained the building ownership certificate and certificate of practical completion for a property with an aggregate gross floor area of approximately 1,355.7 sq.m. located on a piece of land prior to our production on this site. Our Group used the aforesaid property as one of our production sites to produce the Epoxy Wedge Strip products. We estimate that the total revenue derived from the aforesaid property amounted to approximately RMB0.1 million and RMB2.4 million, representing approximately 0.3% and 4.3% of the revenue of our Group for the two years ended 31 December 2015, respectively. According to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例), our Group is subject to a maximum penalty of RMB45,600. As at the Latest Practicable Date, no penalty had been imposed on us as a result of the failure to obtain the building ownership certificate and certificate of practical completion and we have obtained all necessary certificates in relation to the aforesaid property. According to the confirmation issued by the bureau of Housing and Urban-Rural Development of Haimen city, we have not been penalised by the bureau of Housing and Urban-Rural Development of Haimen city for our failure to obtain the building ownership certificate and certificate of practical completion prior to our production on this site. However, if we are ordered to pay the penalty in the future, our business, results of operations and financial condition may be adversely affected.

In addition, during the Track Record Period, we had advanced to Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司), Nantong Jianke and Sichuan Rike Electronics Company Limited* (四川日科電子有限公司) (collectively, the “**Borrowers**”) certain loans in an aggregate amount of approximately RMB9.1 million (the “**Loan**”), which were interest bearing at rates ranging from 6.43% to 7.6% per annum, which was in contravention of the Lending General Provisions* (《貸款通則》) (the “**Lending Provisions**”). The total interest income derived from the Loan was approximately RMB1.5 million. According to the Lending Provisions, we may be subject to a fine in an amount of one to five times of the income derived from the Loan. As the interest income from the Loan received by us amounted to RMB1,540,695, the maximum fine would be RMB7,703,475. As at the Latest Practicable Date, no fine had been imposed on us as a result of our non-compliance with the Lending Provisions, the Loan was repaid and the loan arrangement between us and the Borrowers was terminated. According to the confirmation issued by the People’s Bank of China (Haimen City), having enquired into the credit record of Nantong Meigu, it has not discovered any records of penalty imposed on Nantong Meigu as a result of non-compliance with the laws, regulations and any other regulatory documents, Nonetheless, if we are ordered to pay the fine in the future, our results of operations and financial condition may be adversely affected.

Moreover, during the Track Record Period, we were involved in the transfer of bank accepted bills with an amount of approximately RMB2.4 million (the “**Bills**”) with Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司) (“**Nantong**

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Sancon”) without underlying transactions, which was in contravention of the Negotiable Instruments Law of the PRC* (《中華人民共和國票據法》) (the “**Instruments Law**”). As advised by our PRC Legal Advisers, no provision(s) of the Instruments Law on penalty is applicable to the aforesaid noncompliance given that no fraud was intended or committed in relation to the transfer of the Bills. As at the Latest Practicable Date, no penalty had been imposed on us as a result of our non-compliance with the Instruments Law, the Bills were settled in full and there has not been any disputes in relation to the Bills between us and Nantong Sancon and/or any other third party(ies). According to the confirmation issued by the People’s Bank of China (Haimen City), having enquired into the credit record of Nantong Meigu, it has not discovered any records of penalty imposed on Nantong Meigu as a result of non-compliance with the law, regulations and any other regulatory documents. Nevertheless, if we are ordered to pay any penalty due to our non-compliance with the Instruments Law in the future, our results of operations and financial condition may be adversely affected.

Our operations rely on a continuous supply of electricity and steam and any shortage or interruptions could disrupt our operations and increase the expenses incurred by our Group

The manufacturing of our products relies on a continuous and uninterrupted supply of electricity and steam. Any shortage or interruption of supply of electricity and steam could significantly disrupt our Group. Such shortages or interruptions may be caused by extreme weather conditions, fire, natural catastrophes, equipment and system failures, labour force shortages, labour actions or environmental issues. Our production base does not have backup generators or alternate sources of power to support production in the event of a blackout. Moreover, our Group’s insurance coverage does not extend to any damages resulting from interruption in the power or steam supply. Any interruption in our Group’s operations at our production facilities could harm our reputation and our ability to retain existing customers or to attract new customers, which may materially and adversely affect our business, financial condition and results of operations.

Labour shortage could have an adverse effect on our production process

Our Group relies on a number of workers to operate machinery and perform manual tasks. There is no assurance that our manpower to operate machinery and perform manual tasks will be available on a continuous basis due to factors such as strikes, labour stoppages and civil unrest. Any shortage of labour may have an adverse impact on our costs and our production capabilities, resulting in a material adverse effect on our business, financial condition and results of operations.

Our production techniques and machinery and technical know-how may become obsolete

The industry standards, product specifications and our customers’ requirements relating to our products are subject to changes, and we may need to incur significant costs in order to adapt to such new standards, specifications or requirements. In addition, our competitors may develop production techniques, or supply other substitute products which are superior to our products in terms of costs, time and product quality. In such case, our production techniques, machinery and technical know-how may become obsolete. If any of these factors materialises, our competitiveness, business, results of operations and profitability may be adversely affected.

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Our sales may fluctuate and be affected by seasonality

Demand from our customers and in turn our sales is affected by seasonal fluctuations. As our products are generally used by our customers in their respective manufacturing processes or construction projects, the demand for our products fluctuates in accordance with fluctuations in the demand for our customers' products and the progress of our customers' projects. In particular for PRC sales, the demand for our products generally decreases during the Chinese New Year holidays. We expect this trend will continue following the Listing and this seasonality fluctuation may affect our production costs and the utilisation rate of our production facilities. However, we cannot assure you that the historical trend of seasonality of our revenue will continue to the same extent, or at all. Thus, an analysis of our interim financial performance may not be indicative of our full-year results due to the seasonality of our revenue and investors should be reminded of this seasonal factor when making any comparison of our quarterly, interim and annual results of operations. Please also refer to the section headed "Business – Products – Seasonality" in this prospectus for further details.

We may not be able to obtain additional funding on acceptable terms or at all, which may affect our ability to expand our business or meet unforeseen contingencies

From time to time, we may need to obtain additional external debt or equity financing due to the increase in funding requirements of our business, unforeseen contingencies or new opportunities. If we are unable to obtain additional external financing on acceptable terms or at all, we may not be able to expand our business or meet unforeseen contingencies, and our results of operations may be adversely affected.

Failure to retain the services of our key personnel will adversely affect our results of operations

The success of our Group to date is largely attributable to the contributions and experience of our management team and key employees, in particular their familiarity with our business and expertise in the FRP industry. Our continue success is dependent, to a large extent, on our ability to retain the services of our senior management and key employees. There is no assurance that we will be able to retain the services of our key personnel and the loss of services of our key personnel without immediate and adequate replacements could have a material adverse effect on our results of operations.

We may be subject to liability in connection with industrial accidents at our production site

Due to our manufacturing activities, we could in the future experience industrial accidents at our production base, which may result in a suspension of production and could give rise to potential liabilities to our employees or third parties. Any of the foregoing events could have a material adverse effect on our financial condition and the results of our operations.

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There is no assurance that our suppliers will not violate any applicable laws and regulations

We purchase raw materials from suppliers during the course of our business. Our suppliers are selected based on their reputation, pricing, product quality and reliability. Prior to being engaged by us, we conduct telephone interviews, inspections of a potential supplier's products and on-site inspections of the potential supplier's production process. Although we have taken the above measures in the selection of suppliers, there is no assurance that our suppliers will not violate any applicable laws and regulations in their production process. In the event that our suppliers violate any application laws and regulations in their production process which renders us not being able to comply with our customers' requirements, this may lead to the termination of purchase orders made by our customers and our business operations and results of operations may be adversely affected.

Our profitability may be affected by the potential increase in depreciation expenses upon the planned acquisition of additional equipment

It is our business strategies to utilise a portion of net proceeds from the Placing to enhance our production efficiency and capabilities by purchasing equipment to replace certain manual process. Please refer to the section headed "Business – Business Strategies" for further details. As a result of the purchase of additional equipment, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Any uncertainties or adverse changes in government investments, initiatives and policies affect the construction, railway, wind power or marine engineering industries or other industries in which our customers operate may adversely affect our business, prospects and results of operations

As a significant portion of our revenue was generated from customers from the construction, railway, wind power and marine engineering industries during the Track Record Period, the growth of the construction, railway, wind power and marine engineering industries is essential to our business growth prospects and future success.

We believe government investments, initiatives, incentives and other favourable policies have been one of the major growth drivers for the construction, railway, wind power and marine engineering industries in the PRC. However, we cannot assure you that government support will continue at the same level or at all. Any decrease or delay of government investments or incentives currently available to the construction, railway, wind power or marine engineering industries participants may lead to reduction of demand from our existing and potential customers or increase in operating costs incurred by our current customers, which in turn, may materially and adversely affect our business and results of operations. While the FRP products industry in the PRC has experienced growth in recent years, there is no assurance

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that such growth can be sustained in the future. If the growth of the construction, railway, wind power and marine engineering industries in the PRC slows down or continues at a rate lower than we anticipated, or if local or central governments' policies and regulations are perceived to discourage the development of or investment in the construction, railway, wind power or marine engineering industries, the market demand for our products may decrease, and our business, prospects and results of operations could be materially and adversely affected.

Emerging technologies and materials that provide superior performance than FRP may be developed and become widespread in the future, which will have a material adverse effect on our business, future prospects, results of operations and financial condition

Although FRP are currently finding increasingly wider applications in aggressive environment as an alternative to metals and woods, other emerging technologies and materials may be developed in the future that provide better performance than FRP. An increase in adoption of any of these emerging technologies and materials could result in a decline in the demand for our products and a resulting decrease in our revenue. We may aim to adopt emerging technologies in the future to improve the performance of our FRP products. However, our efforts may not be successful and we may incur significant resources as a result, which will have a material adverse effect on our business, future prospects, results of operations and financial condition.

The FRP grating industry in the PRC is competitive

According to the Sullivan Report, the FRP industry in the PRC is relatively fragmented. There are more than 10,000 FRP products manufacturers in the PRC. There is an increasing number of competitors in the FRP products industry in the PRC, as the FRP industry in the PRC has medium entry barriers. According to Sullivan, while there are a large number of small and medium scale FRP manufacturers in the PRC, major entry barriers of the FRP industry in the PRC such as brand royalty, large initial investment, compliance with relevant laws and regulations, technical requirements to ensure good product quality, lower waste disposal, production capacity and higher foreign standards render it difficult for new players to enter the market and limit the further expansion of existing small and medium scale manufacturers. Thus the level of entry barriers for the FRP industry in the PRC is considered to be medium. Due to such an increase in the number of competitors, the competition for resources such as raw materials and labour is intense, and the costs of purchasing raw materials and hiring labour for the production of our products may increase and our Group's financial performance and growth prospect may be adversely affected.

Moreover, industry players compete on price and product quality. The competition between the manufacturers of FRP grating is intense, and they may offer discount prices and flexible purchase terms to customers. If our Group fail to compete and respond to the market conditions rapidly or fails to upgrade our production facilities with new technology, our results of operations may be adversely affected.

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Our industry is susceptible to the increase in the prices, and the shortage in the supply, of raw materials

Manufacturers like us depend on a constant supply of raw materials which include glass fibre and resin. If the supply of raw materials is interrupted or reduced or if there is any significant increase in the prices of these raw materials, the production activities will be interrupted and/or additional costs would be incurred to purchase sufficient amount of raw materials to meet the production requirements and commitments to our customers. Any significant increase in the prices of these raw materials, which might not be transferred to our customers, would have to be borne by us which could have an adverse effect on the financial condition and results of operations.

We may be adversely affected by our operations and sales in countries that are subject to evolving economic sanctions by the U.S., the European Union, the United Nations or Australia

Russia is not subject to comprehensive sanctions adopted by the U.S., the European Union, the United Nations or Australia. International Sanctions targeting Russia prohibit or otherwise restrict certain specific types of transactions and activities involving Sanctioned Persons. In 2015, we made sales of our FRP Grating products to a customer located in Russia, which amounted to RMB279,985 or approximately 0.5% of our total revenue for the same year (the “**Relevant Sales**”). As advised by DLA Piper Hong Kong, our International Sanctions legal advisers, the Relevant Sales do not implicate the applicability of International Sanctions administered and enforced by the U.S., the European Union, the United Nations or Australia, on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, HKSCC or HKSCC Nominees. For details, please refer to the section headed “Business – Customers, Sales and Marketing – Sales to a customer located in Russia” in this prospectus. We are committed to complying with International Sanctions law to the extent applicable. For more information, please refer to the section headed “Business – Internal Control and Risk Management – Sanctions Related Undertakings and Risk Management” in this prospectus.

We cannot predict the interpretation or implementation of International Sanctions by any government with respect to any current or future activities by us or our affiliates in any Sanctioned Country and/or with any Sanctioned Person(s). New sanction restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. We have no present intention to undertake any future activities that would cause us, the Stock Exchange, the Listing Committee, HKSCC, HKSCC Nominees, or our investors to violate or to become a target of International Sanctions. We undertake to the Stock Exchange that (i) we will not use the proceeds from the Placing, as well as any other funds raised through the Stock Exchange, to finance or facilitate any activities or business, directly or indirectly, relating to or with any Sanctioned Person or any other person or entity that is a target of any International Sanctions, and (ii) we will not undertake any sanctionable transactions that would expose our Group, or any person or entity, including our Group’s investors, the Stock Exchange, the Listing Committee, the HKSCC and the HKSCC Nominees, to the risk of being sanctioned. If we

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breach any of these undertakings to the Stock Exchange after the Placing, it is possible that the Stock Exchange may delist our Shares. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in any jurisdictions or that we will conform our business to the requirements of any government that may not have jurisdiction over our business but nevertheless asserts the right to impose sanctions on an extraterritorial basis. Accordingly, our business and reputation would be adversely affected if any government were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

In addition, certain institutional investors, universities or government entities have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain Sanctioned Countries, activities in countries where Sanctioned Persons are located, or direct or indirect activities with Sanctioned Persons. As a result, concern about potential legal or reputational risk associated with our historical sales in Russia could also reduce the marketability of the Placing Shares to particular investors, which could affect the price of our Placing Shares and Shareholders' interests in us, despite our commitment not to direct the proceeds from the Placing to dealings with sanctioned parties. Before investing in our Shares, you should consider if such investment would expose you to any of the U.S., the European Union, the United Nations and Australian or other sanctions law risks arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us.

RISKS RELATING TO CONDUCTING BUSINESS IN PRC

Changes in the PRC's economic, political and social conditions, as well as government policies, could affect our business and prospects

All of our business, assets and operations are located in the PRC and all of our revenue is derived from our operations in the PRC. Therefore, our business, results of operations, financial condition and prospect are, to a significant extent, subject to the economic, political and social conditions and government policies in the PRC. The economy of the PRC differs from the economies of the most developed countries in many aspects, including but not limited to:

- the degree of the PRC government's involvement;
- the growth rate and degree of development;
- control of foreign exchange; and
- allocation of resources.

The PRC's economy used to be a planned economy, and a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises substantial control over the PRC's economic growth by allocating resources, setting monetary policies and providing preferential treatment to particular industries or

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companies. While the PRC government has implemented economic reform measures to introduce market forces and to establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Hence, we cannot assure you that we may be able to benefit from all, or any, of the measures which are under constant adjustments.

Any significant change in, or promulgation of, laws and regulations application to our Group may increase our costs of production, and our failures to comply with any of these developments could result in legal liabilities for us

Our operations are subject to the PRC laws and regulations, which include but are not limited to laws and regulations governing foreign investment, labour and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may increase our costs of production and have an adverse effect on our results of operations and financial condition. In addition, our business is governed by the PRC production safety and environmental laws and their implementation regulations. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of licences, penalties or lawsuits. Further, there is no assurance that the PRC government will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that we may be unable to pass on to our customers.

Uncertainties with respect to the PRC's legal system could materially and adversely affect our business and results of operations

PRC laws and regulations govern our operations in the PRC. Our PRC subsidiary is a foreign-invested enterprise and subject to laws and regulations applicable to foreign investment in the PRC. The PRC has a civil law system based on written statutes. Therefore, previous court decisions may be cited for reference but have limited precedential value. While the overall effect of legislation over the past 30 years has significantly enhanced the protection afforded various forms of foreign investments in the PRC, the PRC has yet to developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspect of economic activities. As many of these laws and regulations are relatively new and evolving, they are subject to different interpretations and may be inconsistently implemented and enforced. Moreover, only a limited volume of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence which gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to our Group and to other foreign investors.

Furthermore, the PRC legal system is partly based on government policies and certain internal rules, some of which are not published on a timely basis or at all, which may have a retrospective effect. As a result, we may not be aware of any violation of these policies and internal rules until sometime after the violation. Moreover, administrative or court proceedings

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may be extended, resulting in substantial costs and diversion of resources and management attention if our Group seeks to enforce our Group's legal rights through administrative or court proceedings. In addition, compared to more developed legal system, the PRC administrative and court authorities have substantially wider discretion in interpreting and implementing statutory and contractual provisions. Therefore, the outcome of administrative and court proceedings and the level of legal protection our Group is entitled to may be difficult to evaluate. These uncertainties may have a negative effect on our abilities to enforce contracts, which could in turn materially and adversely affect our business and results of operations.

It may be difficult to effect service of process or to enforce foreign judgments against our Group and management

All of our businesses, assets and operations are located in the PRC. Furthermore, the assets of the Directors and officers of our Group are mainly located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is subject to uncertainties. A judgement of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC. However, the PRC does not have treaties for the reciprocal recognition and enforcement of court judgments with the U.S., the U.K. and many other countries. As a result, recognition and enforcement in the PRC or Hong Kong of a court judgement obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

Payment of dividends is subject to restrictions under the PRC law

As our Company is a holding company, we rely on dividend from our subsidiary in the PRC for cash requirements, including service of any debts our Group may incur. Under the current PRC law, dividend may be paid only out of our PRC subsidiary's accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Moreover, our PRC subsidiary is required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, in the future, if our PRC subsidiary incurs debt on its own behalf, the instruments governing the debt may impose restrictions on its ability to pay dividends more make other payments to our Company. The inability of our PRC subsidiary to distribute dividends or other payments to our Company could significantly affect the amount of capital available to supply the development and growth of our business.

We may be deemed a PRC "resident enterprise" under the EIT Law and be subject to PRC taxation on our worldwide income

The EIT Law and its implementation regulations issued by the State Council defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". Under the EIT Law, a foreign enterprise whose "de facto management bodies" are located in the PRC is considered a "resident enterprise" and will be subject to an uniform 25%

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enterprise income tax rate on its global income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in the PRC and therefore be considered a PRC resident enterprise.

As at the Latest Practicable Date, we are not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since our production plants, the daily management of our operation, assets and our management are all based in the PRC, we cannot give any assurance that we will not be considered as a “resident enterprise” under the EIT Law and not be subject to the enterprise income tax rate of 25% on our global income. If we are subsequently regarded as a PRC resident enterprise by the relevant tax authorities, our financial condition and results of operation may therefore be adversely affected.

We may experience a decrease or discontinuation of tax rebate towards exported goods

During the Track Record Period, we enjoyed a tax rebate from the PRC tax authority at the rate of 13.0% for our exported products. The export tax rebate we received for the two years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB1.3 million, RMB0.4 million and RMB0.2 million, respectively. The tax rebate comprised a refund of VAT incurred on the raw materials used for our production in the PRC, which products were subsequently exported to overseas countries. There is no assurance that PRC governmental policies on tax rebate will remain unchanged or that the current policies we benefit from will not be cancelled. Tax rebate is a crucial part of exporters’ profit. If there is any reduction, suspension or discontinuation of tax rebate policy, the resulting increase in our tax liability would adversely affect our business and results of operations.

PRC government’s control of foreign currency may limit our foreign exchange transactions, including dividend payments to our Company’s shareholders in foreign currency

The RMB generally cannot be freely converted into any foreign currencies. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange or the SAFE, subject to certain procedures. Hence, our PRC subsidiary is able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding payment of dividends in foreign currencies will continue. Moreover, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of the SAFE. The PRC government may further implement rules and regulations in the future, which could restrict the use of foreign currency under current account and capital account in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditure, and could materially and adversely affect our business, financial condition and results of operations.

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Inflation in the PRC in general may increase our costs of productions, cost of raw materials and labour costs

Our success relies significantly on the growth of the FRP market. While the PRC economy has experienced rapid growth, such growth has been accompanied by periods of high inflation. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Nevertheless, the effects of the stimulus measures implemented by the PRC government since the global economic crisis in 2008 may have contributed to the occurrence of, and continue increase in, inflation in the PRC. If such inflation is allowed to proceed without mitigating measures by the PRC government, our costs of production and sales will likely increase, and our profitability may be materially reduced, as there is no assurance that we will be able to pass any cost increases onto our customers. If the PRC government implements new measures to control inflation, these measures may lead to a slowing of economic growth. A slowdown in the PRC economy may have a material adverse effect on our business, results of operation, financial condition and prospects.

Fluctuation of RMB could materially affect our financial condition and results of operations

The exchange rate of the RMB against the US\$ and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Any future exchange rate volatility relating to the RMB may lead to uncertainties in the value of our net assets, earnings and dividends.

The net proceeds from the Pacing will be denominated in HK\$. Fluctuations in exchange rates, primarily those involving the HK\$ and the US\$, may affect the relative purchasing power of these proceeds. Moreover, fluctuation in the exchange rate will affect the relative value of earnings from and the value of any foreign currency-denominated investments our Company make in the future.

Any appreciation of the RMB against the US\$ or any other foreign currencies may result in a decrease in the value of the foreign currency-denominated assets. It may also have a negative effect on our business as the appreciation of the RMB may increase the cost of our Group and then drive up the price in foreign currencies at which our Group sells products to overseas clients.

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Any future natural disasters, acts of God, outbreak of any contagious disease in the PRC or any other epidemics may adversely affect our business, results of operations and financial condition

All of our assets and operations are located in the PRC. Accordingly, our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of people in the PRC. Some regions of the PRC, including the cities where we operate, are under threats of flood, earthquake, sandstorm, snowstorm, fire, drought or epidemics such as Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu or H1N1 human swine flu. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province, the PRC, in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In April 2009, a human swine influenza (also known as Influenza A MINI) broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. In April 2013, an outbreak of H7N9 avian flu broke out in the Shanghai and spread to nearby eastern regions as well as other regions of the PRC, resulting in the loss of lives and widespread fear. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. If in the future any of our employees or our customers in our facilities are suspected of having SARS, H7N9 avian flu, H5N1 avian flu or H1N1 human swine flu, or any other epidemics or any of our facilities are identified as a possible source of spreading such epidemics, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and thereby suffer a temporary suspension of our operations. Any quarantine or suspension of our operations will affect our business and results of operations. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H7N9 avian flu, H5N1 avian flu or the H1N1 human swine flu, may result in material disruptions to our operations and delays in meeting our customers' demand, which in turn could have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO THE PLACING

There has been no prior public market for Shares in the Company

Prior to the Placing, there has been no public market for our Shares. The Placing Price may not be indicative of the price at which the Shares will be traded on the Stock Exchange following completion of the Placing. In addition, there can be no guarantee that an active trading market for the Shares will develop or, if it does develop, that it will be sustained following completion of the Placing or that the market price of the Shares will not fall below the Placing Price.

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Liquidity and market price of the Shares are subject to various factors that are out of our control

The market price and trading volume of the Shares may be highly volatile. Factors such as variations in our Group's revenues, earnings or cash flows, and/or announcements of new investments, strategic alliances and/or acquisitions and fluctuations in prices for the major components could cause the market price of the Shares to change substantially. Any such developments may result in large and sudden changes in the volume and market price at which the Shares will be traded. There is no assurance that these developments will not occur in the future. It is possible that the Shares will be subject to changes in market price that may not be directly related to our Group's financial or business performance.

The trading price of the Shares can also be subject to significant volatility in response to the following factors:

- (1) investors' perception of our Group and our future business plan;
- (2) variation in the operating results and financial position of our Group;
- (3) changes to our Group's senior management;
- (4) unanticipated business interruptions caused by outbreaks of diseases, natural disasters or accidents;
- (5) potential litigation or regulatory investigations against our Group, if any;
- (6) the depth and liquidity of the market for the Shares; and
- (7) general economic and other material factors affecting our Group.

Future sale of the Shares or major divestment of Shares by any of our major Shareholders could adversely affect the market prices of the Shares

The sale of a significant number of the Shares in the public market after the Placing or the perception that these sales may occur, could adversely affect the market price of the Shares. Except as provided under the GEM Listing Rules or otherwise described in the sections headed "History and Development" and "Underwriting" in this prospectus, there is no restriction imposed on Controlling Shareholders and corporate investors to dispose of their shareholdings in our Company. Any major disposal of Shares by any of our major Shareholders may cause the market price of our Shares to fall. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price our Directors deem appropriate, thereby limiting our ability to raise capital.

RISK FACTORS

Dilution effect of issuance of new securities of our Company

Our Group may need to raise additional funds in the future to finance expansion or new developments relating to its operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders in the Company may be reduced and the Shareholders may experience dilution in their percentage shareholdings in our Company. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Investors should not rely on any information contained in the press articles or other media regarding us and the Placing

Prior to the publication of this prospectus, there might have been press articles and media coverage regarding us and the Placing which might include certain financial information, financial projections, and other information about us which do not appear in this prospectus. We do not accept any responsibility for, and we cannot guarantee and make no representation as to, the appropriateness, accuracy, completeness or reliability of such information. Potential investors are therefore cautioned to make their investment decisions based solely on the information contained in this prospectus.

Possible termination of the Underwriting Agreement

Prospective investors of the Placing should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by the Sole Global Coordinator (for itself and on behalf of the Underwriters) giving notice in writing to our Company upon the occurrence of any of the events stated in the section headed “Underwriting – Grounds for termination” in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

Laws of Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions

Our corporate affairs are governed by the Memorandum, the Articles, and by the Company Law and common law of Cayman Islands. The laws of Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. The remedies available to our Group’s minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus for further information.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain facts, forecast and statistics contained in this prospectus are derived from various official or third party sources and may not be accurate, complete or up-to-date

Certain facts, statistics, and data presented in the section headed “Industry Overview” and elsewhere in this prospectus have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. We believe that the sources of the information are appropriate sources for such information, and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, 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. Nevertheless, none of our Directors, the Sole Sponsor, any parties involved in the Placing and us have independently verified, or make any representation as to, the accuracy of such information and statistics. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

Information contained in press articles or other media

We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage regarding our Group or the Placing, and such information that was not sourced from or authorised by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information contained in any press articles or other media about our business or financial projections, share valuation or other information. Prospective investors should therefore give consideration as to how much weight or importance they should attach to, or place on, such press articles or other media coverage.

There is a possibility that forward-looking statements contained in this prospectus may not materialise

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as “aims”, “believes”, “expects”, “will”, “should”, “could”, “seeks”, “anticipates”, “plans” or “intends” or by the negative of any of these terms or comparable terminology, or by discussions of strategy or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our Group’s actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on assumptions regarding our Group’s present and expected future business strategies and the environment in which our Group will operate in the future. Important factors that could cause our Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the loss of our Group’s key personnel and changes relating to the PRC and global economic and business conditions.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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 GEM Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and is 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 sets out the terms and conditions of the Placing.

This prospectus is published solely in connection with the Placing, which is sponsored by the Sole Sponsor and managed by the Sole Global Coordinator and is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement). Further information about the Underwriters and the underwriting arrangements is contained in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, and by his/her acquisition of the Placing Shares he/she will be deemed to have confirmed that he/she is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation. No invitation may be made to the public in Cayman Islands to subscribe for or purchase any of the Placing Shares.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of their respective directors or employees or any other persons involved in the Placing.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Prospective applicants for the Placing 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 Placing Shares should inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

DETERMINATION OF THE PLACING PRICE

The Placing Price is expected to be determined by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or about Friday, 6 January 2017, or such later date as our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) may agree. For further information relating to the determination of the Placing Price, please refer to the section headed “Structure and Conditions of the Placing – Placing Price” in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing and as otherwise described herein. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. A total of 100,000,000 Placing Shares, representing approximately 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following completion of the Capitalisation Issue and the Placing (assuming the Offer Size Adjustment Option is not exercised), and upon Listing.

No part of our Company’s share or loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, our Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of our share or loan capital on any other stock exchange other than the Stock Exchange.

The Shares are freely transferable. Under Section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment or transfer made in respect of any placing of the Placing Shares will be void if permission for the listing of, and dealing in, the Shares on GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All the Placing Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong by the Hong Kong Branch Share Registrar. Dealings in the Shares registered on our Company’s branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained in the Cayman Islands will not be subject to the Cayman Islands stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in our Shares or exercising their rights thereunder. It is emphasised that none of our Group, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in our Shares.

EXCHANGE RATE CONVERSION

Unless the context requires otherwise, conversion of US\$ into RMB is made in this prospectus, for illustration purposes only, at the rate of US\$1.00 to RMB6.6. No representation is made that any amount in US\$ and RMB could have been or could be converted at the above rate or at any other rate or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

STRUCTURE AND CONDITIONS OF THE PLACING

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

ROUNDING

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in our Shares on GEM are expected to commence on or about Friday, 13 January 2017. Shares will be traded in board lots of 10,000 Shares each.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Jiang Guitang (姜桂堂) (Chief Executive Officer)	Room 507, Building 40 Ban Qiao East Village Chong Chuan District Nantong City Jiangsu, PRC	Chinese
Mr. Cheng Dong (成東) (Chairman of the Board)	Room 406, Block 205 Dongfeng New Village Haimen Suburb, Haimen City Jiangsu, PRC	Chinese
Ms. Shi Dongying (施冬英)	Room 401, Building 1 31 Liyuan Road Haimen Suburb, Haimen City Jiangsu, PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Huang Xin (黃昕)	No. 25 Gao An Road Xuhui District Shanghai PRC	Chinese
Mr. Tam Tak Kei Raymond (譚德機)	Flat A, 12/F King Tien Mansion Taikoo Shing Quarry Bay Hong Kong	British
Mr. Ng Sai Leung (吳世良)	Flat H, 37/F, Block 15 South Horizons Ap Lai Chau Hong Kong	Chinese

For further details, please refer to the section headed “Directors, Senior management and Employees” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED IN THE PLACING

Sole Sponsor

KGI Capital Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

**Sole Global Coordinator, Sole Bookrunner
and Sole Lead Manager**

KGI Capital Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Underwriters

KGI Capital Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Gransing Securities Co., Limited
Room 805-6
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

VC Brokerage Limited
28/F, The Centrium
60 Wyndham Street
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law
Loong & Yeung Solicitors
Solicitors, Hong Kong
Room 1603, 16/F
China Building
29 Queen's Road Central
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

As to PRC law

Beijing Dentons Law Offices, LLP
PRC attorney-at-law
7/F, Parkview Green FangCaoDi
No. 9, Dongdaqiao Road
Chaoyang District
Beijing
The PRC

As to Cayman Islands law

Appleby
Legal advisers as to Cayman Islands law
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

As to International Sanctions law

DLA Piper Hong Kong
17/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

As to Hong Kong law

P.C. Woo & Co.
Solicitors, Hong Kong
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

As to PRC law

Jingtian & Gongcheng
PRC attorney-at-law
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing, 100025
The PRC

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Auditors and Reporting Accountants

Crowe Horwath (HK) CPA Limited
Certified Public Accountant
9/F Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Property Valuer

APAC Asset Valuation and Consulting
Limited
Unit 07-08, 17/F
Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

Compliance Adviser

KGI Capital Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarter	66 South Oujiang Road Haimen City Jiangsu, PRC
Principal place of business in Hong Kong under Part 16 of the Companies Ordinance	Room 1603, 16/F China Building 29 Queen's Road Central Hong Kong
Company's website address	nantongrate.com <i>(information contained in the above website does not form part of this prospectus)</i>
Company secretary	Mr. Ng Chi Ho Dennis <i>HKICPA</i> Flat A, 18/F Block 5, The Grand Panorama No. 10 Robinson Road Mid-level, Hong Kong
Authorised representatives	Ms. Shi Dongying Room 401, Building 1 31 Liyuan Road Haimen Suburb, Haimen City Jiangsu, PRC Mr. Ng Chi Ho Dennis Flat A, 18/F Block 5, The Grand Panorama No. 10 Robinson Road Mid-level, Hong Kong
Compliance officer	Ms. Shi Dongying Room 401, Building 1 31 Liyuan Road Haimen Suburb, Haimen City Jiangsu, PRC

CORPORATE INFORMATION

Audit Committee	Mr. Ng Sai Leung (<i>Chairman</i>) Mr. Huang Xin Mr. Tam Tak Kei Raymond
Remuneration Committee	Mr. Tam Tak Kei Raymond (<i>Chairman</i>) Mr. Jiang Guitang Mr. Huang Xin
Nomination Committee	Mr. Huang Xin (<i>Chairman</i>) Mr. Cheng Dong Mr. Ng Sai Leung
Risk Management Committee	Mr. Shi Dongying (<i>Chairman</i>) Mr. Tam Tak Kei Raymond Mr. Cheng Dong
Principal share registrar and transfer office in the Cayman Islands	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal banker	Wing Lung Bank Limited G/F, Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong

INDUSTRY OVERVIEW

The information that appears in this Industry Overview section has been prepared by Sullivan and reflects estimates of market condition based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Sullivan should not be considered as the opinion of Sullivan as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Sullivan and set out in this Industry Overview section has not been independently verified by our Group, the Sole Sponsor or any other party involved in the Placing and they do not give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

ABOUT THIS SECTION

We commissioned Frost and Sullivan (“**Sullivan**”), an independent global consulting company, to provide prospective investors with the relevant material industry information on the fibreglass reinforced plastic industry. The Sullivan Report is independent from our influence. Sullivan received a total commission of RMB360,000 for the research and preparation of the Sullivan Report, and we believe that such fee reflects the market rate. The payment of such amount was not conditional on our successful listing or on the research findings of the Sullivan Report. Other than the Sullivan Report, no other information disclosed in this document is extracted from reports commissioned by us or the Sole Sponsor.

RESEARCH METHODOLOGY

Sullivan’s independent research was undertaken through both primary and secondary research obtained from various sources within the fibreglass reinforced plastic industry. Primary research involves interviewing leading industry participants while secondary research involves reviewing companies’ reports, independent research reports and data from Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers.

BASES AND ASSUMPTIONS

Sullivan developed its report on the following bases and assumptions for historical data and projections: (i) the social, economic and political environment is likely to remain stable; and (ii) key industry drivers are likely to continue to affect the market over the forecast period. For the projection of total market size, Sullivan plots available historical data against macroeconomic data as well as data with respect to related industry drivers.

INDUSTRY OVERVIEW

RECENT MACROECONOMIC DEVELOPMENTS IN THE PRC

China's nominal GDP has increased from RMB34,562.9 billion in 2009 to RMB67,670.8 billion in 2015, at a CAGR of 11.8%. From 2015 to 2019, China's GDP is expected to maintain its stable growth driven by the enormous potential of domestic consumption and continuous government investment in fixed assets, per Sullivan Report. The real GDP growth will gradually fall to around 6.0% and stabilise at this level.

China's gross value of industrial output has grown from RMB13,584.9 billion in 2009 to RMB22,897.4 billion in 2015, representing a CAGR of 9.1%. It has demonstrated a relatively stable share range from 33% to 40% of China's nominal GDP, indicating the output derived from industrial sector is one major contributor of China's economies.

The investment in fixed assets in China increased from RMB22,459.9 billion in 2009 to RMB56,200.0 billion in 2015, representing a CAGR of 16.5%. It is expected that such investment will continue to grow to RMB86,652.4 billion by 2019, representing a CAGR of 11.4% from 2015 to 2019.

RECENT DEVELOPMENTS OF CHINA FIBREGLASS REINFORCED PLASTIC SECTOR

FRP is a composite material made of a polymer matrix and glass fibre. It is characterised by long-lasting service life, high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion, and anti-erosion.

Products made of FRP composites are used in a wide range of application areas:

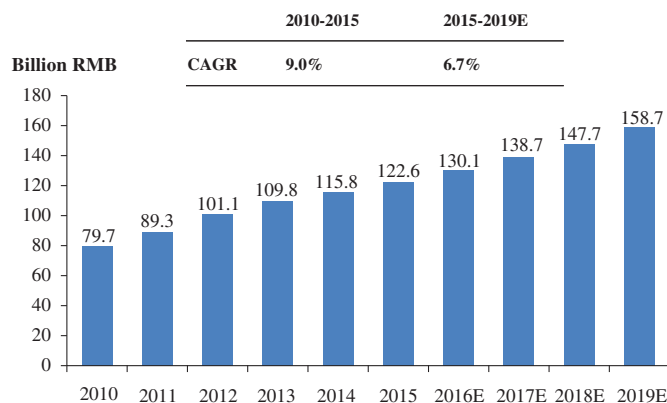
- **By product types**, FRP material is applied in producing grille for corrosive environments such as chemical factories, drainage covers, marine decks, stairs, platforms and walkways which we are currently focusing on. It is also applied for producing tanks for food, medical treatment and chemical industries; pipelines for petroleum, chemical, water supply and drainage industries; and desulfurisation towers; or
- **By industries**, the above products made of FRP composites are widely used in construction industry as grating and indoor parts and equipment; electrical and telecommunication industries for insulation materials; transportation industry for auto-parts, signage and barriers; energy and power for turbine blades; countryside development and environmental engineering for sports equipment and agricultural facilities, and aerospace industry.

The overall FRP market in China has developed at a CAGR of 9.0% from RMB79.7 billion in 2010 to RMB122.6 billion in 2015. Due to its proven performance as a comparatively new type of material and as a substitute to traditional materials such as wood, concrete and metal, and there will be great potential for products made of FRP composites to be utilised in

INDUSTRY OVERVIEW

more application areas including aerospace, energy and transportation industries, the overall FRP market in China is expected to grow at a 6.7% CAGR from 2015 to 2019, according to Sullivan Report. Such forecast is mainly based on the macro-economy conditions including GDP growth, government investment plan in fixed assets and outlook of key industry sectors such as real estate, transportation and utilities. The table below illustrates the historical and forecast of market size and growth trend for the overall FRP in the Chinese domestic market:

Chart 1 Market Size of Products Made of FRP Composites in China, 2010-2019E



Source: Sullivan Report

RECENT DEVELOPMENT OF THE DOMESTIC FRP SEGMENTS WHICH THE GROUP FOCUSES ON

The Group’s products currently see major developments in four segments: FRP Grating products, USCG Approved Phenolic products, FRP Subway Evacuation Platform products, and Epoxy Wedge Strip products.

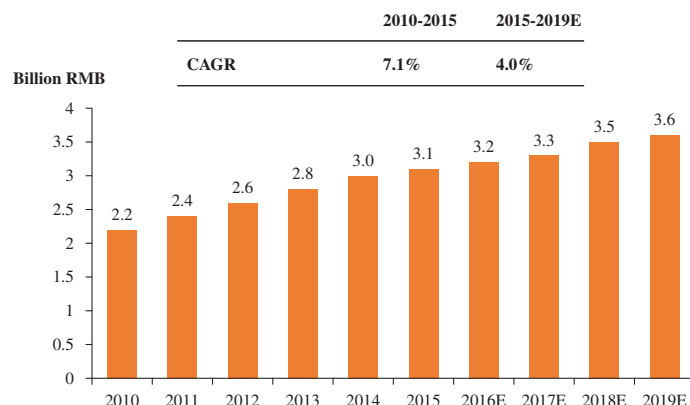
China’s market of FRP Grating Products

The market of FRP Grating products in China reported a CAGR of 7.1% per year from 2010 to 2015, comparable to the GDP growth. Going forward, due to the slowdown of China’s macroeconomic conditions, China’s market of FRP Grating products is forecast to continue to grow at a slower rate of an estimated CAGR of 4.0% from 2015 to 2019, according to Sullivan Report.

The growth is mainly attributable to the need for upgrading of production capacity in the chemical industry, especially in specialised chemicals fields with the implementation of “Made in China 2025” policy; as well as the municipal infrastructure investment plans by local governments with the development of New Type Urbanisation.

INDUSTRY OVERVIEW

Chart 2 Market Size of FRP Grating products in China, 2010-2019E



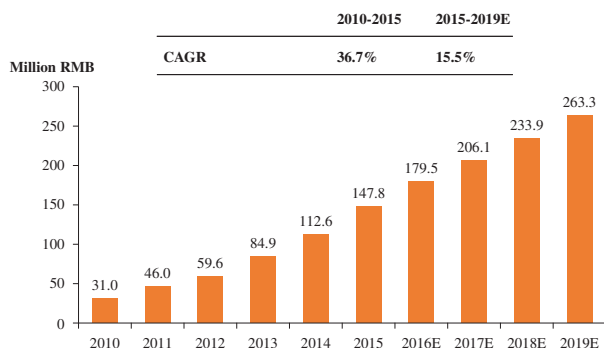
Source: Sullivan Report

China's Market of USCG Approved Phenolic Grating Products

USCG Approved Phenolic Grating product is a comparatively new type of grating product made of FRP composite with superior quality and performance. As a comparatively new market segment, its market size in China witnessed a rapid growth from RMB31.0 million in 2010 to RMB147.8 million in 2015, representing a CAGR of 36.7%.

Going forward, the proven quality and performance of USCG Approved Phenolic Grating products will be known and accepted by more domestic end-users in various industries. The number of manufacturers with the capability of producing USCG Approved Phenolic Grating products will also increase. Thus the market size is expected to further expand at a CAGR of 15.5% from 2015 to 2019.

Chart 3 Market Size of USCG Approved Phenolic Grating products, 2010-2019E



Source: Sullivan Report

INDUSTRY OVERVIEW

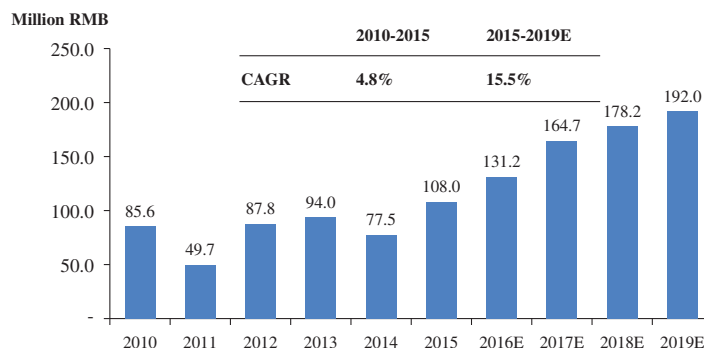
China's FRP Subway Evacuation Platform Sector

FRP Subway Evacuation Platform products are used to construct special passages in the tunnel for evacuating passengers under emergencies. It is generally built in one side of the tunnel. According to “Urban Rail Transit Construction Standards” (Article 77 and Article 78), such platform is a mandatory requirement. Subway platforms made of FRP composite material possess advantages including but not limited to light weight, compact structure, excellent heat and fire resistance, low smoke and non-toxic, corrosion resistance, and installation easiness. Therefore, FRP is nowadays widely utilised in the underground tunnel construction.

The development of domestic urban subway transit has promoted the growth of FRP used for subway evacuation platform. Due to the massive investment in recent years, the total length of China's urban subway lines in operation reached 2,815 km in 2015, representing a CAGR of 18.3% from 2010 to 2015. As such, the market size of FRP Subway Evacuation Platform products in China enjoyed a stable growth from RMB85.6 million in 2010 to RMB108.0 million in 2015 with a CAGR of 4.8%. As the number of cities in the PRC with government approval for the construction of new urban transit lines by the end of 2015 reached 44, it is expected that more new lines will be constructed in the future and reach 5,228 km by 2019. Therefore, it is estimated that the FRP Subway Evacuation Platform products market in China will grow at a CAGR of 15.5% from 2015 to 2019 to RMB192.0 million.

The historical growth in the market size of FRP used for subway evacuation platform in China has displayed high stability without too many fluctuations, due to the continuous strengthened emphasis of the government's construction standards on the subway evacuation platform and the performance advantages of FRP.

Chart 4 Market Size of FRP Subway Evacuation Platform Products in China, 2010-2019E



Source: Sullivan Report

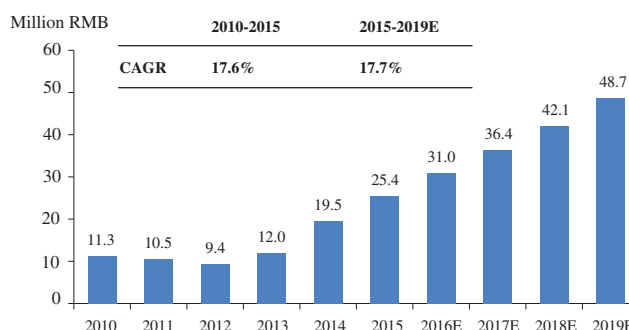
INDUSTRY OVERVIEW

China's Epoxy Wedge Strip Sector for Wind Turbine Blades

Epoxy Wedge Strip products, one of the products made of FRP composites, is frequently used in manufacturing hubs and blades for the wind driven generators. Compared to resin casting material, Epoxy Wedge Strip products is much better in mechanical strength and other properties such as the dimensional stability resulting from a cross-link under the heating effect, excellent in heat-resisting, electro-insulating and corrosion-resisting, and much lighter and higher strength comparing to steel, aluminum alloy and PVC.

The Epoxy Wedge Strip products market in China increased from RMB11.3 million in 2010 to RMB25.4 million in 2015 with a CAGR of 17.6%. The market demand fluctuated from 2010 to 2015 owing to the downstream wind power market fluctuations during the same period. Going forward, as the PRC government plans to increase the use of wind power generators among all methods of power generation, the number of wind power generators is expected to increase at a CAGR of approximately 12.5% from 2015 to 2019. Due to the fact that the application of Epoxy Wedge Strips products in wind turbine blade is comparatively new with growing acceptance among customers, the Epoxy Wedge Strips products in China is expected to enjoy a continuous growth from RMB25.4 million in 2015 to RMB48.7 million in 2019, with a CAGR of 17.7%.

Chart 5 Epoxy Wedge Strip Products Market Size in China, 2010-2019E



Source: Sullivan Report

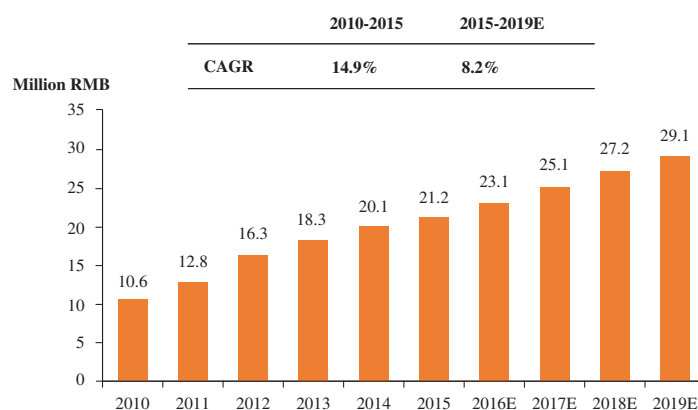
China's Composite Plastic Railroad Crossties Sector

A railroad crosstie is a rectangular support for the rails in railroad tracks. Types of railroad crossties normally include (i) wooden rail crossties; (ii) concrete rail crossties; (iii) steel rail crossties; and (iv) composite plastic crossties. Whilst railroad crossties are traditionally made of wood, composite plastic crossties are also used as they generally have the following advantages compared with other types of railroad crossties: (i) having an expected life span ranging from 30 to 80 years, which is longer than wooden crossties (approximately 15 years); (ii) being impervious to rotting, insect attack, weather changes, moisture, fire, corrosion, electricity and other harsh environments; (iii) being more resistant to plate cutting, showing improved lateral strength and minimal vibration in rail gauge after over two billion gross tons of heavy axle traffic; (iv) having the same total track stiffness and total track modulus as wooden crossties, and producing less surface vibration than other crossties; and (v) being more economical and environmentally friendly than wooden crossties while having similar mass and ease of processing.

INDUSTRY OVERVIEW

Due to its stable performance and growing acceptance, the market size of composite plastic railroad crossties in China experienced a rapid growth from 2010 to 2015 and increased from RMB10.6 million in 2010 to RMB21.2 million in 2015, representing a CAGR of 14.9%. As more subway lines which applied composite plastic railroad crossties have been put into operation, end-users are becoming increasingly familiar with such product. Going forward, driven by the continuously large investment in railway and urban transit sector, the market size of composite plastic railroad crossties in China is expected to further expand and reach RMB29.1 million in 2019, representing a CAGR of 8.2%. As the market of composite plastic railroad crossties is still in its emerging stage in China, with only two suppliers, Luoyang Sunrui Rubber & Plastic Science and Technology Co., Ltd*. (洛陽雙瑞橡塑科技有限公司) and Sekisui Chemical Co., Ltd.* (積水化學工業株式會社), the competitive landscape is not as keen as other mature composite products markets.

Chart 6 Composite Plastic Railroad Crossties Market Size in China, 2010-2019E



Source: Sullivan Report

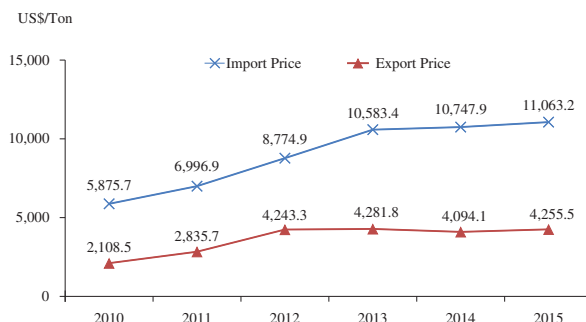
RECENT DEVELOPMENT OF PRODUCTS MADE OF FRP COMPOSITES PRICE IN CHINA

From 2010 to 2015, the average unit price of exported products made of FRP composites increased from USD2,108.5 per ton to USD4,255.5 per ton, at a CAGR of 15.1%. During 2010 to 2012, the increasing cost of labour and land rent have resulted in rising manufacturing costs of products made of FRP composites, which contributed to the growing export prices of products made of FRP composites. However, as there are much more domestic companies producing products made of FRP composites in recent years, the export price has fluctuated around USD4,100/Ton since 2012 due to the increased competitions.

During the Conference of the Organization of the Petroleum Exporting Countries (“OPEC”) held in Vienna, Austria on 30 November 2016, the member countries agreed to commit themselves to certain actions including reducing the crude oil production levels. Prices of crude oil are expected to be impacted by such adjustment and experience an upward trend in the near future, which in turn is expected to result in the growth of prices of relevant downstream products such as FRP composite products. However, as the duration of this agreement is only six months, and reduction levels will be reviewed and adjusted after six months by taking into account prevailing market conditions and prospects, the prices of crude oil are difficult to forecast in the long-term, and so are the prices of relevant downstream products such as FRP composite products.

INDUSTRY OVERVIEW

Chart 7 Average Import and Export Prices of Products Made of FRP Composites in China, 2010-2015



Source: Sullivan Report

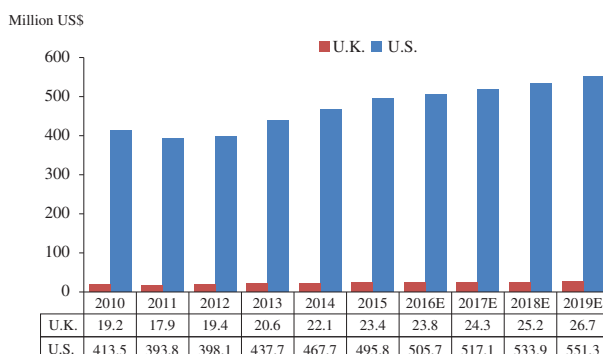
RECENT DEVELOPMENTS IN THE FOREIGN FRP MARKET

Market Size of All Grating Products Made of FRP Composites in the U.S. and U.K.

Of the two key overseas products made of FRP composites markets that the Group covers, the U.S. economy has recovered strongly in the past 6 years, resulting in more investments on fixed assets in manufacture industries, and consequently recover of demand for all grating products made of FRP composites.

U.K. has also witnessed similar recovery trend in the products made of FRP composites markets and it is expected to continue its refurbishment of the subway system in next five years. The chart below illustrates the expected demand growth of all grating products made of FRP composites in these two countries.

Chart 8 Market Size of All Grating Products Made of FRP Composites in the U.S. and U.K., 2010-2019E



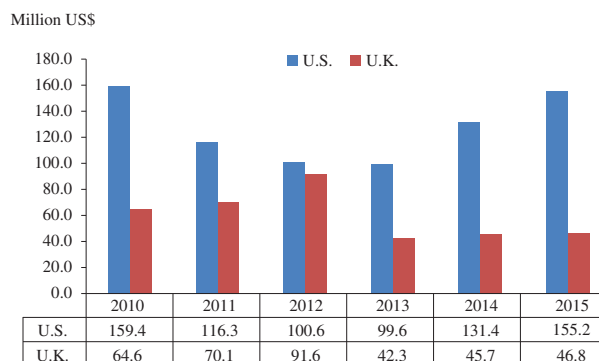
Source: Sullivan Report

Products Made of FRP Composites Imports in U.S. and U.K.

Over the period from 2010 to 2015, FRP imports of U.K. saw a decline trend. FRP imports of the U.S. declined from 2010 to 2013, and then recovered in 2014 owing to its overall economy recovery. The chart below illustrates the recent import trends in these key overseas markets:

INDUSTRY OVERVIEW

Chart 9 Imported Value of Products Made of FRP Composites in the U.S. and U.K., 2010-2015



Source: Sullivan Report

Due to the increasing demand from infrastructure projects in the U.S. such as highways, bridges, buildings, marine structure, parking structures and so on, FRP products especially FRP rebar market is expected to experience a sustainable growth in the near future. Furthermore, FRP pipe and tank market is also expected to grow due to the strong and stable demands from major downstream industries in the U.S.. The trend of outsourcing some maturely developed FRP products such as grating products will continue to affect the FRP industry in the U.S. as manufacturers and distributors are becoming more willing to import those products from developing countries where the cost of both labor and raw materials are lower. Due to growing cost especially labor cost and cost of waste disposal, some manufacturers in the U.S. stopped producing FRP products and became distributors and purchase from other countries. In 2015, the share of imported FRP products accounted for approximately 1.0% of total demand in terms of value in the U.S.. Going forward, the share of imported FRP products is expected to keep growing in order to meet the domestic demand in the U.S. market.

The long-term trend of FRP product market in the U.K. is expected to follow the pattern of general economy as construction and transport are the most important application industry sectors for FRP products. Going forward, driven by the further development of construction and transport projects in the U.K., the market demand for FRP products is expected to further expand.

MARKET DRIVERS

Stable Demand from Various Applications

The applications for FRP are quite wide including building and construction field, electrical and telecommunications engineering. The major products made of FRP composites include cooling towers, pipelines, storage tanks, sanitation products, wind turbine blades and so on. The wide applications ensure a stably growing demand for products made of FRP composites.

INDUSTRY OVERVIEW

Government Support

The Chinese government has put more emphasis on environmental protection, encouraging sustainable development in order to set up a resource-saving and environmentally-friendly society. The development of products made of FRP composites is in line with this trend and has been supported by the Chinese government. Also, the promotion of downstream consumption of products made of FRP composites and the capacity upgrading of FRP materials is beneficial to the products made of FRP composites industry.

Technological Innovation

With the applications of new fibreglass such as non-alkalinity, medium-alkalinity and alkaline-resistant in the productions of products made of FRP composites, FRP industry is benefited from the new raw materials development and satisfies various needs of the market. In addition, faced with fierce market competition, the FRP manufacturing processes have also developed from handmade to winding, pultrusion and moulding, therefore increased production outputs and productivity.

MARKET ENTRY BARRIERS

Brand Loyalty

Because of the long lifespan of products made of FRP composites such as FRP grills and pipelines, it takes a long time for companies to form brand loyalty and to gain brand popularity. Thus new companies need much more time to establish and maintain their reputation to compete with well-known competitors.

Waste Disposal

The costs of disposing FRP wastes are high, therefore recycling and reusing products made of FRP composites are important in the industry. China has also put much emphasis on FRP wastes recycling. With the rising environmental protection standards, more investments and high technologies will be required for new companies to meet more strict criteria. Waste disposal is considered as an entry barrier as the reject rate in producing quality FRP products is high for small scale manufacturers, and it requires investment in both research and development and equipment upgrading to lower the quantity of waste disposal.

Large Initial and Subsequent Investments

The production of light-weight, corrosion-resistant products made of FRP composites with good quality and durable performance requires a large amount of initial capital investment for modern production lines to provide complicated production techniques. Significant R&D investments are also necessary to develop products made of FRP composites with better quality and new functions. These put a barrier for smaller FRP manufacturers to compete with larger ones.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE

FRP industry in China is relatively fragmented

There are more than 10,000 manufacturers of products made of FRP composites in China, while only over 1,000 companies have annual turnovers over RMB10.0 million. Most Chinese manufacturers of products made of FRP composites are township enterprises. They spread wide across China but industry clusters are located in Hebei, Jiangsu, Shandong and Guangdong.

Segmented by product portfolio and revenue, tier one manufacturers are those who have the ability to produce different types of FRP products such as FRP grating, FRP pipes and FRP tanks, and larger ones with annual revenue above RMB30.0 million such as the Group. In 2015, the number of tier one manufacturers in China was approximately 100, representing approximately 1.0% of total FRP manufactures in China. Tier two manufacturers are the remaining manufacturers which are capable of producing only single type of FRP product and with low revenue.

There are numerous tier two manufacturers sacrificing quality to compete by adopting low price strategy. Such strategy disturbs normal pricing of the FRP industry and squeezes profit margins, which hinders the development of the FRP industry. However, most of the tier one manufacturers, such as the Group, can survive the fierce competition without having to adopt such low price strategy and even expand due to (i) their well-established brand image among domestic customers who are willing to pay more for products of better quality and (ii) growing export to countries requiring higher standard of product quality. Tier one manufacturers in the FRP Grating product industry, especially the top players in this tier such as Suzhou Grating Co., Ltd., China Grate Composite Structures (Nantong) Ltd. and our Group, sell FRP Grating products at comparatively higher price due to their well-established brand image among customers who are willing to pay more for products of better quality, and thus they also generally enjoy higher gross profit margin. The average gross profit margin of the abovenamed top players was approximately 35.3% in 2015, according to Sullivan.

Competitive landscape of the global market of FRP products

The global market of FRP products is extremely heterogeneous not only in terms of the types of products manufactured but also in the targeted application areas. Large FRP product manufacturers in the U.S. and Europe are in the leading position with advanced technology, strong production capacity and coverage of multiple types of FRP products. Recently in developing countries and regions such as China, Latin America and India, FRP manufacturers with certain scale have emerged due to the rapid economy development and large investment in infrastructure. Besides the domestic demand for FRP products, the needs of outsourcing FRP products among developed countries due to cost concerns also contribute to the fast expansion of FRP manufacturers in developing countries such as China. Though falling behind in technologies such as automation, FRP manufacturers in developing countries are expected to obtain more market share in the future.

INDUSTRY OVERVIEW

Competitive landscape of the FRP market in the U.S. and U.K.

The FRP market in the U.S. is relatively fragmented with around 400 manufacturers by the end of 2015, approximately 13.3% of which have over 500 employees. There are a few leading players who provide a wide range of FRP products and have large market share. Small and medium scale manufacturers generally focus on several types of FRP products and target a few downstream application industries.

The U.K. FRP market is the second largest in Europe. By the end of 2015, there were approximately 120 FRP manufacturers in the U.K., among which several large manufacturers are in the leading position with capacity to produce a wide range of different FRP products.

Wide applications of products made of FRP composites allow manufacturers to easily differentiate themselves

Products made of FRP composites have wide applications across various industries including across construction, chemical anti-corrosion, energy conservation and environment protection, municipal engineering, shipping, electricity and telecommunication, automobile and so on. As a result, manufacturers of products made of FRP composites can choose to focus on different product concentrations, thus easily differentiating themselves from their competitors. There are 3 major fields of concentrations:

1. FRP profile, grille and cover plate;
2. FRP pipeline, storage tank, cooling tower, water tank, environmental protection chemical equipment and blade of wind turbine; and
3. FRP doors and windows, interior decoration products, sanitary wares, car shells, boats, traffic safety facilities and crafts.

While our Group principally focuses on the first major field of concentrations by manufacturing our FRP Grating products and USCG Approved Phenolic Grating products, we also manufacture Epoxy Wedge Strip products and FRP Subway Evacuation Platform products, which belong to the second and third major fields of concentrations, respectively.

China's FRP industry lacks mandatory standards which led to varied qualities and prices

There are recommended production standards in the production of products made of FRP composites, such as that mentioned in the section "Regulatory Overview – Industry Standards in relation to the Business of Our Company". However there are no mandatory standards and due to the large amount of product varieties, producers adapt different standards for technology and raw materials. There are some manufacturers who replace high quality products with low quality ones and as a result, inferior quality products are frequently released to the market along with high quality ones, inducing price wars, disturbing normal pricing of the industry, squeezing profit margins, and consequently hindering the industry development.

INDUSTRY OVERVIEW

Major players produce at large-scales with advanced production technologies

Major players within FRP market have adopted international standards as well as large-scale production techniques. As these major players actively improve raw material quality, advance technologies and equipment, develop new products, enhance function, performance and environmental protection of their products made of FRP composites, they have been evolving towards high quality, internationally recognised FRP producers. Providers of high-quality products made of FRP composites can still survive the fierce competition and expand due to their well-established brand image among domestic customers who are willing to pay more for products of better quality and their growing export to countries requiring higher standard of product quality.

The table below lists out the top five major producers in the FRP grating sector in China by revenue, according to Sullivan Report:

Chart 10 Top 5 players of the FRP grating sector in China

Company Names	All Grating Products						USCG Approved Phenolic Grating Products		
	Made of FRP Composites			FRP Grating Products			Products		
	Revenue	Market		Revenue	Market		Revenue	Market	
	(RMB mn)	Share (%)	Ranking	(RMB mn)	Share (%)	Ranking	(RMB mn)	Share (%)	Ranking
Suzhou Grating Co., Ltd. ^(Note 1)	1	91.1	2.8	5	7.8	0.3	1	83.3	56.3
China Grate Composite Structures (Nantong) Ltd. ^(Note 2)	2	75.9	2.3	4	22.8	0.7	2	53.1	36.0
The Group	3	50.5	1.6	1	44.0	1.4	3	6.5	4.4
Hengrun Group Co., Ltd. ^(Note 3)	4	29.3	0.9	2	29.3	0.9	–	–	–
Nantong Chuangmeng Composite Material Co., Ltd. ^(Note 4)	5	27.9	0.9	3	27.9	0.9	–	–	–

Notes:

- Suzhou Grating Co., Ltd. is a private company based in Suzhou, Jiangsu Province, China and is a large-scale manufacturer of grating products made of FRP composites which specialises in the production of high strength moulded grating, pultruded grating, stair treads, ladders, handrails and radomes. It also provides stair and platform systems solutions which require FRP materials.
- China Grate Composite Structures (Nantong) Ltd. is a private company based in Nantong, Jiangsu Province, China and is one of the leading manufacturers of moulded and pultruded grating products made of FRP composites. It offers a range of products such as grating, covered grating, conductive grating, stair treads, stair tread covers, plates and other accessories.
- Hengrun Group Co., Ltd. is a private company based in Zaoqiang City, Hebei Province, China and is the global leader in the design and production of various types of FRP pipes, sheet moulding compound water tank, FRP grating products, cooling tower cable tray and other composite materials products.

INDUSTRY OVERVIEW

4. Nantong Chuangmeng Composite Material Co., Ltd. is a private company based in Nantong, Jiangsu Province, China and is a FRP products manufacturer and distributor in China, offering products such as moulded and pultruded FRP grating products, FRP pultruded profiles, FRP insulation products, FRP moulded products and a variety of hand lay-up products.

Source: Sullivan Report

The table below sets out the top five players in the FRP Subway Evacuation Platform products sector in China by revenue, according to the Sullivan Report:

Chart 11 Top 5 players of the FRP Subway Evacuation Platform products sector in China

Company Names	FRP Subway Evacuation Platform products		
	<i>Rankings</i>	<i>Revenue (RMB mn)</i>	<i>Market Share (%)</i>
	Suzhou Grating Co., Ltd.	1	8.4
Luoyang Sunrui Rubber & Plastic Science and Technology Co., Ltd. ^(Note 1)	2	7.6	7.0
Beijing Composite Materials Co., Ltd. ^(Note 2)	3	4.6	4.3
The Group	4	3.5	3.2
Ningbo Huayuan FRP Electrical Appliance Manufacture Co., Ltd. ^(Note 3)	5	2.9	2.7

Notes:

1. Luoyang Sunrui Rubber & Plastic Science and Technology Co., Ltd. is a subsidiary of a PRC public company based in Luoyang, Henan Province, China, and it mainly works on research and development and manufacturing of engineering rubber. It also provides consultation services in relation to noise and vibration reduction and environmentally-friendly productions.
2. Beijing Composite Materials Co., Ltd. is a subsidiary of a state-owned enterprise based in Yanqing District, Beijing, China and it principally engages in the research, development, manufacture and sale of FRP/composite products and raw materials.
3. Ningbo Huayuan FRP Electrical Appliance Manufacture Co., Ltd. is a private company based in Ningbo, Zhejiang Province, China, and it principally engages in research and development and production of sheet moulding compound materials, moulds and finished products for industries such as electrical, telecommunication, high-low voltage insulation, train and rails and automotive.

Source: Sullivan Report

INDUSTRY OVERVIEW

The table below sets out the top three players in the Epoxy Wedge Strip products sector in China by revenue, according to the Sullivan Report:

Chart 12 Top 3 players of the Epoxy Wedge Strip products sector in China

Company Names	FRP Wedge Strip Products		
	Ranking	Revenue (RMB mn)	Market Share (%)
Best Brand Composite Technology Co., LTD. ^(Note 1)	1	6.1	24.0
The Group	2	2.4	9.5
Air Leaf Plastics Co., Ltd. Nanjing Branch Qidong ^(Note 2)	2	2.4	9.5

Notes:

1. Best Brand Composite Technology Co., LTD. is a private company based in Wuhan, Hubei Province, China and it focuses on the design, production and sales of pultruded products applied in the wind power generation, automotive, rail transit and public facility industries.
2. Air Leaf Plastics Co., Ltd. Nanjing Branch Qidong is a private company based in Nanjing, Jiangsu Province, China and is a manufacturer and distributor of FRP products, rubber products, silicone products and accessories of wind turbine blades in China.

Source: Sullivan Report

RECENT DEVELOPMENTS IN RAW MATERIAL PRICES

The principal raw materials used in the production of products made of FRP composites include glass fibre and resin.

Glass Fibre

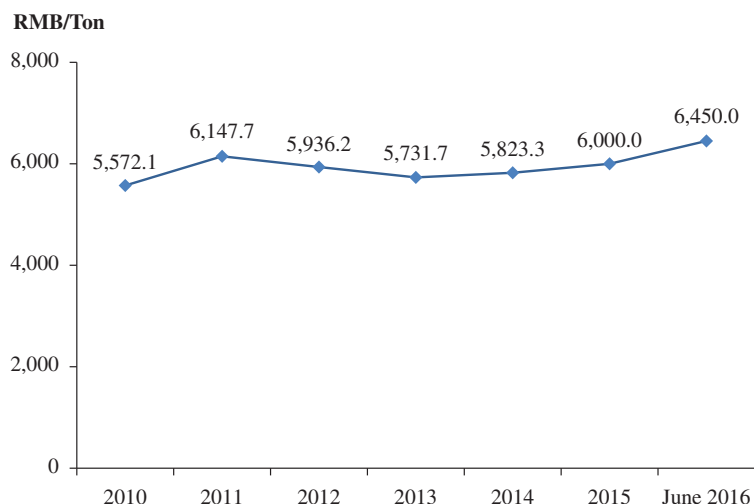
Glass Fibre is one of the multiple inorganic non-metallic materials with properties such as high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion, and anti-erosion. As a result, glass fibre can be designed for different requirements.

The prices of glass fibre are positively correlated with downstream demands from the domestic demand for wind power, pipes and industrial application at present, and will be from energy, environmental engineering, oceanographic engineering in future. The recent glass fibre price development can be witnessed from its export prices. Influenced by weak demands from domestic and foreign markets in 2012 and 2013, the average fibreglass roving export price decreased, but has recovered and stabilised with rising labour costs and increasing demand.

INDUSTRY OVERVIEW

The table below illustrates the historical price change from 2010 to June 2016:

Chart 13 Export Price of Fiberglass Roving



Source: UN Comtrade, Sullivan Report

Synthetic Resin

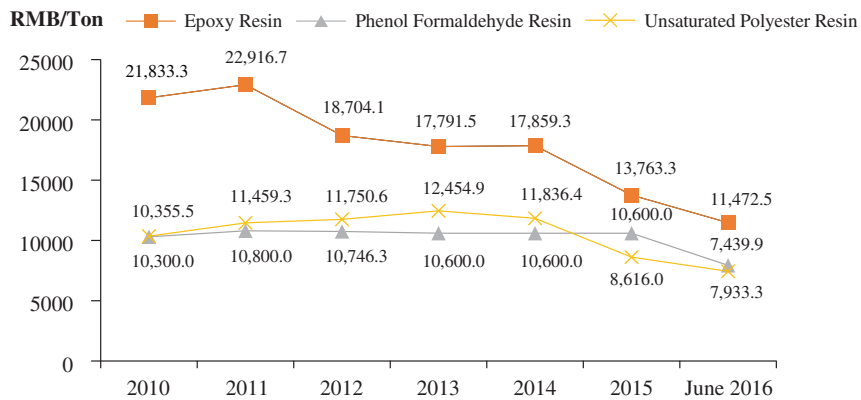
The type of synthetic resin includes unsaturated polyester resin (“UPR”), epoxy resin and phenol formaldehyde resin. There are various UPR grades and the commonly used grades are UPR196, UPR DC191 and UPR191. During 2010 to 2015, the prices of these three major UPRs have seen a decreasing trend owing to the weak real estate market in China. The price of epoxy resin has also been depressed during the source period as a result of lower consumption in the power coating and electronic industries as influenced by the slowdown of the domestic economic growth. Phenol formaldehyde resin, on the other hand, enjoyed stable average price because of its excellent properties such as high heat-proof, impact resistance, less fuming, chemical resistance, low costs.

As OPEC has recently agreed to cut oil supplies, oil price is expected to increase in the future, which in turn will result in an upward trend for resin price globally. However, as the duration of this agreement is only six months, and reduction levels will be reviewed and adjusted after six months by taking into account prevailing market conditions and prospects, the prices of crude oil are difficult to forecast in the long-term, and so are the prices of relevant downstream products such as resin.

INDUSTRY OVERVIEW

The table below illustrates the price changes of the different types of synthetic resin from 2010 to June 2016:

Chart 14 Price of Different Synthetic Resin, 2010-2015



Source: Sullivan Report

Note: The price of unsaturated polyester resin is the average price of UPR196 and UPR191 in Jiangsu Province; The prices of Epoxy Resin and Phenol Formaldehyde Resin are based on eastern China market.

REGULATORY OVERVIEW

OVERVIEW

Our Company operates our businesses in the PRC in accordance with the legal system formed by the State Council and various departments and organisations thereunder, which include, the Ministry of Commerce, the State Administration for Industry and Commerce, the State Administration of Foreign Exchange, the State Administration of Work Safety, the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, the National Development and Reform Commission, the Ministry of Environmental Protection, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development and the State Administration of Taxation. The State Council and various departments and organisations thereunder (including those mentioned above) promulgated regulations applicable to the businesses of our Company from time to time. In addition to the PRC market, we sell our FRP products to overseas markets and our Group's principal overseas markets are the U.S. and the U.K. We are therefore also subject to the relevant laws and regulations in the U.S. and the U.K. This section sets out summaries of certain aspects of the laws and regulations of the PRC, the U.S. and the U.K. which are relevant to our business operations.

THE PRC

The following sets forth a summary of the material laws and regulations relating to our Group's business operations in the PRC.

REGULATIONS ON THE CHANGE OF EQUITY INTERESTS OF INVESTORS OF FOREIGN-INVESTED ENTERPRISES

Pursuant to the Certain Provisions on the Change of Equity Interests of Investors of Foreign-Invested Enterprises (《外商投資企業投資者股權變更的若干規定》) promulgated by the Ministry of Foreign Trade and Economic Cooperation (now known as the Ministry of Commerce) and the SAIC on 28 May 1997, which became effective on 28 May 1997, a change of equity interests of investors of foreign-invested enterprises refers to the change of investors of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures, foreign-invested enterprises established within the territory of the PRC according to the laws of the PRC (collectively, the “**enterprises**”) or a change of the share of the investors' capital contributions (including terms of cooperation) in the enterprises (“**equity interests**”). The authority which approves the change of equity interests of the investors of an enterprise shall be the authority which approves the establishment of such enterprise.

REGULATORY OVERVIEW

REGULATIONS ON REGISTRATION OF FOREIGN EXCHANGE FOR OVERSEAS INVESTMENT OF RESIDENTS OF THE PRC

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “SAFE Circular No. 37”) promulgated by the SAFE on 4 July 2014, which became effective on 4 July 2014, (i) prior to contributing domestic and overseas legitimate assets or interests to an overseas special purpose vehicle (“Overseas SPV”), a domestic resident shall apply to the SAFE for foreign exchange registration of overseas investment; (ii) where a registered Overseas SPV undergoes changes of its domestic resident individual shareholders, name, operating period or other basic information, or upon substantial changes including but not limited to the increase or reduction of registered capital by domestic resident individuals, transfer or replacement of equity and merger or split, the Overseas SPV shall go through procedures for modification registration of foreign exchange for overseas investment with the SAFE in a timely manner; (iii) where a non-listed Overseas SPV uses its own equity interests or options to grant equity incentives to the directors, supervisors and senior management of a domestic enterprise under its direct or indirect control, as well as other employees in employment or labour relationships with the aforesaid company, relevant domestic resident individuals may, before exercising their rights, apply for foreign exchange registration of the Overseas SPV; (iv) where an Overseas SPV intends to repatriate the funds raised after completion of the offshore financing to the PRC, it shall comply with relevant PRC regulations on foreign investment and foreign debt management. A foreign-invested enterprise established through round-trip investment shall complete relevant foreign exchange registration formalities according to the prevailing foreign exchange administration regulations on foreign direct investment and truthfully disclose information on the actual controller of its shareholders; and (v) where a domestic resident repatriates the profits and bonus obtained from an Overseas SPV to the PRC, the foreign exchange administration regulations on current account shall apply; whereas if it is the foreign exchange earnings derived from capital changes that are to be repatriated, the foreign exchange administration regulations on capital account shall apply.

REGULATIONS ON IMPORTS AND EXPORTS GOODS

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) was adopted on 12 May 1994 and amended on 6 April 2004 and became effective on 1 July 2004 by the Standing Committee of the National People’s Congress (the “NPCSC”) to develop foreign trade in areas such as the import and export of goods, technology and international service, and to maintain orders in foreign trade and promote the advancement of China’s economy.

The Customs Law of the PRC (《中華人民共和國海關法》) was adopted on 22 January 1987 and amended on 8 July 2000, 29 June 2013 and 28 December 2013 by the SCNPC to maintain state sovereignty and interests, strengthen supervision and control by Customs, promote exchanges with foreign countries in economic affairs, trade, science, technology and culture, and safeguard socialist modernisation. This law governs the goods importation and exportation in the aspects of customs duty, customs clearance, customs inspection, anti-smuggling, etc., and also specifies the liabilities for violating such law.

REGULATORY OVERVIEW

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》) was promulgated by the NPCSC on 21 February 1989 and amended on 28 April 2002 and 29 June 2013, and 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》) were promulgated by the State Council on 31 August 2005 and amended on 18 July 2013. The main objectives of this law and its implementation regulations are to strengthen the inspection of, and ensure the quality of, import and export commodities, to protect the lawful rights and interests of the parties involved in foreign trade, and to promote the smooth development of China's economic and trade relations with foreign countries. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC oversees inspections, while local entry-exit inspection and quarantine bureaus shall perform inspections in areas under their jurisdiction. Pursuant to this law and its implementation regulations, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) shall publish from time to time a catalogue of import and export commodities which shall be subject to the compulsory inspection by local entry-exit inspection and quarantine bureaus. Such inspections, among others, cover quality, specifications, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection and are implemented in accordance with the compulsory standards under this law and other inspection standards. Any violation of the relevant provisions of this law may result in fines, confiscation of illegal income, and other penalties. Serious violations may subject the responsible individual or enterprise to criminal liabilities.

REGULATIONS ON PRODUCTION SAFETY

The Law of the PRC on Production Safety (《中華人民共和國安全生產法》), which became effective on 1 November 2002 and was amended on 31 August 2014, is the principal law governing the supervision and administration of production safety in the PRC. This law requires production entities to meet the relevant legal requirements, such as providing its staff with training and a handbook on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities which are unable to provide the required safe working conditions may not engage in production activities. Violation of such laws may result in the imposition of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

REGULATIONS ON CONSTRUCTION

Pursuant to the Law of the PRC on Urban and Rural Planning (《中華人民共和國城鄉規劃法》) promulgated by the NPCSC on 28 October 2007, which was implemented on 1 January 2008 and amended on 24 April 2015, in order to construct buildings, structures, roads, pipelines and other projects in an area covered by city or town planning, the construction entity shall apply for a Construction Work Planning Permit (建設工程規劃許可證) (the "Construction Permit") with the department in charge of the planning.

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Pursuant to the Regulation on Quality Control of Construction Projects (《建設工程質量管理條例》) promulgated and implemented by the State Council on 30 January 2000, if a construction entity fails to obtain the Construction Works Commencement Permit and commences construction without authorisation, the construction entity may be ordered to cease construction and make rectifications within the specified period, and may be subject to a fine ranging from not less than one percent but not more than two percent of the construction cost. If a construction entity fails to schedule acceptance checks on completion of the construction works, the construction entity which delivers the construction project for use without authorisation may be ordered to make rectifications and subject to a fine ranging from above two percent to below four percent of the construction cost. The construction entity shall be liable for compensation for any loss incurred.

REGULATIONS ON EMPLOYMENT AND SOCIAL INSURANCE

The Labour Law

Pursuant to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the NPCSC on 29 June 2007 and implemented on 1 January 2008, amended on 28 December 2012 and became effective on 1 July 2013, in order to establish a labour relationship, a labour contract should be entered into in writing. In the event that no written labour contract is entered into at the time when a labour relationship is established, such a written labour contract shall be entered into within one month from the date on which the employee commences work.

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the NPCSC on 5 July 1994, became effective on 1 January 1995 and was amended on 27 August 2009, employers in the PRC shall establish and perfect the system of employees' safety and sanitation, strictly abide by the national rules and standards on employees' safety and sanitation, and educate employees on employees' safety and sanitation. Employees' safety and sanitation facilities shall comply with standards stipulated by the State. Employers shall provide employees with employees' safety and sanitation conditions which are in compliance with the relevant regulations and provisions on employees' protection of the PRC.

Laws and Regulations on Social Insurance

Pursuant to the Regulation on Insurance for Work-Related Injury (《工傷保險條例》) which was promulgated by the State Council on 27 April 2003, implemented on 1 January 2004, amended on 20 December 2010 and became effective on 1 January 2011, the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》) which was promulgated by the Ministry of Labour (now known as the Ministry of Human Resources and Social Security) on 14 December 1994 and became effective on 1 January 1995, the Regulation on Unemployment Insurance (《失業保險條例》) which was promulgated by the State Council and became effective on 22 January 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) which

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was promulgated by the State Council and became effective on 22 January 1999, and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) which was promulgated by the Ministry of Labour and Social Security (cancelled and now known as the Ministry of Human Resources and Social Security) and became effective on 19 March 1999, employers shall provide their staff in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance. Employers which fail to make social insurance contributions according to the relevant regulations may be ordered to make rectifications within a stipulated period; in the event that rectifications are still not made within the period stipulated by the governmental department, the relevant department may impose a late payment fee of 0.2% of the outstanding amount per day, calculated from the date on which such amount becomes overdue.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was promulgated by the NPCSC on 28 October 2010 and came into effect on 1 July 2011, employees should participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance, while employers and employees should jointly or severally make contributions to social insurance. Where an employer fails to make contributions to social insurance, it may be ordered to make payments within a specified time limit and may be charged a late payment fee of 0.05% of the outstanding amount per day from the date on which such amount becomes overdue. A fine ranging from one time to up to three times of the outstanding amount will be imposed if no payment is made after expiry of the specified time limit.

Laws and Regulations on Housing Provident Fund

Pursuant to the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) of the State Council which became effective on 3 April 1999 and was amended on 24 March 2002, an employer shall go to the housing provident fund management centre to undertake housing provident fund payment and deposit registration, and shall go to an entrusted bank to go through the formalities of opening housing provident fund accounts on behalf of its staff upon verification by the housing provident fund management centre. The unit shall timely pay and deposit in full the contribution to the housing provident fund, and shall pay the contribution to the housing provident fund for its employees at a rate of no less than 5% of an individual employee's monthly average wage in the preceding year. Where an employer fails to make contribution to the housing provident fund within a specified period, it may be ordered to make rectification and deposit the contribution within a specified period; if it fails to deposit the contribution after expiry of the specified time limit, the relevant authority may apply to the People's Court for enforcement.

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REGULATIONS ON LAND ADMINISTRATION

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) which was promulgated by the NPCSC on 25 June 1986, became effective on 1 January 1987 and was amended on 29 August 1988 and 28 August 2004, and the Regulations for the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) which was promulgated by the State Council on 27 December 1998, became effective on 1 January 1999 and was amended on 8 January 2011 and 29 July 2014, where use of state-owned land is not based on the approved purpose, the administrative land department under the government may order the principal to return the land, and impose on the principal a fine of not less than RMB10 but not more than RMB30 per sq.m.

REGULATIONS ON ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was promulgated and implemented by the NPCSC on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015, establishes the legal framework on environmental protection in the PRC. The Ministry of Environmental Protection under the State Council is responsible for the regulation of the environmental protection efforts in the PRC and the formulation of national pollutant emission standards. Every local environmental protection department (bureau) is responsible for the environmental protection efforts within its jurisdiction. Enterprises and public institutions and other manufacturers and business operators that discharge pollutants shall take measures to prevent and control pollution and other environmental harms caused by waste gases, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical and electromagnetic radiation generated in the course of production, construction or other activities. Enterprises and public institutions that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel. Enterprises, public institutions and other manufacturers and business operators which implement the pollutant emission license administration system shall discharge pollutants according to the requirements in their pollutant emission license and shall not discharge pollutants without obtaining the pollutant emission license. For construction entities which commence construction of a project prior to submitting the environmental impact assessment reports of the construction project in accordance with laws or prior to having such reports approved, the competent government departments with environmental protection supervision responsibilities shall order them to cease construction, impose fines, and may require restoration of the construction sites.

Pursuant to the Law on Appraising Environmental Impacts of the PRC (《中華人民共和國環境影響評價法》) which was promulgated by the NPCSC on 28 October 2002 and became effective on 1 September 2003, and the Regulations on the Administration of Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented by the State Council on 29 November 1998, construction projects which cause pollution in the construction process shall comply with the national and local standards in respect of the discharge of pollutants. The State implements an assessment system on

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environmental impact of construction projects. The environmental impact assessment of construction projects shall be undertaken by entities having acquired certificates of corresponding qualifications. The State classifies and manages the environmental protection measures of construction projects in accordance with the degree of environmental impact caused by such projects based on the following requirements: (i) if the environmental impact caused by the construction project may be significant, it shall prepare an environmental impact report so as to include a comprehensive and detailed assessment on the pollution and environmental impact caused by the construction project; (ii) if the environment impact caused by the construction project may be gentle, it shall prepare an environmental impact report form so as to include an analysis or special assessment of the pollution and environmental impact caused by the construction project; (iii) if environmental impact caused by the construction project may be so small that it is not necessary to conduct an assessment of the environmental impact, it shall fill in and submit an environmental impact registration form. Upon completion of the construction project, the construction entity shall file an application with the competent department of environmental protection that examined and approved the construction project environmental impact report, report form or registration form for acceptance of the facilities for environmental protection required for the construction project.

REGULATIONS ON TAXATION IN THE PRC

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was promulgated by the National People's Congress on 16 March 2007 and became effective on 1 January 2008, and the Regulations for the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, domestic enterprises, foreign-invested enterprises and foreign enterprises which established production and operational facilities in the PRC apply the unified 25% tax rate. Those enterprises are classified as resident enterprises and non-resident enterprises.

Resident enterprises are defined as enterprises established in China in accordance with PRC laws, or established in accordance with the laws of foreign countries (regions) but whose actual control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries (regions) and whose actual control entity is outside the PRC, but have no entities or premises but have income generated from within the PRC. According to the Enterprise Income Tax Law of the PRC and the relevant implementation regulations, the unified 25% enterprise income tax rate shall apply. However, if non-resident enterprises have not established entities or premises in the PRC, or if they have established entities or premises but there is no actual relationship between the relevant income derived in the PRC and the established entities or premises, enterprise income tax is set at the rate of 10%.

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Value-added Tax

Pursuant to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated by the State Council on 13 December 1993 and became effective on 1 January 1994, amended on 10 November 2008 and became effective on 1 January 2009, and the Detailed Rules for Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated by the Ministry of Finance and became effective on 25 December 1993, amended on 15 December 2008 and 28 October 2011 and became effective on 1 November 2011, all tax payers selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax according to this regulation.

INDUSTRY STANDARDS IN RELATION TO THE BUSINESS OF OUR COMPANY

The Building Material Industry Standards of the PRC – Glass Fibre Reinforced Thermosetting Resin Grating for Supporting Loads (《中華人民共和國建材行業標準 — 玻璃纖維增強熱固性樹脂承載型格柵》) promulgated by the National Development and Reform Commission on 13 April 2007 and implemented on 1 October 2007, stipulates the structure, size, product model and mark, technical specifications, supporting requirements, inspection rules and packaging, sign, storage and transportation, etc. of glass fibre reinforced thermosetting resin grating. The standards apply to grating for supporting goods, such as industrial platforms, floor, corridor planks, stair treads, trench covers, fences, etc. used in industries including petrochemical industry, metallurgy, light industry, shipbuilding, energy, municipal industry, etc.

REGULATIONS ON INTELLECTUAL PROPERTY RIGHTS IN THE PRC

Patent Law

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) which was promulgated by the NPCSC on 27 December 2008 and became effective on 1 October 2009, patents are classified into three categories: invention patent, utility model patent and design patent. The validity period of an invention patent is 20 years and the validity period of a design patent and a utility model patent is 10 years, both calculated from the respective dates of application. After the grant of the patent right for an invention or utility model, except as otherwise provided for in this law, no entity or individual may, without the authorisation of the patentee, exploit the patent, which means, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. After the grant of the patent right for a design, no entity or individual may, without the authorisation of the patentee, exploit the design, which means, make, offer to sell, sell or import the product incorporating its or his patented design, for production or business purposes.

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Trademark Law

Pursuant to the Trademark Law of the PRC (《 中華人民共和國商標法 》) which was promulgated by the NPCSC on 23 August 1982, became effective on 1 March 1993, amended on 27 October 2001 and became effective on 1 December 2001, amended on 30 August 2013 and became effective on 1 May 2014, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by laws. Any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of the registered trademark; (ii) using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark that is identical with or similar to the registered trademark on similar goods without a license from the registrant of the registered trademark, which is likely to cause confusion; (iii) selling commodities that infringe upon the right to exclusive use of a registered trademark; (iv) counterfeit or unauthorised production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorisation; (v) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of the registered trademark; (vi) providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; or (vii) causing other damage to the right to exclusive use of a holder of a registered trademark. Industrial and commercial administrative authorities have the authority to investigate any behaviour infringing the right to the exclusive use of a registered trademark. In case of a suspected criminal offence, the case shall be referred to a judicial authority in time in accordance with laws.

THE U.S.

During the Track Record Period, we had no material activities in the U.S. other than our sales of our products to distributors located in the U.S., which is subject to certain applicable federal and state product safety laws and regulations and other laws and regulations. The following sets forth a summary of such laws and regulations with the most significant impact on our sales in the U.S. However, other federal, state and local laws and regulation may also impose certain obligations on us and affect our products sold within the U.S..

PRODUCT SAFETY LAWS

Enacted in 1972, the Consumer Product Safety Act (the "CPSA") is the umbrella statute of product safety which sets forth various laws pertaining to products sold in the United States. It established and defined the authority of the Consumer Product Safety Commission (the "CPSC"). Pursuant to this authority, the CPSC had promulgated a series of regulations under the CPSA. In 2008, the Consumer Product Safety Improvement Act (the "CPSIA") was enacted and provided the CPSC with significant new regulatory and enforcement tools.

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Section 14 of the CPSA provided that imported consumer products shall bear certificates specifying the compliance with applicable rules and standards under this act. According to Section 17 of the CPSA, the importation of consumer products which fail to comply with relevant safety rules or to be accompanied by a certificate required by the CPSA will be refused to be imported into the U.S. The CPSA also provides for civil and criminal penalties with respect to the violation of the act.

Furthermore, the CPSA contains several reporting requirements for manufacturers of consumer products sold in the U.S. First, Section 15(b) of the CPSA requires manufacturers to inform the CPSC within 24 hours of obtaining information that one of their products (i) fails to comply with certain consumer product safety rules, (ii) contains certain defects or (iii) creates an unreasonable risk of serious injury or death. The CPSC may require the manufacturer to cease distribution of the product and notify persons to whom the product was sold or distributed of such non-compliance, defects or risk. In certain circumstances, the CPSC may require the manufacturer to bring the product into conformity with applicable consumer protection laws or regulations, repair the defect in the product, replace the product with an equivalent product that complies with relevant consumer safety rules, effect a product recall and/or refund the purchase price of the product.

Section 37 of the CPSA requires a manufacturer to report to the CPSC any model of a consumer product that is the subject of the filing of at least three civil actions related to death or grievous bodily injury that result in final settlement or a court judgment in favor of the plaintiff within a specified 24-month period.

In addition, the manufacturing process of FRP involves various hazardous chemicals and certain types of plastics may be considered as hazardous substance and therefore, FRP products may be subject to the Federal Hazardous Substances Act (the “FHSA”) which requires precautionary labeling on the immediate container of hazardous household products to help consumers safely store and use those products and to give them information about immediate first aid steps to take if an accident happens. FHSA also allows the CPSC to ban certain products that are so dangerous or the nature of the hazard is such that the labeling the act requires is not adequate to protect consumers.

Title 46 of the code of Federal Regulations requires that certain portions of U.S. commercial vessels be constructed only of the U.S. Coast Guard (the “USCG”) approved materials. FRP grating materials, because of their light weight, resistance to corrosion and low thermal conductivity, are desirable for use in commercial vessels, however, these materials are typically combustible. FRP grating material must receive USCG approval, upon qualification through laboratory testing of its fire integrity, for certain uses on vessels, including use in (i) exit routes and any areas that may require access for firefighting, rescue or emergency operations during exposure to or shortly after exposure to a transitory hydrocarbon or cellulosic fire; and (ii) open deck areas where groups of people are likely to assemble such as temporary safe refuge or lifeboat embarkation areas.

Products made of FRP composites are used in a wide range of additional application areas. Please refer to the section headed “Industry Overview – Recent Developments of China Fibreglass Reinforced Plastic Sector” in this prospectus for more details of the FRP’s

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applications. Federal and state laws regulate the use of FRP in certain materials or goods. It is anticipated that laws and regulations regarding the sale of products containing certain materials will change over time and that additional materials and chemicals may be restricted as safety concerns become apparent.

PRODUCT LIABILITY LAWS

Product liability is governed by state laws in the U.S., most of which is based on common law, rather than by federal law. Although differences do exist, the vast majority of states have adopted similar laws that share common principles as discussed below.

- Parties involved in manufacturing, distributing or selling a product may be subject to liability for harm caused by a defect in that product.
- There are three types of product defects, namely, design defects, manufacturing defects and defects in marketing.
- Product liability claims may be based on negligence, strict liability or breach of warranty. In a negligence claim, the defendant could be held liable for a personal injury or property damage caused by a failure to use due care. Strict liability claims, however, do not depend on the degree of carefulness by the defendant. A defendant is liable when it is shown that an injury (personal or to property) occurred as the result of a product's defect. Breach of warranty is also a form of strict liability in the sense that a showing of fault is not required. The plaintiff need only establish the warranty was breached, regardless of how that came about.

CUSTOMS AND IMPORT REGULATIONS

Our shipments of products to the U.S. are subject to custom inspection and compliance. All of our imported FRP products must be classified in the Harmonized Tariff Schedule of the U.S. and valued in accordance with applicable laws. The goods must also bear markings of the country-of-origin, in English, which identify where the product is made.

Although the importation of certain classes of merchandise may be prohibited or restricted to protect the economy and security of the U.S., to safeguard consumer health and well-being, or to preserve domestic plant and animal life, these restrictions are not likely to impact our FRP products imported. Customs clearance, however, is required for all types of importations, including those made by mail and those placed in foreign trade zones. Thus, U.S. customs laws and regulations may, for example, prohibit entry; limit entry to certain ports; restrict routing, storage or use; or require treatment, labeling or processing as a condition of release. Customs clearance is given only if these additional requirements are met.

The Bureau of Customs and Border Protection (the "CBP"), which is part of the U.S. Department of Homeland Security, is responsible for enforcing all laws and regulations on the importation of carriers and commodities. An importer of goods and commodities to the U.S. is responsible to exercise reasonable care to confirm that all information declared to the CBP is complete and accurate.

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COMPETITION AND ANTITRUST LAWS

The U.S. antitrust laws are developed in response to unfair business practices and anticompetitive conduct by companies, corporate monopolies and trusts. At the heart of U.S. antitrust laws is the Sherman Antitrust Act (the “Sherman Act”), which prohibits agreements that unreasonably restrain trade and the unilateral abuse of monopoly power. Conduct such as price-fixing, bid-rigging, limitation of output, allocation of territories or customers and exclusionary conduct to achieve monopoly are prohibited under the Sherman Act. Violation of the Sherman Act and other anti-trust laws and regulations would lead to criminal and/or civil sanctions.

The U.S. antitrust laws apply to businesses and individuals alike. Certain laws and regulations also have an extraterritorial reach. Pursuant to the Foreign Trade Antitrust Improvement Act of 1982, the Sherman Act would apply to conduct that occur outside of the U.S. if such conduct (i) has a direct, substantial and reasonably foreseeable effect on US commerce, including US import or export commerce; and (ii) give rise to a claim under the Sherman Act. Our trade and commerce with our US clients are therefore subject to the U.S. antitrust laws.

FOREIGN EXCHANGE

The U.S. dollars is freely convertible and there are no restrictions affecting the remittance of funds. There are no currency control regulations, currency control restrictions or approval requirements applicable to outbound foreign currency transfer.

THE U.K.

The following sets forth a summary of the material laws and regulations which are relevant to our Group’s sales of FRP products to the U.K..

IMPORT AND EXPORT CONTROLS LAWS

The importation of goods from outside of the European Union (the “E.U.”) into the U.K. are subject to the payment of Customs and Excise Duty.

The importer of the goods into the U.K. is required to pay customs duties to Her Majesty Revenue and Customs, dependent on the declared value of the goods, the type of product being imported into the U.K. and the country of origin of the goods.

In particular, the importer of the goods:

- must make an import declaration to the U.K. customs authorities; and
- will generally have to pay import duty and import Value-added Tax (“VAT”).

As our Group does not act as the importer (i.e. the U.K. distributors imports the goods instead), there would be no U.K. VAT or Customs and Excise Duty consequences on our Group in respect of the supply of the products. Further our Group would not be liable for any import VAT or Customs and Excise Duty on importation.

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However because our Group is reliant on customers in the U.K., it is important for our Group to be aware of the tariff regime in the U.K.

Customs Duties

There may be customs duties for importing goods into the U.K.. There are a number of procedures that give relief from customs duties if the relevant tests are met. The relevant principal legislation is the Union Customs Code Regulation 952/2013 and the Implementing Provisions to Customs Code. The new legislation came into force on 1 May 2016.

Tariff Classification

An importer must identify what goods are for customs purposes. Tariff classification is also relevant for customs origin and enforcement.

A tariff classification code denotes the duties payable and an incorrect declaration may give rise to penalties. Codes are set out in the E.U.'s Combined Nomenclature. The World Customs Organisation has also issued guidance identifying which codes to use. There are also Binding Tariffs Information Ruling (BTI's) which have been made by a national customs authorities in the E.U. and which while being product specific can be helpful as guidance. An importer can also apply for a BTI from Her Majesty Revenue and Customs, which is specific to the product.

Customs Valuation

The tariff classification shows what percentage of customs duty should be charged. However, for an importer to work out the duty payable it will need to know the value of the product for customs purposes. This will usually be the purchase price however there are additional rules which are used to establish the valuation for customs purposes.

Customs origin

The origin of a product may reduce the customs duties payable because of treaties between countries (preferential origin). An importer will need to understand what treaties apply. It will also have to record the origin for record keeping purposes.

Customs origin is a difficult area and there is a set of rules that governs the country of origin depending on whether the product is wholly produced or whether it (or a sufficient percentage of the product taking into account non-originating materials as appropriate) underwent sufficient processing in the relevant country and at which stage of production. The rules also vary depending on the tariff classification. An importer will need to produce documentation to prove customs origin.

Enforcement

In the U.K., Her Majesty Revenue and Customs is the regulator and for example, will periodically audit importers to check their customs compliance. The regulator can claim underpaid duties going back three years and penalties may be imposed for repeated infringements. Importers can chose to make voluntary declarations to the regulator. If this is done while duties will still be payable, penalties will be waived.

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Value Added Tax

VAT must always be paid if the goods are permanently imported into the U.K. (that is, when not imported into the U.K. on a “holding” basis pending re-export out of the E.U.).

Import VAT is levied on imported goods, which are goods that arrive in the U.K. directly from outside the E.U. and are entered to free circulation in the U.K..

VAT is charged on the importation of goods at the same rate as if the goods had been supplied in the U.K..

The rate of VAT is 20%.

The value for VAT of imported goods is their Customs Valuation (calculated in accordance with the Customs Code).

PRODUCT COMPLIANCE LAWS

All products entering the E.U. must comply with product law. If they do not they will either be refused entry at the point of import or will have to be recalled from the market with the consequent expense of that procedure. Placing non-compliant product on the market is also a criminal offence. There are two principal European Directives which deal with the compliance of products in the E.U.: (1) the General Product Safety Directive (2001/95/EC) (“GPSD”) which imposes a general obligation on all those who place consumer products on the E.U. market to ensure that they are “safe”, and (2) the Product Liability Directive (85/374/EEC) (“PLD”) which sets out the circumstances in which a producer/supplier of a product may be liable for defective products.

The GPSD has been transposed into U.K. law by the General Product Safety Regulations 2005 (“GPS Regulations”). The PLD has been transposed into U.K. law by the Consumer Protection Act 1987.

General Product Safety Regulations 2005

The GPS Regulations impose a general requirement that all products which are placed on the market for consumers, or which are likely to be used by consumers, should be “safe”. A product is considered “safe” if it (i) conforms to the safety provisions set out in E.U. legislation, (ii) in the absence of such legislation, the specific rules of the law of the U.K. laying down the health and safety requirements which the product must satisfy in order to be marketed in the U.K.; or (iii) it conforms to a voluntary national standard of the U.K. giving effect to one of the European standards established according to the procedures set out in the GPSD.

The GPS Regulations also impose obligations on producers and distributors consistent with marketing safe products, sets out a framework for assessing safety and gives enforcement authorities (usually a local authority, which may exercise powers within its area) the necessary powers to take action to protect customers from unsafe products.

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In the absence of any specific piece of legislation dealing with a particular product the GPS Regulations will apply to all consumer products on the U.K. market.

The New Approach Directives

In addition to the GPSD there are a number of Directives which apply to specific products, or categories of products. These are referred to generically as the “*New Approach*” Directives and, along with the GPSD, aim to ensure the free movement of goods across the E.U. by, among other things, harmonising the technical standards which apply to those products. New Approach Directives are transposed into U.K. law by implementing legislation. There is a New Approach Directive (and U.K. implementing legislation) for construction products.

The Directives will set out the “*essential requirements*” that a product must meet (for example, protect health and safety, minimise any risk from fire or be waterproof under reasonably foreseeable conditions of use) when they are placed on the market. It is then for the person placing the products on the E.U. market to demonstrate and confirm that they have complied with those essential requirements. One of the ways in which they can do this is to manufacture the product in conformity with one of the technical specifications drawn up by one of several E.U. wide “standards bodies” to satisfy the essential requirements in the relevant Directive. These technical specifications are referred to as “*harmonised standards*” and once implemented apply equally across Europe to reduce barriers to trade between Member States.

The U.K. may have its own standards in place covering products which are regulated by Europe, for example, the U.K. had standards in place for the manufacture of machinery for many years before an equivalent European wide standard was introduced.

To avoid any overlap or contradiction between European and national standards each harmonised standard is issued with a “*co-existence period*” during which both standards can be used to demonstrate conformity. From the date on which this period expires (which is prescribed in the relevant legislation) any national standards which contradict or overlap with a harmonised standard must be amended or withdrawn and presumptions of conformity can only be based upon the harmonised standard.

The U.K. must transpose the European standard via the British Standards Institute (“BSI”). In practice, what usually happens is that the BSI will simply translate the European standard into their national language and attach an explanatory front sheet explaining the development of the particular standard and what has happened to the relevant domestic standards as a result.

Whilst compliance with the various standards is generally voluntary (there are some directives for which they are mandatory), compliance with a harmonised standard provides the manufacturer/importer with a presumption of conformity with the essential requirements, against which they can affix the CE mark (see below) to their product if required. The standards are voluntary because, if the person responsible for placing a product on the market does not

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wish to manufacture their product according to a European harmonised standard, they do not have to do so. However, they must be able to demonstrate that their product complies with the essential requirements of the relevant Directive (and U.K. implementing legislation) and therefore it will need to develop other technical evidence to demonstrate that their product is satisfactory.

In practice, most manufacturers use harmonised standards as the benchmark for compliance, rather than, for example, develop their own. There are British Standards for construction products.

CE Marking

There is a requirement in the E.U., and therefore the U.K., for prescribed products to carry the “CE” mark. As a general rule, all New Approach Directives (and U.K. implementing legislation) require the products they cover to carry the CE mark. In some circumstances, products covered by the GPSD will also require CE marking.

The CE mark is a mark which the responsible person applies to their product to declare that (i) the product conforms to all applicable E.U. (and therefore U.K.) requirements; and (ii) the appropriate conformity assessment procedures have been completed.

It is the manufacturer of the product who is ultimately responsible for the conformity of a product with the provisions of the relevant directive, although in some circumstances the person placing the product on the market may assume those responsibilities.

If a product is not covered by a specific statutory requirement which requires CE marking then it must not be CE marked. However, even if a CE marking requirement does not apply the manufacturer will still have a general duty to ensure that those products are safe for normal or reasonably foreseeable use under the GPS Regulations.

Placing products on the market

The manufacturer will be the person with the primary responsibility for designing and manufacturing a product in accordance with the essential requirements laid down in the relevant legislation and for carrying out the conformity assessment in accordance with the procedures laid down by the relevant legislation. For these purposes, the manufacturer is the person responsible for designing and manufacturing a product, either within or outside the E.U., with a view to placing it on the U.K. market.

If the manufacturer is based outside of the U.K. they may appoint an authorised representative (who must be established within the U.K. to act on their behalf and to whom they can formally delegate administrative tasks to. However, the ultimate responsibility for conformity will still remain with the manufacturer. The actor in the supply chain which is most likely to be relevant to our Group is that of the importer or person responsible for placing the product on the U.K. market. This is someone who is established in the U.K. who is responsible for placing products from a non-E.U. country on the U.K. market and they will be responsible for providing the U.K. national authority with the relevant conformity information about a product where necessary.

REGULATORY OVERVIEW

In practice, this will mean that our Group must ensure that the products are safe and that they comply with the essential requirements of the relevant legislation. Our Group must work with its customers to ensure that the products are compliant.

Therefore, our Group will have to ensure that it supplies products which comply with the general safety requirements, monitor the safety of products on the market and take steps to, for example, notify the relevant competent authority and to remove a product from the market if our Group discovers that it is unsafe.

Market Surveillance

One of the underlying principles of the New Approach directives is the principle of “Market Surveillance”, which is an essential enforcement tool which obliges manufacturers and distributors to take steps to check that products meet the requirements of the applicable directives, that action is taken to rectify non-compliant products and that sanctions are applied where necessary. In effect, this requires the U.K. to carry out “Market Surveillance” in order to monitor products which are on the market in the U.K. and to have procedures in place to conduct product withdrawals and recalls where necessary.

The GPS Regulations and product-specific legislation impose an obligation on manufacturers and distributors to notify local authorities when they become aware that they have either distributed or placed on the market an unsafe product.

In certain circumstances, regulators can require a manufacturer, distributor or retailer to conduct a withdrawal or recall of products which are deemed not to be safe.

RAPEX

RAPEX is the E.U. rapid alert system for dangerous consumer products (excluding food, pharmaceuticals and devices which are covered by other alert systems). Where the U.K. national competent authority identifies a dangerous product within the U.K. it must take all appropriate measures to eliminate the risk posed by that product (issue a warning, withdraw the product or issue a product recall) and must also notify the European Commission about the product, the risk it poses and the steps taken in that jurisdiction to manage that risk.

The European Commission will then disseminate that information to each Member State competent authority so that each country can take the necessary steps to address any unsafe products in their respective markets. As part of this, the Commission publishes a weekly overview of dangerous products and of the measures it has taken to prevent risks and accidents.

The legislation imposes a positive obligation on retailers, suppliers and manufacturers to notify the relevant enforcement authority when a product does not comply with the general safety requirement. This means that suppliers effectively have to monitor their products for potential risks, not least so they have advance warning of potential issue to enable them to take action before the authorities take the step of ordering a product recall.

REGULATORY OVERVIEW

These obligations pose two important questions for producers: (i) whether to notify; and (ii) when to notify. The answers to these questions will be different in each case and will depend upon the level of information which is available and the risk posed by the product in the market place but it is important that there are systems in place so that staff know when a notification has to be made. The other important obligation is a positive duty on producers to withdraw unsafe products from the distribution chain and/or recall them from customers. Significantly, enforcement authorities may order a recall to be undertaken if, for example, a product poses a “significant risk” and/or they are not satisfied with the steps being taken by the producer or distributor.

For these reasons it is vital for our Group to have systems in place to manage the business response to a defective product being identified in the supply chain. This should set out:

- when a notification of a defective product must be made to the regulator;
- when a withdrawal of a product from the supply chain is necessary; and
- when a product recall is necessary.

The sort of facts that will need to be taken into account when determining the steps to be taken in respect of a potentially defective product are: the level of risk posed by that product in the market place; the likelihood of harm being caused by the product; the size of the affected product population; the practicalities of undertaking a withdrawal/recall and whether any other protective measures may be more suitable.

It is also important for our Group to have systems in place to collect and analyse information about reports of incidents, complaints, warranty claims and insurance claims involving products sourced and sold and also that it maintains good records to help it trace products and identify customers and end users in the event of a problem. Problems with defective products can often arise quickly and require careful management using a “crisis management team” to oversee the business’ response to the problem so that the issue is managed in a manner which minimises both the risk to the consumer and the risk to the reputation and standing of the business.

EUROPEAN UNION REGULATION 1907/2006 CONCERNING THE REGISTRATION, EVALUATION, AUTHORISATION AND RESTRICTION OF CHEMICALS (“REACH”)

REACH is an E.U. law about chemicals and their life cycle. It aims to improve protection of human health and the environment, and establishes the European Chemicals Agency. Importers into the E.U. of products (articles) may have obligations under REACH.

Under REACH each importer and supplier of articles bears responsibility for the safety of the article, and this applies particularly if the articles contain substances that may have very serious effects on human health or the environment.

Such substances, for the purposes of REACH, are called Substances of Very High Concern (“SVHC”), and REACH requires their presence in articles to be communicated in the supply chain.

REGULATORY OVERVIEW

SVHCs are listed in Annex XIV of the REACH Regulation, and in the ECHA “Candidate List”.

Notification Obligation

Article 7(2) of the REACH Regulation requires an importer to notify ECHA of substances in articles when:

- The substance is included in the Candidate List for authorisation;
- The substance is present in articles produced and/or imported above a concentration of 0.1% (w/w); and
- The total amount of the substance present in all articles produced and/or imported, which contain more than 0.1% (w/w) of the substance, exceeds 1 tonne per importer per year.

Communication Obligation

Article 33 of the REACH Regulation imposes a duty to communicate information on SVHCs in articles. The aim of Article 33 is to ensure that sufficient information is communicated down the supply chain to allow the safe use of articles containing SVHCs. The obligations in Article 33 apply to articles containing SVHCs in a concentration above 0.1% weight by weight.

“Suppliers” of articles must provide “recipients” of the article with sufficient information to allow safe use of the article.

A “supplier” is any producer or importer of an article, distributor or other actor in the supply chain placing an article on the market. “Producer” means any person who makes or assembles an article within the Community. For a producer external to the E.U., the communication requirement will rest with the entity who imports the products into the E.U. (that is, the physical introduction into the customs territory of the Community). For the purposes of REACH, import is deemed to be “placing on the market”.

“Recipients” are defined as an industrial or professional user, or a distributor, being supplied with the article, but not consumers (i.e. the end users).

Restrictions

Title VIII of the REACH Regulation imposes restrictions on the manufacturing, marketing and use of certain dangerous substances. These substances, and the corresponding restrictions, are listed in Annex XVII to the Regulation. A substance on its own or in an article for which Annex XVII contains a restriction shall not be manufactured, placed on the market or used unless it complies with all the relevant restrictions.

REGULATORY OVERVIEW

Implications

Both the Candidate List and Annex XVII are subject to regular amendment as new substances are added. Therefore our Group and its U.K. customers must keep these aspects of REACH under review, so as to ensure regulatory compliance.

An importing customer will look to its supplier to provide comprehensive information on all substances present in the product, in order to satisfy the regulatory burden. Our Group must work with its customers to ensure that the importer remains compliant and that continuity of demand is maintained.

IMPACT OF INTERNATIONAL SANCTIONS LAWS

Russia is not subject to comprehensive sanctions adopted by the U.S., the European Union, the United Nations or Australia. International Sanctions targeting Russia prohibit or otherwise restrict certain specific types of transactions and activities involving Sanctioned Persons. In 2015, we made sales of our FRP Grating products to a customer located in Russia, which amounted to RMB279,985 or approximately 0.5% of our total revenue for the same year (the “**Relevant Sales**”). In light of this, we have appointed DLA Piper Hong Kong, an international law firm to determine whether the Relevant Sales violate International Sanctions.

As advised by DLA Piper Hong Kong, our International Sanctions legal adviser, the Relevant Sales do not implicate the applicability of International Sanctions on our Group, or any person or entity, including our Group’s investors, the Stock Exchange, the HKSCC and the HKSCC Nominees. For details on the Relevant Sales and the impact of sanctions laws, please refer to the section headed “Business – Customers, Sales and Marketing – Sales to a customer located in Russia” in this prospectus.

HISTORY, REORGANISATION AND DEVELOPMENT

BUSINESS DEVELOPMENT

Overview

Our Group primarily comprises our Company and Nantong Meigu, our operating subsidiary in the PRC. Our Company was incorporated in the Cayman Islands with limited liability on 13 January 2016 and became the holding company of our Group as part of the Reorganisation and for the purpose of the Listing. We are an established and leading manufacturer in the PRC principally engaged in the research and development, production and sale of a variety of FRP products.

Business Milestones

The following is a summary of our Group's key business development milestones:

Year	Major Events
April 2003	Establishment of Nantong Meigu by Mr. Cao and Mr. Chen
June 2004	Acquisition of Nantong Meigu by one of our Controlling Shareholders, Mr. Shen, together with Ms. Gong and Ms. Cao Yu, through Sancon International Enterprise (H.K.) Co., Limited (" Sancon International ")
October 2004	Commencement of FRP products production
December 2006	Acquisition of Nantong Meigu by our Controlling Shareholders, Mr. Shen and Mr. Jiang, together with Mr. Lin, through Prosperous Composite Acquisition of 20,000 sq.m. of land in Haimen, Nantong, Jiangsu, the PRC to build our production base
April 2007	Participation in the drafting of the non-statutory PRC Building Materials Industry Standard – Fibreglass Reinforced Thermosetting Resin Carrier Grating Industry Standards* (中華人民共和國建材行業標準 – 玻璃纖維增強熱固性樹脂承載型格柵行業標準)
November 2007	Acquisition of a pultrusion line and commencement of pultruded products production
January 2009	Commencement of research and development of phenolic grating with a standard acceptable to USCG

HISTORY, REORGANISATION AND DEVELOPMENT

Year	Major Events
December 2013	Obtaining of a USCG certificate Development of phenolic grating for the use in evacuation subway platforms, which had passed the Level A2 Fire Test requirements of the National Fire Testing Centre* (國家消防檢測中心A2級消防檢測)
January 2014	Development of Epoxy Wedge Strip products for the use in wind turbine blades and crosstie made of composite materials
May 2015	Participation in the drafting of the non-statutory PRC National Standards – Pultruded fibre reinforced polymer composites structural profiles* (中華人民共和國國家標準 – 結構用纖維增強複合材料拉擠型材)

Our History and Development

The history of our Group can be traced back to the establishment of our operating subsidiary in the PRC, Nantong Meigu, by Mr. Cao and Mr. Chen, the founders of our Group, in 2003. At the time of establishment, Nantong Meigu had a registered capital of RMB600,000 and was owned by Mr. Cao and Mr. Chen as to 50% and 50%, respectively.

Mr. Jiang, one of our Controlling Shareholders, our executive Director and chief executive officer, began his involvement in the business of sales of composite materials in 1988 after his graduation from the university. For more details of Mr. Jiang's biography, please refer to the section headed "Directors, Senior management and Employees – Directors – Executive Directors" in this prospectus. Foreseeing a great potential in the composite materials industries and having acquired relevant industry knowledge and experience, Mr. Jiang invited Mr. Chen, his brother-in-law, and Mr. Cao, Mr. Chen's acquaintance, to invest in the FRP products manufacturing business by establishing Nantong Meigu.

In 2004, Mr. Jiang became acquainted with Mr. Shen through a common friend and under the introduction of Mr. Jiang and with the interest to tap into the FRP industry in the PRC, Mr. Shen, one of our Controlling Shareholders, together with his spouse, Ms. Gong, and Ms. Cao Yu, who worked in Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司), a company owned by, among others, Mr. Shen and Ms. Gong, decided to acquire the entire equity interest in Nantong Meigu from its founders at a total consideration of RMB600,000, which was determined with reference to the then registered capital of Nantong Meigu, through Sancon International, a company owned as to 60%, 20% and 20% by Mr. Shen, Ms. Gong and Ms. Cao Yu, respectively.

Mr. Jiang, after working in Nantong Meigu for two years, considered that the business of Nantong Meigu had been developing progressively, and decided to invest in Nantong Meigu and acquired the entire equity interest in Nantong Meigu with Mr. Shen and Mr. Lin, Mr.

HISTORY, REORGANISATION AND DEVELOPMENT

Jiang's acquaintance, from Sancon International in 2006 at a total consideration of USD825,398, which was determined with reference to the then registered capital of Nantong Meigu, through Prosperous Composite, a company owned as to 40%, 30% and 30% by Mr. Shen, Mr. Jiang and Mr. Lin, respectively.

In 2009, Mr. Jiang invited Ms. Chen, the sister-in-law of Mr. Jiang and the sister of Mr. Chen, to invest in Nantong Meigu as Nantong Meigu was in need of capital funding for development. In view of the development potential of Nantong Meigu, Ms. Chen acquired certain equity interest in Nantong Meigu in 2009 by way of capital contribution through Nantong Jianke, a sole proprietorship enterprise established by Ms. Chen in the PRC. Upon completion of the capital contribution, Nantong Meigu was owned as to approximately 85.37% and 14.63% by Prosperous Composite and Nantong Jianke, respectively.

Due to the intention of Mr. Lin to realise his investment in Nantong Meigu, Mr. Shen and Mr. Jiang decided to acquire the equity interest owned by Mr. Lin in Prosperous Composite in November 2009 at an aggregate consideration of RMB3,124,000. Upon completion of such acquisition, Prosperous Composite was owned as to 51% and 49% by Mr. Shen and Mr. Jiang, respectively, while Mr. Lin remained as one of the directors of Nantong Meigu.

The source of funding in the aforesaid acquisitions by Mr. Shen came from his personal financial resources accumulated from other businesses owned by him and borrowings, whereas Mr. Jiang financed the aforesaid acquisitions with his personal financial resources accumulated from personal savings and borrowings.

As part of the Reorganisation, Prosperous Composite contracted to acquire Nantong Jianke's equity interest in Nantong Meigu in January 2016. Upon completion of such acquisition in March 2016, Nantong Meigu became a direct wholly-owned subsidiary of Prosperous Composite.

CORPORATE DEVELOPMENT

Our Company

Our Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company under the Company Law in anticipation of the Listing. Upon completion of the Reorganisation, our Company became the holding company of our Group, which comprises the following subsidiaries and their respective corporate history is set out below.

Nantong Meigu

Nantong Meigu, our primary PRC operating subsidiary, is an indirect wholly-owned subsidiary of our Company upon completion of the Reorganisation. It was established by our founders, Mr. Cao and Mr. Chen, on 24 April 2003. Upon its establishment, its registered capital of RMB600,000 was contributed by each of Mr. Cao and Mr. Chen as to RMB300,000 and RMB300,000 respectively, which was paid fully in cash on 23 April 2003.

HISTORY, REORGANISATION AND DEVELOPMENT

Equity transfer among Mr. Cao, Mr. Chen and Sancon International and capital increase by Sancon International

On 2 June 2004, an equity transfer agreement was entered into among Mr. Cao, Mr. Chen and Sancon International, pursuant to which Mr. Cao and Mr. Chen agreed to transfer 100% equity interest in Nantong Meigu to Sancon International at a consideration of RMB600,000, an amount equal to the then registered capital of Nantong Meigu, which was settled by cash on 16 June 2004. On 4 June 2004, the equity transfer was approved by the Department of Foreign Trade and Economic Cooperation of Haimen District* (海門市對外貿易經濟合作局) (the “**Foreign Trade Department**”). On the same date, the Foreign Trade Department approved the increase in the registered capital of Nantong Meigu from RMB600,000 to USD300,000, which was fully paid in cash by Sancon International on 16 June 2004. On 9 June 2004, Nantong Meigu obtained a new business licence* (《企業法人營業執照》) (“**Business Licence**”) issued by the Administration for Industry and Commerce of Nantong City, Jiangsu Province (the “**AIC**”). Following the aforesaid equity transfer, Nantong Meigu was owned as to 100% by Sancon International, a limited liability company incorporated in Hong Kong and was in turn owned as to 60%, 20% and 20% by Mr. Shen, Ms. Gong and Ms. Cao Yu, respectively.

Capital increase and equity transfer between Sancon International and Prosperous Composite

On 5 December 2006, a resolution was passed by the board of directors of Nantong Meigu, pursuant to which the registered capital of Nantong Meigu should be increased from USD300,000 to USD825,398, which should be paid-up by the undistributed profit after tax for the previous financial years. On 8 December 2006, an equity transfer agreement was entered into between Sancon International and Prosperous Composite, pursuant to which Sancon International agreed to transfer 100% equity interest in Nantong Meigu to Prosperous Composite at a consideration of USD825,398, representing an amount equal to the then registered capital of Nantong Meigu, which was settled by cash on 5 May 2007. On 22 March 2007, the aforesaid capital increase and equity transfer were approved by the Foreign Trade Department. On 25 May 2007, Nantong Meigu obtained a new Business Licence issued by the AIC. Subsequent to the aforesaid equity transfer, Nantong Meigu was owned as to 100% by Prosperous Composite, which was in turn owned as to 40%, 30% and 30% by Mr. Shen, Mr. Jiang and Mr. Lin, respectively.

Capital increase by Prosperous Composite and Nantong Jianke

On 23 April 2009, a resolution was passed by the shareholders of Nantong Meigu, pursuant to which Prosperous Composite and Nantong Jianke should subscribe for USD455,092 and USD219,510 in the increased registered capital in Nantong Meigu respectively, which should be paid-up by the undistributed profit after tax for the previous financial years and by cash respectively. As at 27 April 2009, the aforesaid increased registered capital of Nantong Meigu was fully paid-up. On the same date, the capital increase and the subscription for such increased registered capital were approved by the Foreign Trade Department and Nantong Meigu obtained a new Business Licence issued by the AIC.

HISTORY, REORGANISATION AND DEVELOPMENT

Subsequent to the aforesaid capital increase and subscription, Nantong Meigu was owned as to approximately 85.37% and 14.63% by Prosperous Composite and Nantong Jianke respectively and became a sino-foreign joint venture enterprise. Nantong Jianke is a sole proprietorship enterprise established by Ms. Chen Lihua. The registered capital of Nantong Meigu contributed by each of the equity holders was as follows:

No.	Equity holders	Registered Capital Contributions		
		Total Amount (paid) (USD)	Method	Percentage (Approximately)
1	Prosperous Composite	1,280,490	Cash and undistributed profit after tax for the previous financial years	85.37%
2	<u>Nantong Jianke</u>	<u>219,510</u>	<u>Cash</u>	<u>14.63%</u>
	Total	1,500,000	–	100%

On 20 April 2015, a resolution was passed by the board of directors of Nantong Meigu, pursuant to which the registered capital should be further increased from USD1,500,000 to USD8,000,000 and the increase in the registered capital of USD6,500,000 should be contributed on a pro rata basis as to USD5,549,050 by Prosperous Composite and USD950,950 by Nantong Jianke, which should be payable before 31 December 2020. On 9 May 2015, the capital increase was approved by the Management Committee of Haimen District Economic and Technology Development Area* (海門經濟技術開發區管理委員會) (the “**Haimen Management Committee**”). On 13 May 2015, Nantong Meigu obtained a new Business Licence issued by the AIC. Following the aforesaid capital increase, the registered capital of Nantong Meigu contributed by each of the equity holders was as follows:

No.	Equity holders	Registered Capital Contributions				Percentage (Approximately)
		Total Amount (USD)	Paid Amount (USD)	Method	Unpaid Amount (USD)	
1	Prosperous Composite	6,829,540	1,280,490	Cash and undistributed profit after tax for the previous financial years	5,549,050	85.37%
2	<u>Nantong Jianke</u>	<u>1,170,460</u>	<u>219,510</u>	<u>Cash</u>	<u>950,950</u>	<u>14.63%</u>
	Total	8,000,000	1,500,000	–	6,500,000	100%

HISTORY, REORGANISATION AND DEVELOPMENT

As advised by our PRC Legal Advisers, the unpaid amount of the capital contribution set out in the above shall be fully paid by 31 December 2020 according to the memorandum of Nantong Meigu.

Equity transfer between Prosperous Composite and Nantong Jianke

As part of the Reorganisation, on 24 January 2016, Prosperous Composite acquired approximately 14.63% equity interest in Nantong Meigu owned by Nantong Jianke to Prosperous Composite at the consideration of RMB4,435,842, which was determined after arm's length negotiations between the parties with reference to the then net asset value of Nantong Meigu as at 31 October 2015 and was settled on 11 March 2016. Subsequent to the aforesaid equity transfer, Nantong Meigu was owned as to 100% by Prosperous Composite and became a wholly foreign-owned enterprise.

For details of the equity transfer, please refer to the paragraph headed "Reorganisation" in this section.

As advised by our PRC Legal Advisers, the transfers or subscriptions of equity interests in Nantong Meigu as detailed in the paragraph headed "Corporate Development – Nantong Meigu" in this section above were properly and legally completed.

Prosperous Composite

Prosperous Composite is an investment-holding company which wholly-owns Nantong Meigu upon completion of the Reorganisation. Prosperous Composite was incorporated on 7 November 2006 in the BVI with limited liability. Upon its incorporation, Prosperous Composite was owned as to 40%, 30% and 30% by Mr. Shen, Mr. Jiang and Mr. Lin, respectively. On 4 November 2009, Mr. Lin (as transferor), Mr. Shen and Mr. Jiang (as transferees) entered into an equity transfer agreement, pursuant to which Mr. Lin transferred 9,500 shares and 5,500 shares in Prosperous Composite to Mr. Jiang and Mr. Shen respectively, at an aggregate consideration of RMB3,124,000. The consideration was determined after arm's length negotiations among the parties with reference to our Group's financial condition and results of operations and was fully settled by cash on 6 May 2010. Following the aforesaid equity transfer, Prosperous Composite was owned as to 51% and 49% by Mr. Shen and Mr. Jiang respectively.

On 29 January 2016, the board of directors of Prosperous Composite resolved to increase the number of shares that Prosperous Composite is authorised to issue from 50,000 no par value shares to 1,000,000 no par value shares. On the same date, Prosperous Composite and Frankly Smart, among others, entered into a share subscription agreement, pursuant to which Mr. Huei would make an equity investment in Prosperous Composite through Frankly Smart. On 25 February 2016, Prosperous Composite allotted and issued 12,750 shares and 12,250 shares to Mr. Shen and Mr. Jiang respectively in proportion to their then shareholding in Prosperous Composite. The aforesaid equity investment by Mr. Huei was completed on the same day, following which Prosperous Composite was owned as to 38.25%, 36.75% and 25% by Mr. Shen, Mr. Jiang and Frankly Smart respectively. For details, please refer to the paragraph headed "Pre-IPO Investment" in this section.

HISTORY, REORGANISATION AND DEVELOPMENT

As part of the Reorganisation, Prosperous Composite became a direct wholly-owned subsidiary of our Company on 16 March 2016. For details, please refer to the paragraph headed “Reorganisation” in this section.

PRE-IPO INVESTMENT

Investment by Frankly Smart

Prosperous Composite (as issuer), Frankly Smart (as subscriber), Mr. Jiang, Mr. Shen and Mr. Huei (as warrantors) entered into a share subscription agreement on 29 January 2016 (the “**Subscription Agreement**”) pursuant to which, Prosperous Composite agreed to allot and issue, and Frankly Smart agreed to subscribe for, 25,000 shares (the “**Subscription Shares**”) in Prosperous Composite (the “**Subscription**” or the “**Pre-IPO Investment**”), representing approximately 33.33% of its total issued share capital before completion of the Subscription and 25% of the enlarged issued share capital upon completion of the Subscription, at a consideration of HK\$15,000,000 subject to the terms and conditions of the Subscription Agreement. The consideration was determined after arm’s length negotiations among the parties with reference to our Group’s financial conditions and results of operation and was fully settled by cash on 24 February 2016. Prior to completion of the Subscription, Mr. Shen and Mr. Jiang owned 25,500 shares and 24,500 shares in Prosperous Composite respectively, representing 51% and 49% of the issued share capital of Prosperous Composite respectively. As a condition precedent to completion of the Subscription, Prosperous Composite allotted and issued 12,750 shares and 12,250 shares in Prosperous Composite to Mr. Shen and Mr. Jiang respectively at a nominal consideration of USD1.00 per share in proportion to their then shareholding in Prosperous Composite on 25 February 2016. Following completion of the Subscription on 25 February 2016, Prosperous Composite was owned as to 38.25%, 36.75% and 25% by Mr. Shen, Mr. Jiang and Frankly Smart, respectively.

Information regarding Frankly Smart

Frankly Smart is an investment-holding company incorporated under the laws of the BVI and wholly-owned by Mr. Huei, who is a passive financial investor. Mr. Huei financed the Pre-IPO Investment with a loan from an Independent Third Party.

Unwinding of Pre-IPO Investment

The Pre-IPO Investment was unwound on 20 April 2016 upon repurchase and cancellation of the 250 Shares held by Frankly Smart by our Company. The unwinding of the Pre-IPO Investment was due to Mr. Huei’s personal affairs not relating to our Group’s operation or financial performance and was a result of mutual agreement between Mr. Huei and our Company. For details, please refer to the paragraph headed “Reorganisation – (E) Repurchase and cancellation of Shares hold by Frankly Smart” in this section.

CONCERT PARTY DEED

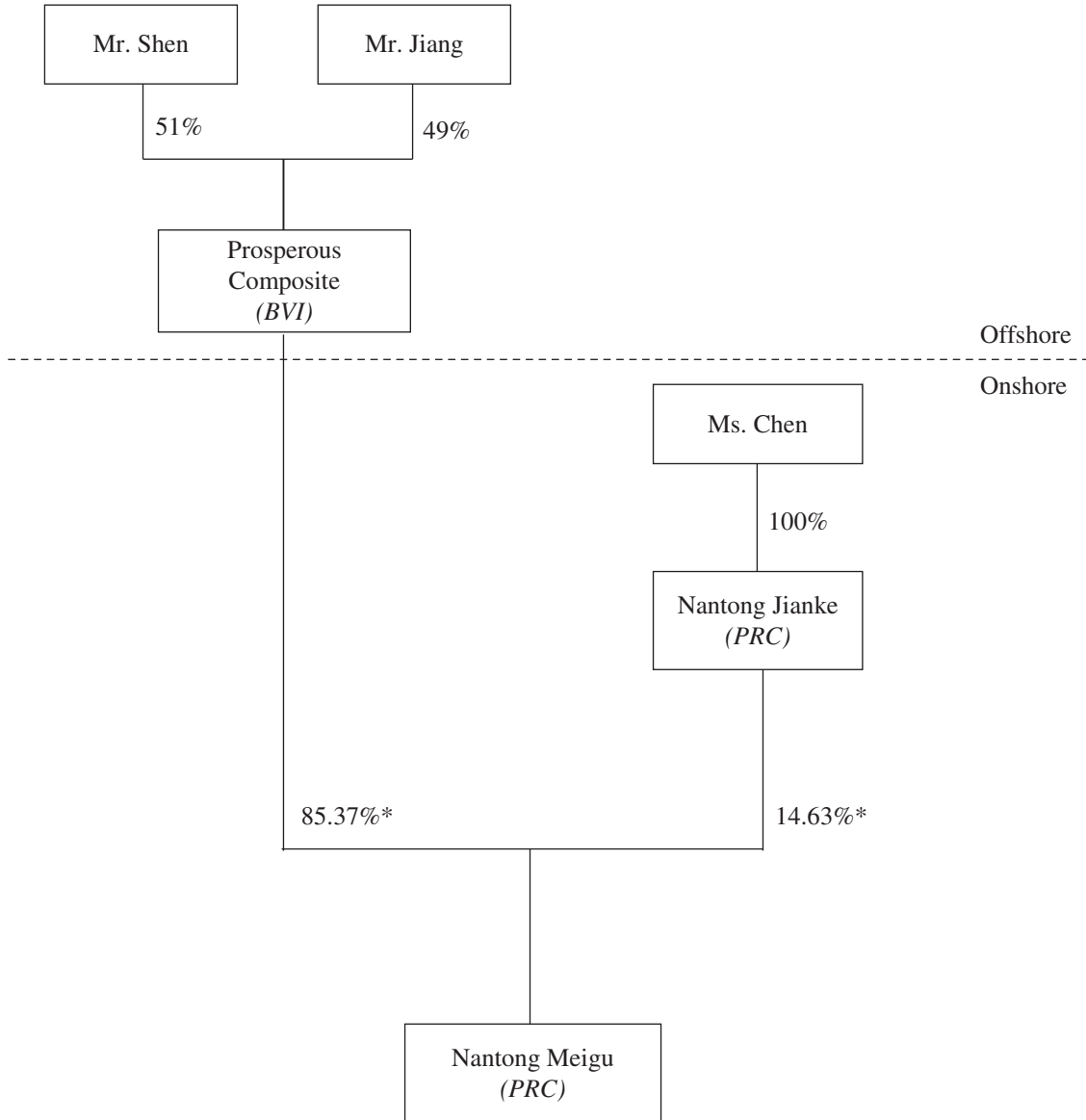
Pursuant to the Concert Party Deed dated 16 December 2016 and entered into among Mr. Shen, Mr. Jiang, Munsing and Singa, (i) each of Mr. Shen and Mr. Jiang confirmed that, since 1 January 2014, (a) they had acted in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions, including but not limited to financial and operational matters, of Prosperous Composite and Nantong Meigu; (b) they had given unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of Prosperous Composite and Nantong Meigu; (c) they had casted vote collectively for or against all resolutions in all shareholders' meetings of Prosperous Composite and Nantong Meigu; and (d) they had cooperated with each another to obtain and maintain and consolidate control of Prosperous Composite and Nantong Meigu; and (ii) each of Mr. Shen, Mr. Jiang, Munsing and Singa confirmed that, in the course of the Reorganisation and until the date of any written termination by them, (a) they have acted and shall continue to act in concert and collectively for all material management affairs and the arrival and/or execution of all commercial decisions including but not limited to financial and operational matters, of our Group; (b) they have given and shall continue to give unanimous consent, approval or rejection on any other material issues and decisions in relation to the business of our Group; (c) they have casted and shall continue to cast unanimous vote collectively for or against all resolutions in the shareholders' meetings and discussions of our Group; and (d) they have cooperated and shall continue to cooperate with each another to obtain and maintain and consolidate control of our Group.

In view of the concert party arrangement above, Mr. Shen, Mr. Jiang, Munsing and Singa are a group of Controlling Shareholders within the meaning of the GEM Listing Rules.

HISTORY, REORGANISATION AND DEVELOPMENT

REORGANISATION

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



* Approximate figure

In anticipation of our Listing, we underwent the Reorganisation pursuant to which our Company became the holding company and listing vehicle of our Group.

(A) Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 13 January 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. One nil-paid Share was allotted and issued to the subscriber to the Memorandum and Articles, which was transferred to Munsing on the same date.

HISTORY, REORGANISATION AND DEVELOPMENT

(B) Subscription of shares in Prosperous Composite by Frankly Smart

On 25 February 2016, as the Pre-IPO Investment, Prosperous Composite allotted and issued 25,000 shares to Frankly Smart in accordance with the terms and conditions of the Subscription Agreement and at a consideration of HK\$15,000,000, which was determined after arm's length negotiations among the parties with reference to our Group's financial condition and results of operations and was settled on 24 February 2016. On the same day, Prosperous Composite allotted and issued 12,750 shares and 12,250 shares to Mr. Shen and Mr. Jiang respectively at a nominal consideration of USD1.00 per share in proportion to their then shareholding in Prosperous Composite. After the aforesaid allotment and issue of shares, Prosperous Composite was owned as to 38.25%, 36.75% and 25% by Mr. Shen, Mr. Jiang and Frankly Smart, respectively.

(C) Acquisition of approximately 14.63% equity interest in Nantong Meigu by Prosperous Composite

On 24 January 2016, Nantong Jianke (as vendor) and Prosperous Composite (as purchaser) entered into an equity transfer agreement, pursuant to which Nantong Jianke agreed to sell, and Prosperous Composite agreed to acquire, approximately 14.63% equity interest in Nantong Meigu at a consideration of RMB4,435,842. The consideration was determined after arm's length negotiations between the parties with reference to the then net asset value of Nantong Meigu as at 31 October 2015 and was settled on 11 March 2016. The aforesaid equity transfer was approved by the Haimen Management Committee on 1 February 2016 and Nantong Meigu obtained a new Business Licence on 2 March 2016. Following completion of the aforesaid equity transfer, Nantong Meigu became a direct wholly-owned subsidiary of Prosperous Composite and a wholly foreign-owned enterprise.

(D) Acquisition of Prosperous Composite by our Company

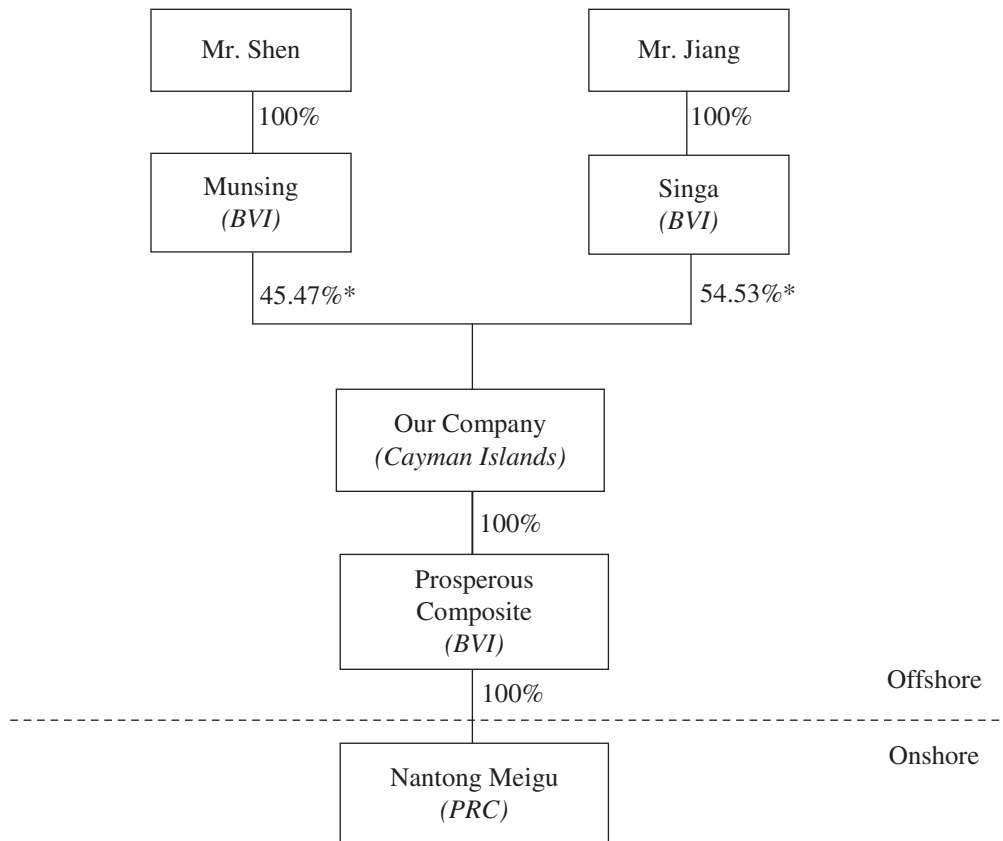
On 16 March 2016, Mr. Shen, Mr. Jiang, Frankly Smart (as vendors), our Company (as purchaser), Munsing (as Mr. Shen's nominee), Singa (as Mr. Jiang's nominee) and Mr. Huei (as Warrantor) entered into a sale and purchase agreement, pursuant to which our Company acquired the entire issued share capital of Prosperous Composite and as consideration, (i) one nil-paid Share held by Munsing was credited as fully-paid and 340 Shares were allotted and issued to Munsing as directed by Mr. Shen; (ii) 409 Shares were allotted and issued to Singa as directed by Mr. Jiang; and (iii) 250 Shares were allotted and issued to Frankly Smart. Upon completion of the aforesaid acquisition, Prosperous Composite became a direct wholly-owned subsidiary of our Company and our Company was owned as to 34.1%, 40.9% and 25% by Munsing, Singa and Frankly Smart, respectively. The consideration in the form of Shares was determined with reference to the then shareholding of Mr. Shen, Mr. Jiang and Frankly Smart in Prosperous Composite. As agreed between Mr. Shen and Mr. Jiang, an additional 4.15% equity interest in our Company was allotted and issued to Mr. Jiang through Singa in consideration for Mr. Jiang's irrevocable undertaking to engage in the management of the Group in the coming five years.

HISTORY, REORGANISATION AND DEVELOPMENT

(E) Repurchase and cancellation of Shares held by Frankly Smart

On 20 April 2016, Frankly Smart (as vendor), our Company (as purchaser) and Mr. Huei (as warrantor) entered into a sale and purchase agreement, pursuant to which our Company repurchased 250 Shares held by Frankly Smart at a consideration of HK\$15,000,000. The consideration equals to the amount of the investment made by Mr. Huei in the Pre-IPO Investment and was determined after arm's length negotiations among the parties. On the same date, such 250 Shares were cancelled. Following the aforesaid share repurchase and cancellation, our Company was owned as to approximately 45.47% and 54.53% by Munsing and Singa respectively.

The following chart sets forth our shareholding structure immediately following completion of the Reorganisation:



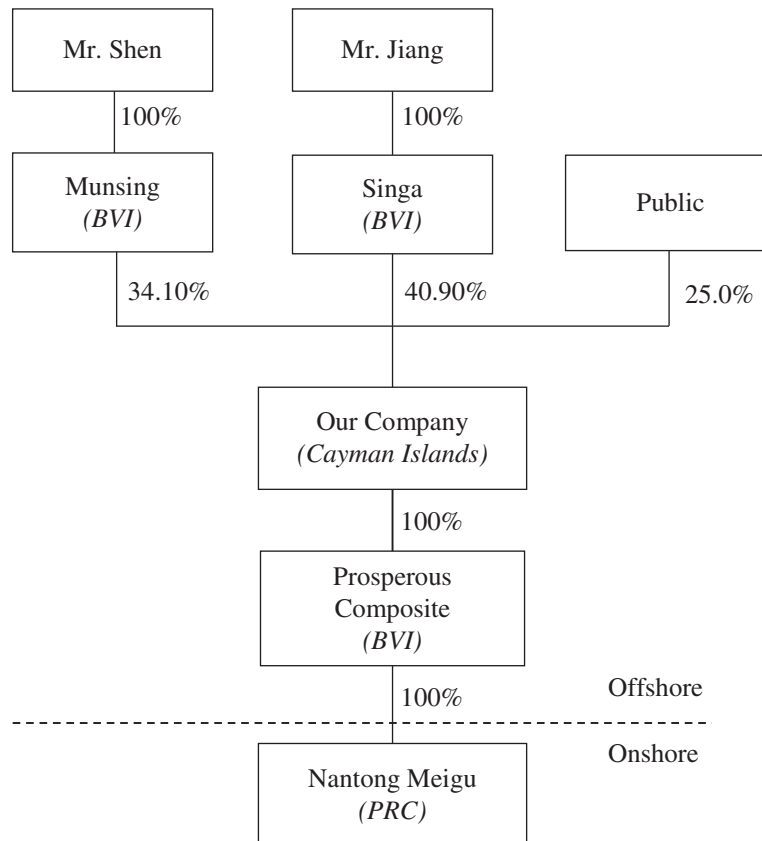
* Approximate figure

HISTORY, REORGANISATION AND DEVELOPMENT

CAPITALISATION ISSUE AND PLACING

Our Company will issue certain new Shares under the Placing, and certain new Shares to the existing Shareholders pursuant to the Capitalisation Issue, resulting in not less than 25% of the enlarged issued share capital of our Company being offered under the Placing and the remaining 75% held by Munsing and Singa.

The following chart sets out the shareholding structure of our Group upon completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option):



HISTORY, REORGANISATION AND DEVELOPMENT

COMPLIANCE WITH PRC LAWS

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

SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on July 14, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

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

As advised by our PRC Legal Advisers, each of Mr. Shen and Mr. Jiang has completed the registration under the SAFE Circular No. 13 and SAFE Circular No. 37 and all required procedures for amendment to such registration.

THE M&A RULES

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

HISTORY, REORGANISATION AND DEVELOPMENT

Given that Nantong Meigu was a sino-foreign joint venture enterprise prior to the Reorganisation, as advised by our PRC Legal Advisers, the Reorganisation is not subject to the M&A Rules, and the Listing does not require approvals from CSRC and MOFCOM under the M&A Rules.

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OVERVIEW

We are an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of fibreglass reinforced plastic (玻璃鋼) (“FRP”) products. Our major products consist of: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products, with FRP Grating products contributed approximately 87.7%, 78.0% and 77.2% of our total revenue for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively.

As stated in the Sullivan Report, in 2015, we were among the top 1.0% of the FRP manufacturers in the PRC in terms of production capacity and revenue generated with a market share of approximately 0.05% in the FRP market in the PRC. In addition, we ranked first in the FRP Grating products market in the PRC in 2015 with approximately 1.4% market shares in terms of revenue, according to Sullivan. In addition to the PRC market, we sell our products to overseas markets including but not limited to the U.S., U.K., France, Canada, Germany and Indonesia. Revenue from the overseas markets contributed approximately 58.5%, 48.1% and 47.3% of our total revenue for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively.

FRP is a composite material made of glass fibre and different types of resin to form various shapes, dimensions and specifications through moulding or pultruding methods. FRP is characterised by its long-lasting service life, high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion and anti-erosion properties. It also features an environmentally friendly production process due to (i) the ease and availability of raw materials compared with wood resources which are considered as non-renewable mainly because of the long replant cycle, according to Sullivan, and (ii) the lower energy consumption during the production process compared with metal and aluminum products. In light of these features, FRP has been increasingly used as an alternative to metals in aggressive environment to reduce maintenance costs. Most of our products are used for corrosive environments such as chemical factories, and used as drainage covers, marine decks, stairs, platforms and walkways across various industries. Please refer to the paragraph headed “Products” in this section for further details of our major products.

As a leading manufacturer of FRP products in the PRC, we were one of the five industry practitioners invited to participate in the drafting the PRC Building Materials Industry Standard – Fibreglass Reinforced Thermosetting Resin Carrier Grating Industry Standards* (中華人民共和國建材行業標準 – 玻璃纖維增強熱固性樹脂承載型格柵行業標準) in 2007. In addition, along with 12 domestic academic institutions, industry associations and other industry practitioners, we participated in the drafting of PRC National Standards – Pultruded fibre reinforced polymer composites structural profiles* (中華人民共和國國家標準 – 結構用纖維增強複合材料拉擠型材) in 2015. The participants were selected to participate in the drafting of these industry standards based on their market positions and experience in the FRP industry in the PRC. These non-statutory standards are recommended by the PRC government as the fundamental parameters to be satisfied at delivering FRP products.

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Through our operations we have maintained credible business relationships with a number of high-profile customers domestically and globally. The principal markets of our Group are the PRC, the U.S. and the U.K. which in total accounted for approximately 94.2%, 94.9% and 95.3% of our total revenue for each of the two years ended 31 December 2015 and six months ended 30 June 2016, respectively. Our major customers in the PRC primarily consist of corporate customers such as downstream manufacturers and construction enterprises, whereas our major customers in the U.S. and U.K. are mainly distributors which are our end customers since we do not enter into any distribution arrangement with any customers regarding distribution of our products. Please refer to the paragraph headed “Customers” in this section for further details of our major customers during the Track Record Period.

We possess diversified production facilities that enable us to produce FRP products of various dimensions and specifications as required by our customers. During the Track Record Period, we manufactured our products in our self-owned production base in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC which is equipped with 75 moulding and pultrusion facilities grouped under five workshops, which allow us to manufacture moulded FRP products and pultruded FRP products, as well as to refine and perform finishing works on our finished goods. Moulding and pultrusion are the two production techniques generally adopted by our Group in manufacturing our FRP products. Our FRP Grating products and USCG Approved Phenolic Grating products are produced either through the moulding process or the pultrusion process, and our FRP Subway Evacuation Platform products and Epoxy Wedge Strip products are produced through the pultrusion process.

According to Sullivan, the growth of the FRP market in the PRC is primarily driven by (i) the technological innovation in product capabilities and production processes that enabled FRP products to find increasingly wider areas of application; (ii) the policies of the PRC government in encouraging production and export of high-tech products as well as promoting environmental protection and; (iii) the stable demand from various application areas. In order to maintain ourselves as a leading player in the FRP market, we generally direct our research and development efforts and resources in developing new FRP products that could be applied in industries demonstrating increasing usage of FRP products. In view of the rapid increase in demand for FRP products to be used as subway evacuation platform and as wind-power blade roots, we have successfully developed and launched our FRP Subway Evacuation Platform products in 2013 and our Epoxy Wedge Strip products in 2014 to capture the growth in these segments. Despite its short launch time, our Group has already ranked second in the PRC in 2015 in terms of revenue generated from our Epoxy Wedge Strip products, according to Sullivan. In addition, in anticipation of the growth of the city mass rail transportation industry as a result of the “Belt and Road Initiatives” promulgated by the PRC government, our Group is also currently researching and developing FRP crosstie products that could be used in railways to enjoy the rapid development along with this industry.

According to the Sullivan Report, it is expected that the overall FRP products market in the PRC will reach RMB158.7 billion in 2019, representing a CAGR of 6.7% from 2015 to 2019. In addition, it is forecasted that the FRP subway evacuation platform segment and epoxy wedge strip segment will demonstrate rapid growth at a CAGR of 15.5% and 17.7% from 2015

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to 2019, respectively. Leveraging the forecasted rapid growth of the FRP subway evacuation platform and epoxy wedge strip segments and our increased effort in consolidating our leading market position in the FRP Grating segment in the PRC, our Directors are of the view that our Group has much growth potential in the industry we are engaged in.

COMPETITIVE STRENGTHS

We believe that our success is primarily attributable to the following competitive strengths:

We are an established and leading FRP products manufacturer in the PRC with strong capabilities to produce quality and customised FRP products for diversified use globally

We are an established and leading manufacturer of FRP Grating products in the PRC. According to the Sullivan Report in 2015, we were among the top 1.0% of the FRP manufacturers in the PRC in terms of production capacity and revenue generated with a market share of approximately 0.05% in the FRP market in the PRC. Furthermore, we ranked first in the FRP Grating products market in the PRC in 2015 in terms of revenue (approximately RMB44.0 million) with a market share of approximately 1.4% and ranked third in the market of all grating products made of FRP composites in the PRC in 2015 in terms of revenue (approximately RMB50.5 million) with a market share of approximately 1.6%. In addition, we ranked third in the USCG Approved Phenolic Grating products market, fourth in the FRP Subway Evacuation Platform products market and second in the Epoxy Wedge Strip products market in the PRC in terms of sales revenue in 2015 with market share of approximately 4.4%, 3.2% and 9.5% respectively. In addition to the PRC domestic market, we sell our products to overseas markets including but not limited to the U.S., the U.K., France, Canada, Germany and Indonesia. Revenue from the overseas markets contributed approximately 58.5%, 48.1% and 47.3% of our total revenue for each of the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively.

We produce a variety of FRP products of various dimensions and specifications as required by our domestic and international customers. Our major products can be divided into four main categories: (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products. Given our diversified moulding and pultruding technique and equipment in our workshops, we possess the ability to produce high quality customised FRP products that could be used in various environments and conditions to suit the specific needs of our customers. We believe that our diversified products portfolio allows us to optimise our production capacity and gives us the flexibility to cope with market demands, thus reduces our reliance on any single product and widens our customer base and sources of revenue. Please refer to the paragraph headed “Products” in this section for further details of our products.

Furthermore, we offer value-added services relating to our products to our customers, including carrying out structural calculations, designing engineering drawings and providing engineering solutions to our customers. For further details, please refer to the paragraph headed “Our Business Model and Products – Value-added services relating to our products” in this

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section. According to Sullivan, our capability to provide such value-added services enables us to tailor suitable FRP solutions for our customers, which in turns allow us to charge a relatively higher average selling price and maintain relatively higher gross profit margins than other manufacturers in the FRP industry in the PRC.

In addition, we possess research and development capabilities that enable us to introduce new FRP products to accommodate specific applications that cannot effectively be met by our FRP Grating products or USCG Approved Phenolic Grating products. Primarily due to its long-lasting service life, high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion and anti-erosion properties, FRP materials are found to have increasingly wider applications in various industries. According to the Sullivan Report, the use of FRP as subway evacuation platform and as wind-power blade roots are two emerging markets in the FRP industry in the PRC that are expected to exhibit rapid growth in the near future, with expected growth rates at CAGR of approximately 15.5% and 17.7% from 2015 to 2019, respectively. To capture such growth, we have successfully developed and launched our FRP Subway Evacuation Platform products in 2013 and Epoxy Wedge Strip products in 2014 respectively. For the two years ended 31 December 2015, revenue generated from our FRP Subway Evacuation Platform products remained relatively stable at approximately RMB3.9 million and RMB3.5 million, respectively, while revenue generated from our Epoxy Wedge Strip products grew substantially from RMB0.1 million for the year ended 31 December 2014 to approximately RMB2.4 million for the year ended 31 December 2015. Despite its short launch time, our Group has already ranked second in the PRC in 2015 in terms of revenue generated from our Epoxy Wedge Strip products. As such, our Directors believe that we have successfully established ourselves as an early market entrant in these segments to ride on the market growth, thus allowing our Group to enjoy market dominance and higher-than-average profitability.

As stated in the Sullivan Report, due to a large amount of products varieties and the lack of mandatory industry standards in the FRP industry in the PRC, manufacturers adopt production technology and raw materials of different standards. Moreover, according to Sullivan, as the FRP industry in the PRC is relatively fragmented, manufacturers which are only capable of producing homogenous FRP products, which accounted for approximately 99.0% of the total number of manufacturers in the FRP industry in the PRC, generally have to sacrifice their product quality and compete by adopting low price strategy. As such, the FRP market in the PRC is sometimes flooded with low-priced and low quality products, according to Sullivan. On the other hand, as our Group (i) is a leading manufacturer and an early market entrant in the niche markets that our Group operate in; (ii) was a key participant in the formulation of two PRC industry standards which served as an endorsement of our ability in producing quality products; (iii) is capable of producing tailored products in accordance with specifications provided by our customers; and (iv) offers value-added services to tailor suitable FRP solutions for our customers, our Directors believe that we appeal to customers looking for quality FRP products and have the bargaining power to charge a relatively higher average selling price and maintain relatively higher gross profit margins than other manufacturers in the FRP industry in the PRC.

Our quality control and production capabilities have been recognised by the relevant PRC government authorities and accredited by international certification organisations

Our Directors are of the view that the maintenance of quality control is essential in upholding the reputation and leading position of our Group in the FRP industry. We have established stringent quality control procedures to ensure the quality of our FRP products. Over the years, our Group has obtained various accreditations and certifications from reputable international organisations on the quality of our FRP products and our quality control system:

- (1) our stringent quality control procedures have been accredited by EACC with ISO 9001:2008 quality management system certification;
- (2) we are one of the four manufacturers in the PRC to have obtained the Certificate of Approval (Level 2) for FRP grating from USCG on our USCG Approved Phenolic Grating products for meeting the Level 3 and Level 2 Fire Integrity Requirements specified by USCG; and
- (3) we also obtained the Certificate of Manufacturing Assessment and Certificate of Design Assessment from ABS and the Type Approval Certificate issued by the DNV.

We have also sent product samples to third-party domestic and international testing centres specialising in product quality inspection to examine whether our products comply with the applicable standards and other requirements specified by our customers. For instance, we obtained test reports of compliance with the relevant standards and requirements from:

- (1) the Intertek ETL SEMKO Testing Services in 2012;
- (2) the National Fire Proof Building Materials Quality Testing Centre* (國家防火建築材料質量檢驗中心) in 2013; and
- (3) the Guangzhou Institute of Measurement and Detection* (廣州計量檢測技術研究院) in 2014.

Furthermore, our production capabilities are recognised by the relevant PRC government authorities, as evidenced by:

- (1) our Group being awarded the Jiangsu Province High-tech Enterprise Certification* (江蘇省高新技術企業認證) from the Jiangsu Province Science and Technology Bureau* (江蘇省科學技術廳) in 2014; and
- (2) our Group being appointed as the Nantong Urban Rail Transit Composite Materials Engineering Research Centre* (南通市城市軌道交通用複合材料工程研究中心) by the Nantong Municipal Science and Technology Bureau* (南通市科學技術局) in 2014.

Our Directors believe that such awards and accreditations confer to us a competitive advantage over our competitors, demonstrate our ability to satisfy customers' specific requirements and offer quality assurance to our customers. Please refer to the paragraph headed "Awards and Accreditations" in this section for detailed description of our awards and accreditations obtained during the Track Record Period.

We are a key participant in the formulation of various FRP products industry standards in the PRC, and a major FRP products research and development force

Being a key participant in the formulation of various FRP products industry standards, we believe that our extensive experience and research and development capabilities in the FRP industry have been widely recognised by both the domestic industry players and the PRC government. Commissioned by the China Building Material Federation (中國行業建築材料工業協會), we were one of the five industry practitioners who participated in the drafting of the People's Republic of China Building Materials Industry Standard – Fibreglass Reinforced Thermosetting Resin Carrier Grating Industry Standards* (中華人民共和國建材行業標準 – 玻璃纖維增強熱固性樹脂承載型格柵行業標準) in 2007. In addition, along with 12 domestic academic institutions, industry associations and other industry practitioners, we participated in the drafting of PRC National Standards – Pultruded fibre reinforced polymer composites structural profiles* (中華人民共和國國家標準 – 結構用纖維增強複合材料拉擠型材) in 2015. These non-statutory industry standards are recommended by the PRC government as the fundamental parameters to be satisfied at delivering FRP products. As a leading entity and important participant in formulating these standards, we have taken full advantages of our technical know-how in the fundamental research and innovation for the industry, and made significant contributions to the standardisation and healthy development of the industry.

In addition, during the course of formulating the industry standards, we have the opportunities to work with domestic academic institutions and industry association in the FRP industry such as the Tsinghua University, Central Research Institute of Building and Construction Co., Ltd* (中冶建築研究總院有限公司) and Beijing Fibreglass Composite Material Co., Ltd* (北京玻鋼院複合材料有限公司). Capitalising such opportunities, we have captured the latest market development trend ahead of most of our competitors in the PRC, and hence was able to adjust our research and development efforts in a timely manner to seize the market growth. This allows us to provide high quality FRP products at a gross profit margin of approximately 35.6%, 37.7% and 34.2% for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 respectively, which our Directors believe differentiates our Group from our competitors in the PRC.

We possess an experienced management team

Our management team has a proven track record of identifying emerging market opportunities, executing sound business strategies, guiding our expansion into fast-growing submarkets and geographic areas, and establishing long-term and stable customer relationships. The management of our Group is led by our executive Director Mr. Jiang, who possesses over 27 years of experience in trading, sales and marketing and quality control of composite products, and has pursued his career in the FRP industry for over 14 years. Mr. Jiang is responsible for the overall strategic direction, management and operations of our Group. As at the Latest Practicable Date, a majority of our senior management team have either received tertiary education or above or professional qualifications. In addition, apart from having strong expertise of the FRP industry, our Directors and senior management also have comprehensive understanding of the general market conditions in the industries where our products are

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applied. This enables our management team to formulate business strategies and develop tailored FRP products that could satisfy the requirements of our customers from these sectors in an effective and timely manner. Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus for further details and biographies of our Directors and senior management. We believe that with their experience, management skills, knowledge and insight, our management team are able to lead our Group to excel in the FRP industry, to take advantage of our market position and to ensure our future growth.

BUSINESS STRATEGIES

Our Directors have developed the following business strategies to strength our market position and increase our market share:

Continue to consolidate our market position both domestically and globally, particularly in the FRP Subway Evacuation Platform and Epoxy Wedge Strips segments

We aim to consolidate our market position by developing the FRP Subway Evacuation Platform and Epoxy Wedge Strips segments which we are an early market entrant with competitive advantages over our competitions, while maintaining stable development of our traditional FRP Grating and USCG Approved Phenolic Grating segments. According to the Sullivan Report, the overall FRP market in the PRC is expected to reach RMB158.7 billion in 2019, representing a CAGR of 6.7% from 2015 to 2019. In particular, Sullivan estimated that the FRP Subway Evacuation Platform segment and the Epoxy Wedge Strip segment are expected to grow at a CAGR of 15.5% and 17.7% from 2015 to 2019, respectively, and one of the key drivers is the increasing application of FRP materials in the energy and transportation industries.

We intend to improve the quality and lower the production cost of such products by pursuing (i) acquisition of automated production systems from third party equipment suppliers; (ii) acquisition of land parcels within the close proximity to our current production base and build additional and advanced production facilities; and (iii) acquisition of companies or factories that possess the desired production capacities. As at the Latest Practicable Date, our Group has neither identified any production systems, any land parcels, any target for acquisition, nor do we have any acquisition plan. However, our Directors and senior management team will keep on identifying suitable investment opportunities upon and after Listing.

In addition, we plan to continue to invest in advanced equipment to cope with the growth of our operations. As labour costs is on the rise in the PRC, we also intend to increase our capital investments and efforts in further automating our production processes, especially the moulding processes, by purchasing equipment to phase out our obsolete equipment. Our Directors believe that automation will further reduce our production costs, improve our production quality and enhance our production efficiency. Our Directors presently intend to apply approximately 47.7% of the net proceeds from the Placing to expand and upgrade our production facilities. Please refer to the section headed “Future plans and Use of proceeds – Use of Proceeds” in this prospectus for further details.

Further develop our products according to the expected growth trend as a result of PRC's macroeconomic policies in promoting "Belt and Road Initiatives"

We intend to further develop our products in accordance with the evolvement of the policies promulgated by the PRC government, in particular policies relating to the new material industry. According to the Sullivan Report, key development focuses within the new material industry under the "Thirteenth Five-Year Plan of the Fibre Composite Material Industry Development" include, among others, (i) development of specialised and diversified glass fibre products; and (ii) further expansion the application fields and market size of FRP materials. To further diversify our product portfolio, we are currently researching and developing a new FRP crosstie product, and intend to apply it as the replacement of the wooden crossties for the railways sector. Such product innovation also echoes the increased demand and the urges for upgrading infrastructure under the "Belt and Road Initiatives". Our Directors believe that the use of Epoxy Wedge Strip products will be a future trend given the PRC government's policies to promote the clean energy industry. Our Directors presently intend to apply approximately 40.0% of the net proceeds from the Placing to complete the development and the commercialisation of the FRP crosstie products. Please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus for further details.

Expand our research and development capabilities

We will continue to enhance our research and development capabilities, and devote more resources to improve our manufacturing quality, capabilities and efficiency and to reduce production cost. We also plan to continue expanding our product portfolio by developing a wider variety of FRP products to capture market opportunities and meet customers' preferences. Given the increasing recognition and use of FRP materials in various industries, we plan to focus our research and development efforts on developing new technology solutions and improved FRP products, for instance the use of FRP materials in FRP crosstie products. In addition, we intend to continue to research ways to enhance automaton of our production processes to reduce labour cost and to increase precision level of our products.

We also plan to expand our research and development efforts and capabilities by hiring more research and development personnel, in particular professional staff members with previous experience in the FRP industry, and purchasing equipment and materials necessary for our research and development efforts. We also plan to enhance collaborative relationship with various research institutes, government authorities, suppliers of raw materials and industry experts to develop new FRP products and production technologies. Our Directors presently intend to apply approximately 4.0% of the net proceeds from the Placing to expand our research and development capabilities. Please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" for further details.

Continue to utilise our industry expertise to play a critical role in the formulation of industry standards

We seek to strategically position ourselves as a technical expert in the FRP industry in the PRC by continuing to play a critical role in formulating industry standards for various FRP products. We are currently exploring the possibility of formulating industry standards for the FRP Subway Evacuation Platform segment with other players in the FRP industry. We believe that by participating in the drafting of industry standards, we are able to collaborate with the government authorities, academic institutions and key market players to accumulate and analyse industry data and needs, share technical know-hows and foster development of the FRP industry. These in turn allow our Group to capture the industry trend and offer advanced and improved products that are tailored to the specific customer needs and requests.

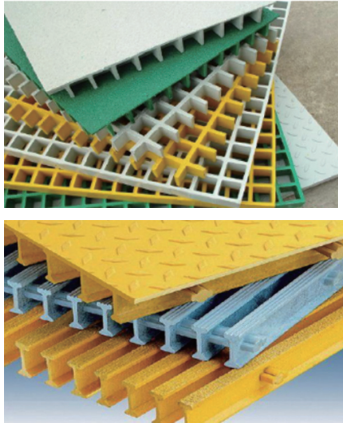
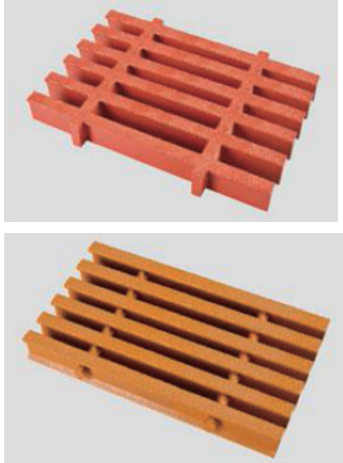
In addition, by capitalising our position as a technical expert in the FRP industry in the PRC, we plan to increase our market share and broaden our customer base by targeting established construction enterprises both in the PRC and across the globe who demand high quality FRP products in large volume for their own construction projects. Leveraging on our capability and expertise in producing quality FRP products, we also plan to sign exclusivity or long-term framework agreements with downstream wind turbine manufacturers or railway construction companies cross-ties users to ensure our future growth.

Enhance internal control and management systems


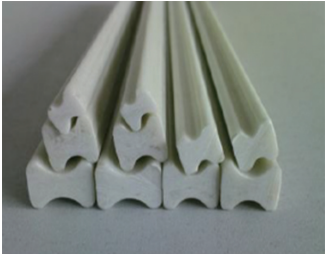
With our continuous growth in business scale and scope, we plan to upgrade our information technology, technical and management systems which will enable us to plan, operate and maintain our productions in a more efficient manner. In particular, we intend to modernise our operation systems such that the monitoring of purchase orders placed, raw materials procurement, inventory level, product deliveries and status of collection of sales proceeds could be automated. With the benefit of the modernised and automated operation systems, our Group could handle the large volume of purchase orders in a more precise manner. This will allow us to better manage our production schedule, streamline our manpower, reduce our costs and improve our profitability. In addition, we intend to arrange training workshops or courses for our staff in relation to the enhanced operation systems to be conducted by external training authorities so to facilitate the implementation of the systems and ensure smooth transition.

OUR BUSINESS MODEL AND PRODUCTS

We are an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. We manufacture FRP products of various dimensions and specifications based on the requirement provided by our customers. FRP is a composite material made of glass fibre and resin where resin provides the resistance to the environment (i.e. properties such as anti-corrosion, anti-erosion) and the glass fibre provides strength, in addition to safety from fire. Given its long-lasting service life, high strength, light weight, heat/cold resistance, electrical insulation, anti-corrosion, and anti-erosion properties of FRP, FRP products find wide applications in aggressive environment as an alternative to metals and woods to reduce maintenance costs. With diversified production equipment in our self-owned production base in Nantong, Jiangsu, the PRC, we have the capability to research, develop and manufacture tailor-made FRP products to meet the diversified needs of our customer. Our major products can be divided into four categories:

Product types	Raw materials	Types of manufacturing process	Major applications
<p>(i) FRP Grating Products (玻璃鋼格柵)</p> 	Glass fibre and resin	Moulding and pultrusion	Structural materials and floors in corrosive environment such as chemical factories, drainage cover, marine decks, stairs, platforms and walkways
<p>(ii) USCG Approved Phenolic Grating Products (USCG認證酚醛格柵)</p> 	Glass fibre and phenol formaldehyde resin	Moulding and pultrusion	Holder, base, aisle and connection/operation platform in fire prone environment such as oil tank zone, emergency refuge space, fire emergency channel, metering station and valve operating area

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Product types	Raw materials	Types of manufacturing process	Major applications
(iii) FRP Subway Evacuation Platform Products (複合材料地鐵疏散平台) 	Glass fibre and phenol formaldehyde resin	Pultrusion	Construction of evacuation platforms in railway tunnels for evacuating passengers during emergency situations
(iv) Epoxy Wedge Strip Products (環氧楔形條) 	Glass fibre and epoxy resin	Pultrusion	Construction of wind turbines' blade roots

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

	For the year ended 31 December				For the six months ended			
	2014		2015		30 June 2015		2016	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
FRP Grating products	47,092	87.7	43,978	78.0	20,239	80.8	21,531	77.2
USCG Approved Phenolic Grating products	2,550	4.8	6,531	11.6	2,747	11.0	4,886	17.5
FRP Subway Evacuation Platform products	3,889	7.2	3,471	6.1	839	3.3	67	0.3
Epoxy Wedge Strip products	141	0.3	2,425	4.3	1,226	4.9	1,397	5.0
Total	53,672	100.0	56,405	100.0	25,051	100.0	27,881	100.0

The following table sets out the breakdown of the average selling price and the sales volume by product categories during the Track Record Period:

	For the year ended 31 December				For the six months ended			
	2014		2015		30 June 2015		2016	
	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume	Average selling price per unit (RMB)	Volume
FRP Grating products (m ²)	297.2	158,467	300.5	146,346	288.5	70,154	271.3	79,363
USCG Approved Phenolic Grating products (m ²)	624.4	4,084	586.7	11,132	579.9	4,738	536.5	9,106
FRP Subway Evacuation Platform products (m ²)	555.6	7,000	659.6	5,262	638.7	1,313	854.7	78
Epoxy Wedge Strip products (m)	68.0	2,073	52.8	45,962	73.9	16,602	15.0	92,845

For further discussion regarding our revenue, average selling price and the sales volume, please refer to the section headed “Financial information” in this prospectus.

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Value-added services relating to our products

Our technical department offers additional pre-sale services such as carrying out structural calculations, designing engineering drawings and providing engineering solutions to our customers. In order to provide such services, our technical personnel visit our customers' sites to obtain necessary measurements and information. While we do not charge additional fee for such services, we believe that such services allow us to tailor FRP solutions that suit the specific needs of our customers and enhance our customer service level, which in turns improves our customer relationships and enhances our customer loyalty and production efficiency.

Seasonality

Our sales volume has historically been affected by seasonality. As our products are generally used by our customers in their respective manufacturing processes or construction projects, the demand for our products fluctuates in accordance with fluctuations in the demand for our customers' products and the progress of our customers' projects. In particular, for PRC sales, the demand for our products generally decreases during the Chinese New Year holidays. For further information, please refer to the section headed "Risk Factors – Risks Relating to the Business of Our Group – Our sales may fluctuate and be affected by seasonality" in this prospectus.

PRODUCTION OPERATION AND FACILITIES

Production process

During the Track Record Period, in order to minimise inventory risks for both raw materials and finished products, we adopt a "just-in-time" production model such that our production would generally commence only upon receiving confirmation of the purchase orders from our customers. The duration of production process depends on the volume of each purchase order, the specifications required and the number of available equipment. In general, after receiving purchase order from our customer, it typically takes approximately two to four weeks to produce and deliver the finished products to our PRC customer, and approximately four to eight weeks for our overseas customer.

Moulding and pultrusion are the two production techniques generally adopted by our Group in manufacturing our FRP products. Our FRP Grating products and USCG Approved Phenolic Grating products are produced either through the moulding process or the pultrusion process, and our FRP Subway Evacuation Platform products and Epoxy Wedge Strip products are produced through the pultrusion process.

Moulding. With moulded grating, instead of the fibreglass being constantly pulled through a series of steps (i.e. pultrusion process), liquid resin and continuous fibreglass rovings are laid thoroughly in a mould, layer after layer, to produce the desired thickness, shape, and panel dimensions. Once this is done, the mould is set aside to solidify. When ready, the panel is removed from the mould and then cleaned and prepared for the next mould. To ensure its quality and sturdiness, moulded grating is cast in one piece, which means that there is no mechanical joint between bearing bars. The higher percentage of resin in moulded fibreglass gratings also helps provide high-quality corrosion resistance and optimal impact resistance. Moulded fibreglass gratings that have a square mesh pattern offer a substantial load capacity because of their bi-directional strength.

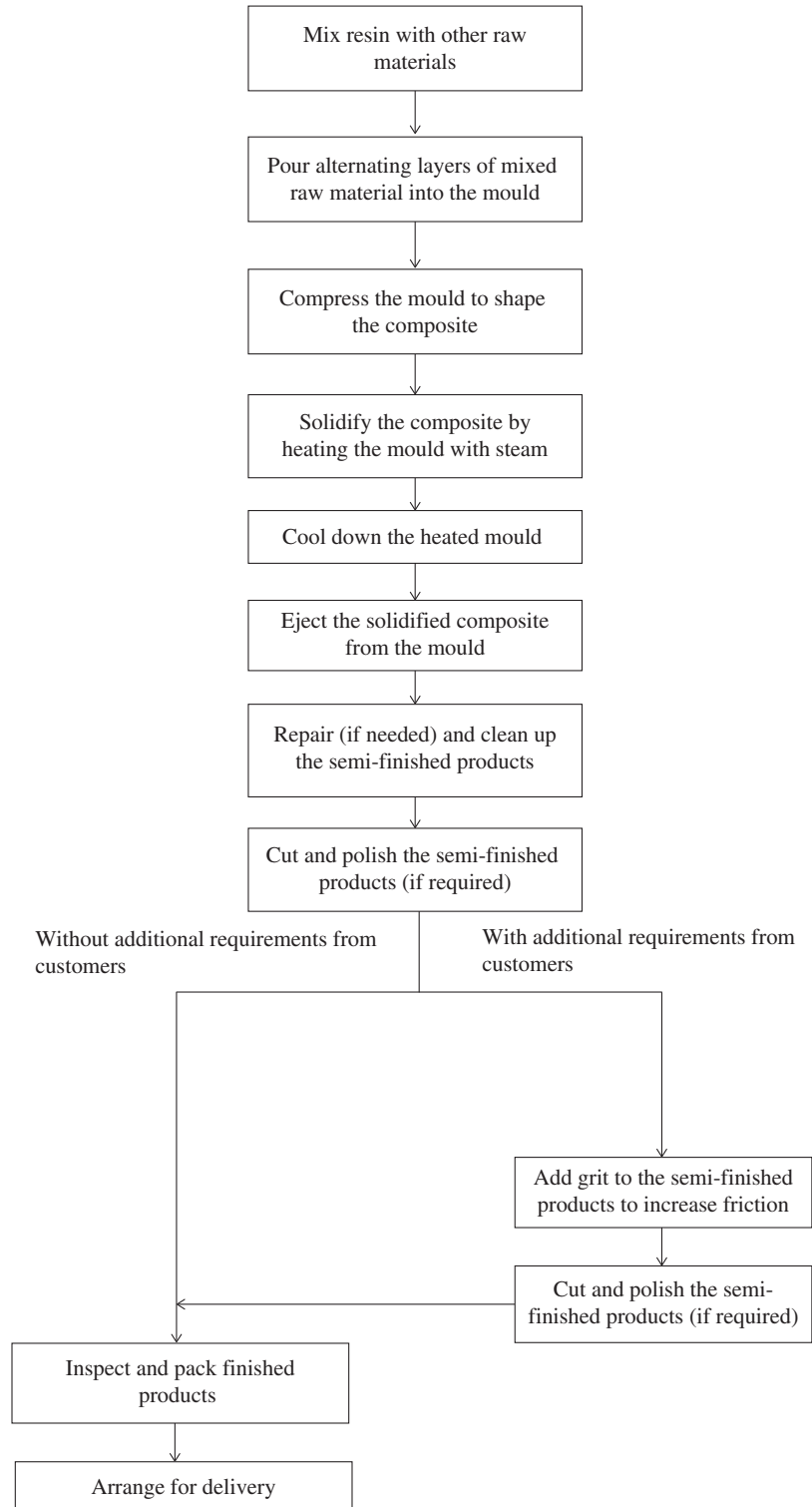
Pultrusion. Pultrusion is the manufacturing process that creates continuous lengths of FRP. During the pultrusion process, a caterpillar-like machine grips the raw materials and pulls them through a series of steps until the semi-finished products reach the cutter. This type of FRP grating offers builders a wide variety of panel sizes, and flexibility because it is assembled and not moulded. This helps to reduce waste, or scraps of FRP in comparison to the moulded fibreglass grating process.

Both moulded fibreglass grating and pultruded fibreglass have similar benefits and it depends on the application and where the products will be used (i.e. industrial flooring, walkways, stairs, platforms, ramps).

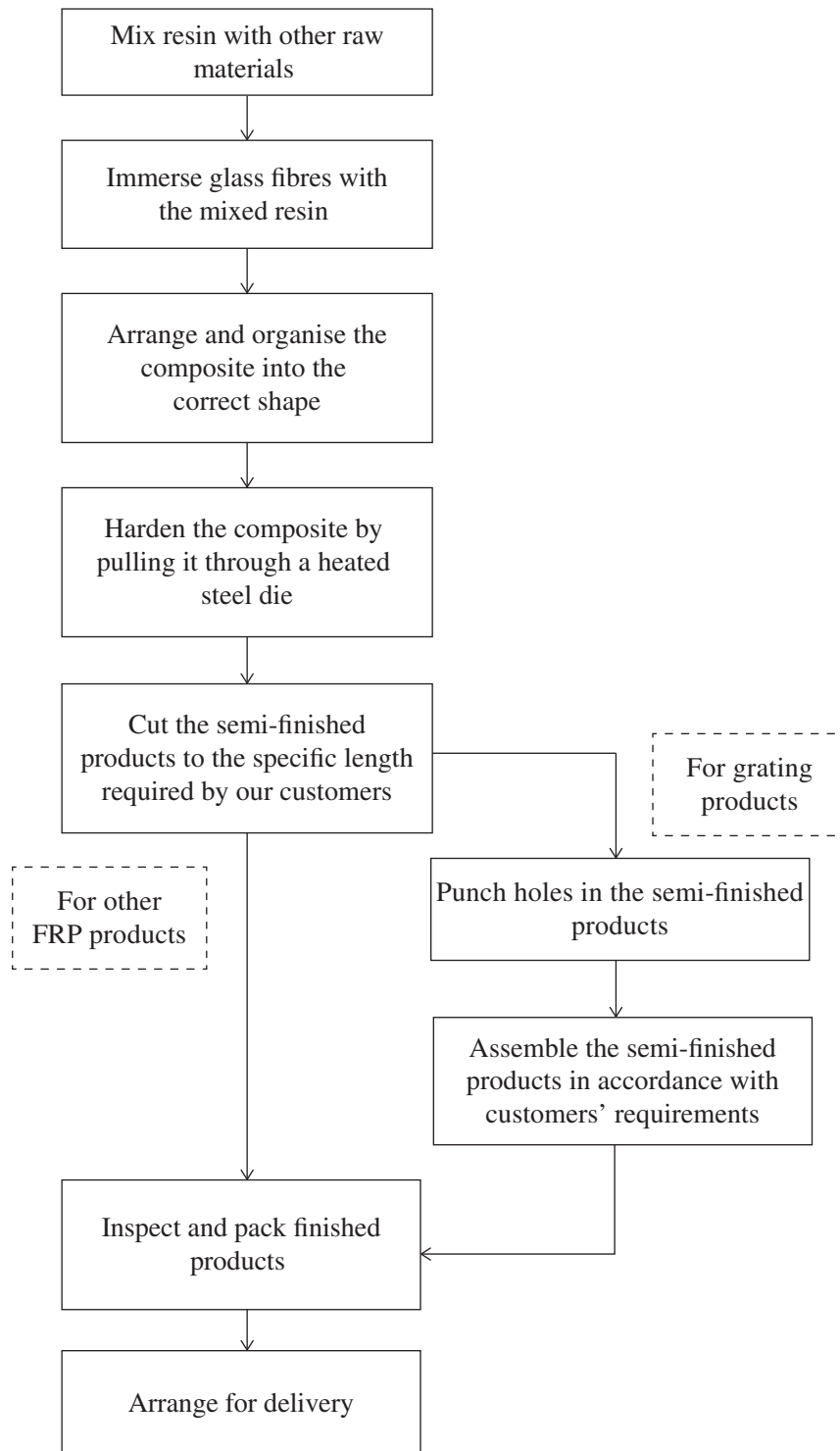
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The following diagrams illustrate the production processes for our major products:

(i) **Moulding Process**



(ii) **Pultrusion Process**



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Production facilities, production capacity and utilisation rate

Our self-owned production base is situated in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC equipping with total of 63 moulding facilities and 12 pultrusion facilities grouped under the five workshops, which allow us to manufacture moulded FRP products and pultruded FRP products, as well as to repair and perform finishing works on our finished goods.

We allocate our manufacturing team to produce different categories of product. As at the Latest Practicable Date, we had 95 manufacturing personnel.

The following table sets forth the estimated production capacity, production volumes and utilisation rates of our production lines for our major products during the Track Record Period:

	Estimated production capacity ^(Note 1)			Actual production volume			Average utilisation rate ^(Note 2)			Utilisation rate to achieve breakeven ^(Note 3)
	For the year ended		For the six months ended	For the year ended		For the six months ended	For the year ended		For the six months ended	
	31 December		30 June	31 December		30 June	31 December		30 June	
	2014	2015	2016	2014	2015	2016	2014	2015	2016	
FRP Grating	326,856 m ²	326,856 m ²	163,428 m ²	169,193 m ²	136,381 m ²	77,329 m ²	51.8%	41.7%	47.3%	22.1%
USCG Approved Phenolic Grating	41,736 m ²	41,736 m ²	20,868 m ²	4,112 m ²	11,776 m ²	8,866 m ²	9.8%	28.2%	42.5%	9.0%
FRP Subway	17,100 m ²	17,100 m ²	8,550 m ²	7,000 m ²	5,263 m ²	78 m ²	40.9%	30.8%	0.9%	11.4%
Evacuation Platform										
Epoxy Wedge Strip	189,000 m	220,500 m	110,250 m	2,073 m	46,178 m	91,502 m	1.1%	20.9%	83.0%	12.5%

Notes:

- The estimated production capacity is calculated for illustration purpose only, based on the total daily production facility output, and by assuming 360 working days per year (and 90 working days per quarter), 8 working hours per day for moulded products and 3 shifts per day for pultrusion products.
- Calculated by dividing production volumes by estimated production capacity for the year.
- Calculated by dividing the amount of production volume required to achieve breakeven by the estimated production capacity. The amount of production volume required to achieve breakeven is calculated by dividing the amount of revenue required to achieve breakeven by the average selling price for the two years ended 31 December 2015 and the six months ended 30 June 2016. The amount of revenue required to achieve breakeven is calculated by dividing the average fixed costs for the two years ended 31 December 2015 and the six months ended 30 June 2016 by the average gross profit margin for the corresponding period.

The average utilisation rate of our production divisions is affected by a number of factors such as the orders received from our customers, the types of products manufactured and our production schedule.

The utilisation rate of the production line for our FRP Grating products decreased by approximately 10.1% from approximately 51.8% for the year ended 31 December 2014 to approximately 41.7% for the year ended 31 December 2015. Such decrease was mainly

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attributable to the decrease in sales of our FRP Grating products to the U.S. to Customer A, who was our largest customer for the year ended 31 December 2014 and 2015, respectively, which was partially offset by the increase in sales of such products to our PRC customers. The utilisation rate of the production line for our FRP Grating products subsequently increased to approximately 47.3% for the six months ended 30 June 2016, mainly because of the increase in sales of such products to our customers.

The utilisation rate of the production line for our USCG Approved Phenolic Grating products increased by approximately 18.4% from approximately 9.8% for the year ended 31 December 2014 to approximately 28.2% for the year ended 31 December 2015. The increase was primarily due to the recognition of our USCG Approved Phenolic Grating products by our existing and new PRC customers who placed more orders in 2015. The utilisation rate of the production line for our USCG Approved Phenolic Grating products then increased to 42.5% for the six months ended 30 June 2016, primarily because of the increases in sales of such products to our customers.

The utilisation rate of the production line for our FRP Subway Evacuation Platform products decreased by approximately 10.1% from approximately 40.9% for the year ended 31 December 2014 to approximately 30.8% for the year ended 31 December 2015. The decrease was mainly due to decrease in quantity of our FRP Subway Evacuation Platform products sold to our major customers of such products in 2015. Since our customers place purchase orders for our FRP Subway Evacuation Platform products according to the progress of subway construction projects, the sale of such products therefore depends on the size of railway construction projects undertaken by the relevant customers. The utilisation rate of the production line for our FRP Subway Evacuation Platform products decreased to 0.9% for the six months ended 30 June 2016, as the progress of our customers' construction projects had not reached the stages where the use of our FRP Subway Evacuation Platform products was required. We subsequently entered into a sale and purchase agreement for the sale of FRP Subway Evacuation Platform products with a PRC customer on 4 August 2016 at the consideration of approximately RMB6.3 million. As a result, we expect the utilisation rate of the production line for our FRP Subway Evacuation Platform products to increase in accordance with the relevant delivery schedules.

The utilisation rate of the production line for our Epoxy Wedge Strip products increased by approximately 19.8% from approximately 1.1% for the year ended 31 December 2014 to approximately 20.9% for the year ended 31 December 2015, mainly because of the increase in sale of our Epoxy Wedge Strip products in 2015 due to (i) we first launched the trial run and then formal production of Epoxy Wedge Strip products in July 2014 with only six months of sale in 2014, while we had a whole year sales of our Epoxy Wedge Strip products in 2015; (ii) the increase in market demands for our Epoxy Wedge Strip products in 2015; and (iii) the growing application of FRP materials in manufacturing wind-power blade roots for wind driven generator in the PRC. The utilisation rate of the production line for our Epoxy Wedge Strip products subsequently increased to 83.0% for the six months ended 30 June 2016, primarily due to increase in the number of our customers and the increase in sale of a type of our Epoxy Wedge Strip products of certain dimensions.

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While the utilisation rate of our production lines for our FRP Subway Evacuation Platform products for the six months ended 30 June 2016 was lower than the industry average of approximately 22.1% as except for an existing customer who placed a small amount of orders for replenishment on an ad hoc basis, none of our customers placed any purchase order during the period due to the progress of railway construction projects undertaken by our existing and potential customers, the utilisation rates of our production lines for our FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products were approximately 47.3%, 42.5% and 83.0%, respectively, which were relatively high compared to the industry average of approximately 22.5%, 29.0% and 33.5%, respectively, as stated in the Sullivan Report.

Our directors believe that one of the competitive strengths of our Group is our strong capabilities in producing customised FRP products which suit the specific needs of our customers. To maintain such competitive strength, we are required to equip ourselves with abundant sets of production equipment, each of which being designed to produce a particular type of FRP products with specific dimensions. We intend to uphold this strategy by retaining our pre-configured production equipment and investing in the procurement of new production equipment as:

- (i) such strategy is efficient and cost-effective: while customisation of products can be achieved by changing the mould modules (模組) on a production equipment, such change will not only incur additional costs as extra manpower and raw materials are required to reconfigure over 3,000 mould modules on the production equipment and conduct tests to ensure product quality after each change, but also considerably slow down the production process as approximately one week is required to change the mould modules on a production equipment and approximately 20 days are required to re-configure and conduct test on the production equipment after each change. Generally, approximately four personnel are required to reconfigure the mould modules of a production equipment and the total costs for such reconfiguration (including (i) the salary for the personnel; (ii) the costs of disposing components of the production equipment which cannot be reused after the reconfiguration; and (iii) the costs of raw materials used for the tests) are approximately RMB14,620. Procurement of a new production equipment generally takes approximately one month. Once a production equipment is successfully configured with the appropriate mould modules, the subsequent production will normally not require any substantial adjustments. Moreover, no storage costs are needed for our production equipment as all our production equipment are placed in our workshops and there are no special requirements regarding their storage. In addition, maintenance of the production equipment mainly requires oiling of its components and replacement of malfunctioned components which generally incur low maintenance costs. For the two years ended 31 December 2015 and the six months ended 30 June 2016, the maintenance costs for our production equipment amounted to approximately RMB55,600, RMB65,652 and RMB13,667, representing approximately 0.1%, 0.1% and 0.04% of the total revenue, respectively. Therefore, our Directors consider that it is more efficient and cost-effective to equip ourselves with abundant sets of configured production equipment; and

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- (ii) our investment in a production equipment can be fully recovered: we generally only procure a production equipment when the estimated cost of such procurement is lower than 10% of the contract value of the relevant customer's order. Such policy ensures that our investment in the production equipment can be fully recovered after receiving the payment from the relevant customer. In addition, the mould modules generally accounted for approximately 50% of the cost of purchasing the entire production equipment. Hence, our Directors are of the view that it is reasonable to invest in the procurement of an entire production equipment for a specific type of FRP products.

For the 75 sets of our production equipment (including various components such as the mould modules) with total original value of approximately RMB7.0 million, approximately RMB4.9 million (or 70.5%) was depreciated as at 31 October 2016. In particular, 31 sets of production equipment which were acquired prior to 2006 had been fully depreciated and no further depreciation or impairment is required. During the Track Record Period, we did not record any impairment for our production equipment as their recoverable amounts were greater than their carrying amounts. Please refer to "Financial Information – Key sources of estimation uncertainty" of this prospectus for details relating to our impairment policy.

In addition, to minimise inventory risks for both raw materials and finished products, we would generally commence production only upon receiving confirmation of the purchase orders from our customers. According to Sullivan, the comparatively low average utilisation rates in the FRP industry are attributable to, among others, the make-to-order business model, in which the production begins only after a confirmed order is received.

Due to the above, irrelevant sets of production equipment are left unused when we are producing certain types of FRP products in accordance with the specific requests from our customers, leading to the comparatively low utilisation rates. According to Sullivan, as FRP products vary largely in terms of dimensions, instead of switching the mould modules on each production equipment which is time-consuming and requires additional manpower and efforts to test and adjust product quality, manufacturers of such products generally equip themselves with many sets of production equipment in order to meet different needs of their customers. Therefore, it is common for a portion of the production equipment to be left unused when there is no order for such FRP products, resulting in the comparatively low average utilisation rates in the FRP industry.

Moreover, similar to many manufacturers in the FRP industry, we currently implement a semi-automation moulding process, with the procedures such as cutting and polishing being conducted manually. As a result, the average utilisation rates in the FRP industry would inevitably be low when applying the conventional production line utilisation rate calculation method that is commonly used in the situation of mass production of homogenous products, according to Sullivan.

In light of the above, our Directors consider that the low utilisation rates of our production lines are justified and in line with the industry norm.

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The production time required for our FRP Grating products, USCG Approved Phenolic Grating product, FRP Subway Evacuation Platform products and Epoxy Wedge Strip products are in general approximately 27.7 minutes per m, 20.5 minutes per m, 75.7 minutes per m and 13.7 minutes per m, respectively. As we are equipped with various sets of production equipment, each of which is designed to produce a particular type of FRP products with specific dimensions, we do not have the need to make adjustments or to change the mould modules on the production equipment in order to produce customised FRP products in accordance with the requests from our customers. In the event that our existing production lines are unable to produce the products which suit the specific need of a customer, we will procure a new set of production equipment for the production of such products if the costs of such procurement is below 10.0% of the contract value of the relevant customers' order.

The following table sets out the average age and remaining useful life of our production lines for our major products as at the Latest Practicable Date:

	Average age <i>(year)</i>	Remaining useful life <i>(year)</i>
FRP Grating	9.5	5.5
USCG Approved Phenolic Grating	7.7	7.3
FRP Subway Evacuation Platform	7.4	7.6
Epoxy Wedge Strip	3.0	12.0

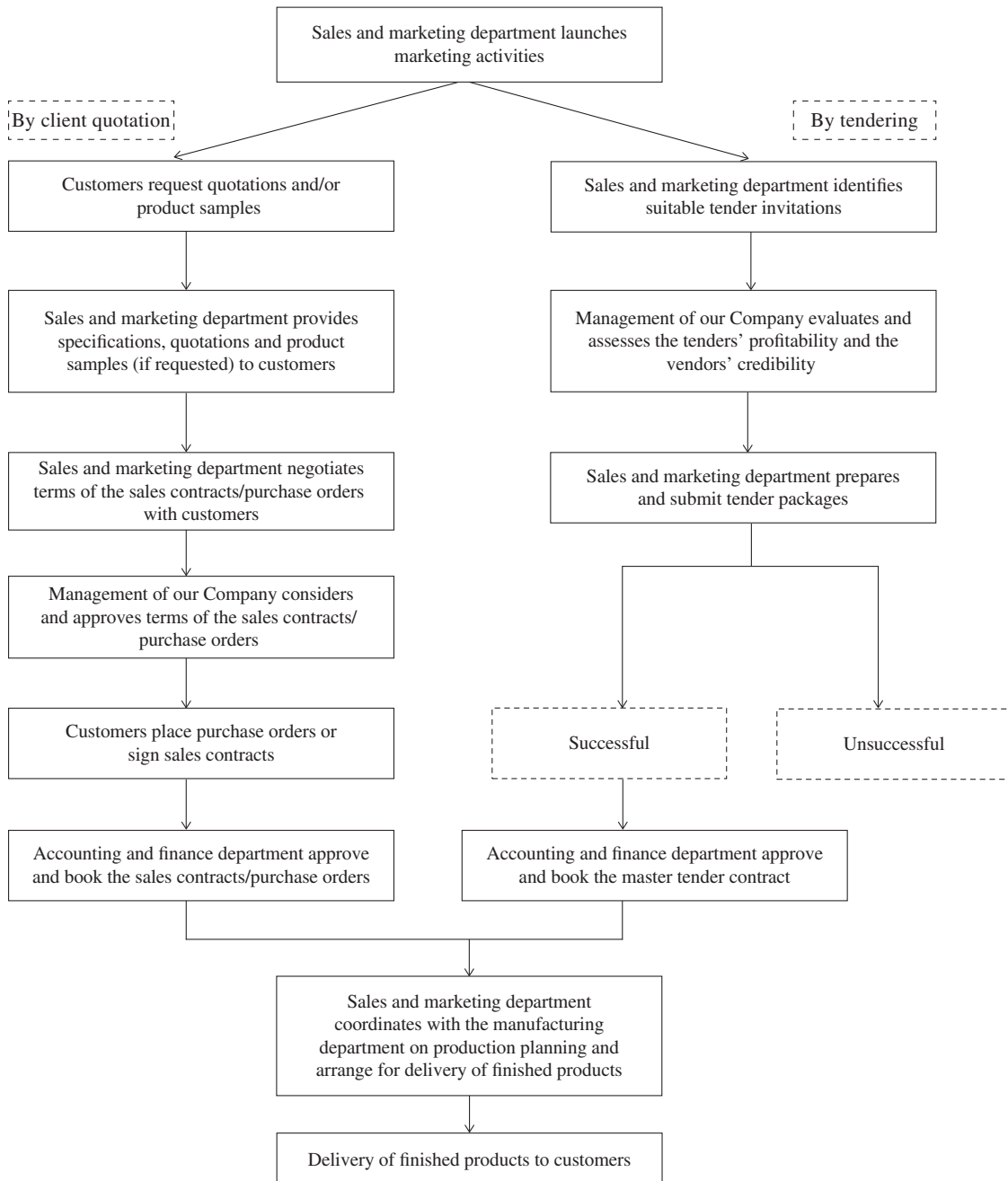
We purchase all our key production equipment from manufacturers in the PRC. The replacement cycle of our production equipment generally ranges from five to 10 years which is roughly the same as their estimated service life. Equipment maintenance by our staff is generally done on a weekly basis, and repair is carried out when necessary.

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CUSTOMERS, SALES AND MARKETING

Our sales and marketing department is responsible for conducting marketing activities, gathering market trend information, formulating the annual sales plan, maintaining business relationships with our existing customers, soliciting new customers, coordinating with other departments of our Group to ensure that the finished products fulfil specific requirements of our customers and providing customer service. As at the Latest Practicable Date, we had eight sales and marketing personnel. The duration of our sales cycle ranges from one month to seven months, depending on factors such as the quantity of products our customers ordered.

Set out below is a flow chart summarising our sales and marketing process:



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Sales and marketing strategies

We believe that effective marketing is important to us in increasing our market share and attracting potential customers. During the Track Record Period, we conducted the following marketing activities:

Participation in trade fairs and sales conventions

During the Track Record Period, we participated in various international fairs and sales conventions including:

- Feiplar Composites and Feipur 2014 International Exhibition and Congress held in Brazil in 2014;
- JEC Americas Composites Show and Conferences held in the U.S. and Canada in 2014;
- JEC Composite Europe 2015 held in France in 2015;
- JEC Composite Show Asia 2015 held in Singapore in 2015; and
- JEC Composite Europe 2016 held in France in 2016.

Advertisements and promotions

We advertise our products by placing advertisements on the Internet such as Made-in-China.com (www.made-in-china.com), an online trading platform, and entering into promotion agreements with online search engine service provider to attract new customers.

Identification of suitable tender invitations

We identify suitable tender invitations mainly by online advertisements and industry periodicals. In particular, we closely monitor and conduct information collection from the “RCC China Construction Information Network*” (RCC 瑞達恒建設工程信息網). During the two years ended 31 December 2014 and 2015, we submitted two and four tenders and successfully tendered two and four projects with a representing a success rate of 100% and 100%, respectively. Revenue recognised from these tenders amounted to approximately RMB1.5 million and RMB4.1 million for the two years ended 31 December 2015, respectively. We did not submit any tender during the six months ended 30 June 2016.

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Visiting existing customers

We visit existing customers regularly to enhance their knowledge on our products and our competitive advantages, to promote our new products, to understand their specific needs, to obtain feedbacks on our products and to get a better understanding on the market trends.

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our total marketing and advertising expenses amounted to approximately RMB0.5 million, RMB0.7 million and RMB0.5 million, respectively.

Customers

For the two years ended 31 December 2015 and the six months ended 30 June 2016, our Group's total revenue amounted to approximately RMB53.7 million, RMB56.4 million and RMB27.9 million, respectively. Through our operations we have maintained credible business relationship with a number of high-profile customers domestically and globally. The principal markets of our Group are the PRC, the U.S. and the U.K. which in total represent approximately 94.2%, 94.9% and 95.3% of our Group's total revenue during the Track Record Period, respectively. During the Track Record Period, our Group also received purchase orders from various regions, including France, Canada, Germany, Australia, Indonesia, Switzerland, Finland, Italy, Ecuador, Malta, Mexico, New Zealand, South Africa, Hong Kong, Singapore, Malaysia and Kenya. The following table illustrates the breakdown of our Group's total revenue by geographical area during the Track Record Period:

	Revenue for the year ended				For the six months ended			
	31 December				30 June			
	2014	2015	2015	2016	2015	2016	2015	2016
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)							
PRC	22,280	41.5	29,273	51.9	11,040	44.1	14,693	52.7
U.S.	23,146	43.1	17,315	30.7	8,928	35.6	7,330	26.3
U.K.	5,137	9.6	6,953	12.3	3,656	14.6	4,553	16.3
Others ^(Note)	3,109	5.8	2,864	5.1	1,427	5.7	1,305	4.7
Total	<u>53,672</u>	<u>100.0</u>	<u>56,405</u>	<u>100.0</u>	<u>25,051</u>	<u>100.0</u>	<u>27,881</u>	<u>100.0</u>

Note: Others include but not limited to France, Canada, Germany and Indonesia.

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Our customers mainly include (i) distributors who buy our products on per order basis with no distribution arrangement and (ii) corporate customers including downstream manufacturers, PRC engineering institutes and public infrastructure construction enterprises. For the two years ended 31 December 2015 and the six months ended 30 June 2016, we had 84, 107 and 107 customers respectively. Set down below is the breakdown of our Group's total revenue by customers type during the Track Record Period:

	Year ended 31 December				For the six months ended			
	2014		2015		2015		30 June 2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Distributors	31,392	58.5	27,132	48.1	14,011	55.9	13,188	47.3
Corporate customers	22,280	41.5	29,273	51.9	11,040	44.1	14,693	52.7
Total	<u>53,672</u>	<u>100.0</u>	<u>56,405</u>	<u>100.0</u>	<u>25,051</u>	<u>100.0</u>	<u>27,881</u>	<u>100.0</u>

Distributors

During the Track Record Period, our overseas customers are generally distributors and we have a seller-buyer relationship with them. These distributors are typically overseas manufacturers and distributors of FRP products who outsource the manufacturing of FRP products to us to lower their production costs. They may further process (i.e. cut and fabricate) the FRP products purchased from us according to their needs or ship the FRP products directly to their customers.

During the Track Record Period and up to the Latest Practicable Date, we did not adopt any distributorship business model in selling our FRP products and all the distributors are considered by our Directors as end-customers of our Group. These customers generally buy our products on per purchase order basis. Nevertheless, by selling our FRP products to established distributors overseas, our Directors believe that we could (i) diversify our sources of income without over-reliance on the PRC market; (ii) minimise our overseas sales and marketing and transportation expenses and effort as we are able to sell large volume of products to a limited number of distributors without having the need to approach vast number of end-users of our products; (iii) strengthen our presence in overseas regions and allow our FRP products to penetrate into these markets more quickly and effectively. Our Directors believe that such business model is in line with the industry norm in the PRC.

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The following table sets forth a breakdown of revenue from the sales of our FRP products to our customers who are distributors by geographic regions for the Track Record Period:

	For the year ended 31 December					For the six months ended 30 June			
	2014		2015		2016				
	Number of distributors	Percentage of revenue	Number of distributors	Percentage of revenue	Number of distributors	Percentage of revenue	Number of distributors	Percentage of revenue	
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	
U.S.	10	23,146	73.7	8	17,315	63.8	5	7,330	55.6
U.K.	3	5,137	16.4	3	6,953	25.6	3	4,553	34.5
Others	13	3,109	9.9	15	2,864	10.6	11	1,305	9.9
Total	26	31,392	100	26	27,132	100	19	13,188	100

We have maintained stable business relationships with the distributors. For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, we sold our products to 26, 26 and 19 distributors respectively, out of which 10, 19 and 16 were recurring customers and the revenue generated from these recurring customers amounted to approximately RMB30.0 million, RMB26.2 million and RMB12.9 million respectively. As we do not adopt any distributorship business model in selling our FRP products, the changes in the number of our customers who are distributors during the Track Record Period were mainly due to normal fluctuations in the demand for our products from such customers. Please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue – Breakdown of revenue by geographical location” of this prospectus for further details with regard to the reasons for changes in sales to our overseas customers during the Track Record Period.

As the distributors are considered as end-customers of our Group, we adopt pricing, sales, credit, customer service, products return and warranty policies for our distributors that are substantially the same as those adopted for our other corporate customers. Please refer to the paragraphs headed “Customers, Sales and Marketing – Pricing, sales terms and credit policy” and “Customers, Sales and Marketing – Customer service, products return and warranty policies” in this section for details relating to such policies. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material delays of payment by our distributors.

We typically recognise our sales to the overseas distributors when our products are loaded on board at the port of shipment as we are deemed to have completed the delivery, and the ownership of and risks relating to our products are thereafter transferred to the distributors. Such revenue recognition policy is in line with the revenue recognition policy for sales of our products to corporate customers.

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We do not accept any return or exchange of our products sold to the distributors except for products with significant quality issues. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material product return from such distributors due to quality issues. As we generally commence production of our products after receiving the distributors' purchase orders, we do not bear any material inventory risk.

Since the distributors are considered as end-customers of our Group, we do not exert any control over such customers or their respective distribution channels. In particular, (i) we have no ownership, managerial or contractual control over any of such distributors or their sales, pricing and marketing activities. Since they are considered as end-customers of our Group; (ii) we have no restrictions on the distributors regarding their geographical coverage, sales target, minimum purchase requirements or target customers; and (iii) our distributors are not required to provide us with any information regarding their sales, inventory levels and customers' demands of our products. In addition, to the best of our Directors' knowledge, information and belief, we did not have any contractual relationship with the customers of our distributors during the Track Record Period.

Despite we do not have any policies in place to avoid competition among the distributors, our Directors believe that the risk of cannibalisation is low primarily because the number distributors in each country placing purchase orders with us is limited. In addition, based on our communications with the distributors, nothing has caused our Directors to believe that the growth in our revenue during the Track Record Period was due to any material accumulation of inventories at the distributors or within their respective sales channels.

All of our distributors are Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, our distributors managed their business and operations independently of each other and we are not aware of any past or present relationships (including family, trust or employment relationships) between our distributors and our other distributors and customers. During the Track Record Period and up to the Latest Practicable Date, we did not have any material disputes and we were not a party to any legal or arbitration proceedings with any of the distributors.

Corporate Customers

Our corporate customers include downstream manufacturers, PRC engineering institutes, public infrastructure construction enterprises and other corporate end-users.

Our products are sold as components to manufacturers such as wind turbine blades manufacturers and vessel manufacturers on ad hoc purchase order basis. Our sale to engineering institutes and public infrastructure construction enterprises are mainly project-based. Our products are used in various projects including petrochemical, smelting and municipal projects. During the Track Record Period, we sold our products to 61, 78 and 67 corporate customers respectively.

BUSINESS

For the two years ended 31 December 2015 and the six months ended 30 June 2016, our Group's sales to our top five customers amounted to approximately RMB29.2 million, RMB24.0 million and RMB12.8 million respectively, which accounted for approximately 54.5%, 42.5% and 46.0% of our total revenue respectively. Sale to our largest customer amounted to RMB11.3 million, RMB6.2 million and RMB3.3 million respectively, which accounted for approximately 21.1%, 11.1% and 11.8% of our total revenue respectively. Our Directors consider that our Group has maintained good relationship with our customers and we had not relied on any particular customer during the Track Record Period. Set out below are the particulars of our top five customers during the Tack Record Period:

Year ended 31 December 2014							
Rank	Customer	Type of Customer	Location	Background	Approximate percentage to our total revenue	Principal products sold	Years of business relationship with our Group
1	Customer A	Distributor	U.S.	Manufacturer, seller and distributor of FRP products and service provider of FRP solutions	21.1%	FRP Grating products	5 years
2	Customer B	Distributor	U.S.	Manufacturer and distributor of steel and FRP products	10.3%	FRP Grating products	7 years
3	Customer C	Distributor	U.K.	Supplier and distributor of FRP products	8.4%	FRP Grating products	6 years
4	Dalianxinan Marine Engineering Co., Ltd* (大連新安船舶工程有限公司)	Corporate	PRC	Manufacturer of vessels	7.4%	USCG approved phenolic grating products	4 years
5	Customer D	Distributor	U.S.	Manufacturer and distributor of FRP products	7.3%	FRP Grating products	6 years

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Year ended 31 December 2015							
Rank	Customer	Type of Customer	Location	Background	Approximate percentage to our total revenue	Principal products sold	Years of business relationship with our Group
1	Customer B	Distributor	U.S.	Manufacturer and distributor of steel and FRP products	11.1%	FRP Grating products	7 years
2	Customer A	Distributor	U.S.	Manufacturer, seller and distributor of FRP products and service provider of FRP solutions	10.8%	FRP Grating products	5 years
3	Customer C	Distributor	U.S.	Supplier and distributor of FRP products	7.7%	FRP Grating products	6 years
4	Nantong Mincom Composite Materials Co., Ltd. (南通明康複合材料有限公司)	Corporate	PRC	Manufacturer of FRP grating products and other reinforced plastic products	7.6%	FRP Subway Evacuation Platform products and FRP Grating products	4 years
5	Jiang Su Guorui Technology Co., Ltd* (江蘇國瑞科技股份有限公司)	Corporate	PRC	Manufacturer of electronic equipment	5.3%	FRP Grating products	1 year

BUSINESS

Six months ended 30 June 2016

Rank	Customer	Type of Customer	Location	Background	Approximate percentage to our total revenue	Principal products sold	Years of business relationship with our Group
1	Customer B	Distributor	U.S.	Manufacturer and distributor of steel and FRP products	11.8%	FRP Grating products	7 years
2	Customer C	Distributor	U.K.	Supplier and distributor of FRP products	10.2%	FRP Grating products	6 years
3	Nantong Strong World FRP Products Co., Ltd (南通盛世玻璃製品有限公司)	Corporate	PRC	Manufacturer of FRP Grating products and other reinforced plastic products	8.6%	FRP Grating products	1 year
4	Customer A	Distributor	U.S.	Manufacturer, seller and distributor of FRP products and service provider of FRP solutions	8.6%	FRP Grating products	5 years
5	Nantong Mincom Composite Materials Co., Ltd. (南通明康複合材料有限公司)	Distributor	PRC	Manufacturer of FRP Grating products and other reinforced plastic products	6.8%	FRP Subway Evacuation Platform products and FRP Grating products	4 years

During the Track Record Period, none of our Directors, their associates or any Shareholders who holds more than 5% of the issued share capital of our Company has, to the best knowledge of our Directors, any interest or had any management control in any of our top five customers. None of the major customers are suppliers of our Group.

Pricing, sales terms and credit policy

Pricing of our products is generally market driven. Our pricing policies are primarily on a cost-plus basis without selling at loss, and we take into account, among other things, (i) production costs such as costs of major raw materials; (ii) our targeted margin percentage; (iii) the prevailing market condition; and (iv) the exchange rate (if applicable). For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, we have maintained our gross profit margin at approximately 35.6%, 37.7% and 34.2%, respectively. Hence our Directors consider that our pricing policy is successful in terms of maintaining a reasonable profit margin for us.

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During the Track Record Period, we did not enter into any long-term contracts or framework agreements with our customers.

During the Track Record Period, we generally granted average credit terms ranging from cash on delivery to one year after billing date. The credit terms of our customers are determined by our sales and marketing department and our accounting and finance department. The settlement and credit terms given to our customers are determined with reference to, among others, the (i) financial position; (ii) credit history; (iii) duration of business relationship; and (iv) market share and prospect of our customers.

Our Group's sales are usually made on an open account basis. During the Track Record Period, approximately 41.5%, 51.9% and 52.7% of our Group's sales were denominated in RMB and were generally settled by bank's acceptance bill and telegraphic transfer and approximately 58.5%, 48.1% and 47.3% of our Group's sales were denominated in US\$ and were generally settled by telegraphic transfer, respectively. Our Group's net trade receivables for the two years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB25.4 million, RMB29.5 million and RMB29.3 million respectively. Further, our bills receivables for the two years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB0.8 million, RMB2.0 million and nil respectively.

Our new customers are generally not given any credit term. We usually require our new customers to settle payments by telegraphic transfer in advance and we only deliver the products after they have paid the whole balance.

Our accounting and finance department is responsible for reviewing the aging receivables and cooperating with the sales and marketing department to follow up and collect the overdue trade receivables balances. During the Track Record Period, we had made impairment loss on trade receivables of approximately RMB1.1 million, RMB1.9 million and RMB1.5 million which represented approximately 4.2%, 6.0% and 4.9% of our trade receivables, respectively. Please refer to the section headed "Financial Information – Net Current Assets – Trade and other receivables – Trade and bills receivables" for details.

For our international customers, we typically follow Free On Board ("FOB") where we pay for transportation of the goods to the port of shipment, plus loading costs and our customers pay for the cost of marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The passing of risks and ownership occur when the products are loaded on board at the port of shipment.

Customer service, products return and warranty policies

We assign dedicated sales representatives to each client to follow up the purchase orders and provide customer service. Our customer service staff members are trained to answer our customers' queries such as queries regarding our products' performance, material selection and installation. In the event that our customers encounter issues which cannot be resolved by remote customer service, we will arrange for professional staff to provide onsite guidance and services.

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Our products are generally subject to warranty period of one year from the contract date or the date our customers accepted our products. In the event that a problem with our products arises during the warranty period, we will communicate with the customer and send our personnel to the customer's site when necessary. After understanding the problem, we will (i) provide onsite repairing services; (ii) repair the products in our production plant; (iii) offer replacement; or (iv) accept product return.

During the Track Record Period and up to the Latest Practicable Date, we did not have material warranty claims on our products, nor did we experience any product recalls or any material defective products returns or exchanges or sales returns.

Sales to a customer located in Russia

Russia is not subject to comprehensive sanctions adopted by the U.S., the European Union, the United Nations or Australia. International Sanctions targeting Russia prohibit or otherwise restrict certain specific types of transactions and activities involving Sanctioned Persons. In 2015, we made sales of our FRP Grating products to a customer located in Russia, which amounted to RMB279,985 or approximately 0.5% of our total revenue for the same year (the "**Relevant Sales**"). As advised and based on the following procedures conducted by DLA Piper Hong Kong, our legal advisers as to International Sanctions laws, the Relevant Sales do not implicate the applicability International Sanctions on our Group, or any person or entity, including our Group's investors, the Stock Exchange, HKSCC or HKSCC Nominees:

- (a) reviewed documents provided by us that evidence the Relevant Sales;
- (b) received written confirmation from us that neither our Group nor any of our affiliates had conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions; and
- (c) reviewed information relating to the customer to whom the Relevant Sales were made against the lists of persons and organisations subject to International Sanctions, and confirmed that the customer is not on such lists.

As at the date of this prospectus, we had not been notified, nor were we aware of any governmental investigation into the Relevant Sales and there had been no administrative, civil or criminal fines or penalties imposed on us in connection with the Relevant Sales. As confirmed by our International Sanctions legal advisers, the Relevant Sales are not deemed to be prohibited activities under International Sanctions. In addition, the Group has not conducted any other sales during the Track Record Period and up to the Latest Practicable Date, which, either directly or indirectly, risk violating International Sanctions.

Our Directors do not expect any future sales to the customer located in Russia after the Listing. We have no present or future intention to undertake any future activities that would cause us, the Stock Exchange, the Listing Committee, HKSCC, HKSCC Nominees, or our investors to violate or to become a target of International Sanctions. After the Listing, we will

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disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group may enter into in any Sanctioned Country or with any Sanctioned Person(s) would put our Group or our investors at risk of violating or becoming the target of International Sanctions, and to disclose in our annual reports and interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in any Sanctioned Country and/or with any Sanctioned Person(s) and our business intention relating to activities with any Sanctioned Country and/or with any Sanctioned Person(s).

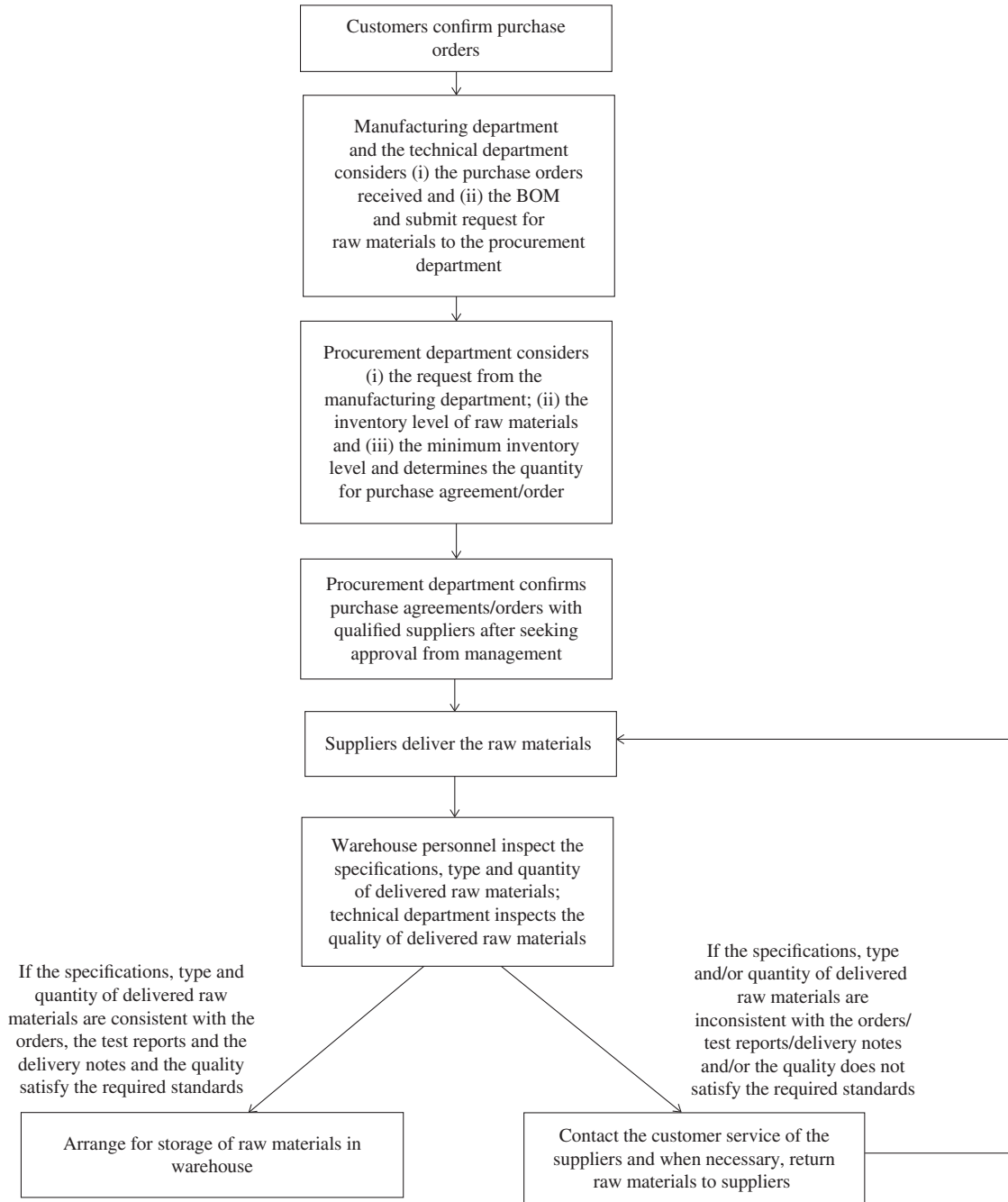
We will continuously monitor and evaluate our business activities which may give rise to sanctions risks. For details, please refer to the section headed “Business – Internal Control and Risk Management – Sanctions Related Undertakings and Risk Management” in this prospectus.

PROCUREMENT, RAW MATERIALS AND SUPPLIERS

Our procurement department is responsible for the purchase of raw materials and production equipment, the evaluation and selection of suppliers, the determination and maintenance of the minimum inventory level and the control and management of the warehouse. As at the Latest Practicable date, we had one procurement personnel. As (i) the main responsibilities of the procurement personnel are to (a) review the procurement requests prepared by the manufacturing department and (b) contact the suppliers of the Group; and (ii) the manufacturing department, technical department and warehouse department also assist in the procurement process, our Directors consider that having one procurement personnel is sufficient. As our production process is usually sales driven, we generally only procure the required raw materials upon customers’ confirmation of their purchase orders. It takes approximately two to 10 business days for our principal raw materials to be delivered after our procurement department places a purchase order. We maintain a minimum inventory level for our commonly used raw materials to ensure sufficient supply of raw materials for our production needs. For details, please refer to the paragraph headed “Inventory Control” in this section.

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Set out below is a flow chart summarising our procurement process:



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Raw materials

The principal raw materials used in our production include (i) glass fibre and (ii) resin (which includes unsaturated polyester resin (不飽和聚酯樹脂), epoxy resin (環氧樹脂) and phenol formaldehyde resin (酚醛樹脂)), which are sourced from manufacturers and distributors in the PRC. According to the Sullivan Report, influenced by weak demands from domestic and foreign markets in 2012 and 2013, the average fibreglass roving export price decreased, but has recovered and stabilised with rising labour costs and increasing demand. In contrast, during 2010 to 2015, the price of unsaturated polyester resin decreased owing to the weak real estate market in the PRC. Moreover, as the powder coating and electronics industries in the PRC were influenced by the slowdown of the domestic economic growth, the consumptions of epoxy resin were constrained causing excess production capacity and therefore depressed price of epoxy resin. Phenol formaldehyde resin, on the other hand, enjoyed stable average price because of its characteristics such as high heat-proof, impact resistance, less fuming, chemical resistance and low costs. For further details, please refer to the sectioned headed “Industry Overview – Recent Developments in Raw Material Prices” in this prospectus.

During the Track Record Period, the total cost of materials used amounted to approximately RMB23.5 million, RMB25.6 million and RMB11.5 million respectively, which amounted for approximately 67.9%, 72.8% and 62.6% respectively of our Group’s total cost of sales.

The following table sets out the breakdown of our Group’s total cost of materials used during the Track Record Period:

	Year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)							
Glass Fibre	5,209	22.2	7,814	30.5	4,129	36.5	4,195	36.5
Resin	12,254	52.2	10,398	40.6	3,702	32.7	3,762	32.7
Others ^(Note)	6,000	25.6	7,396	28.9	3,478	30.8	3,534	30.8
Total	23,463	100.0	25,608	100.0	11,309	100.0	11,491	100.0

Note: Others include but not limited to pigment paste, styrene, catalyst, aluminium oxide and other chemicals which are consumables used in manufacturing our FRP products.

As (i) the price of glass fibre has been relatively stable and (ii) the price of resin has shown a decreasing trend over the years, our Directors consider that our exposure to the raw materials price is insignificant. Therefore, we do not have a formal policy to pass on the increased cost of raw materials to our customers.

Suppliers

We generally source the raw materials used in our production process from suppliers in the PRC. Our suppliers are selected based on their reputation, pricing, product quality and reliability. Prior to being approved, we conduct inspections of a potential supplier's products and on-site inspections of the potential supplier's production process.

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, we had 87, 93 and 82 suppliers respectively. Our procurement from suppliers are generally (i) paid in advance through telegraphic transfer or (ii) settled through telegraphic transfer or bank's acceptance bills with a credit term of 60 to 180 days from date of billing invoices.

While we generally enter into individual purchase agreements with our suppliers for each purchase, we also enter into framework purchase agreements with certain suppliers. The framework purchase agreements entered into by us during the Track Record Period typically contained the following principal terms:

- duration of the framework agreements: these framework agreements were generally for a period of one year;
- indicative annual minimum quantity to be purchased/supplied;
- basis of pricing: the price were determined either (i) by multiplying the agreed fixed unit price with the volume we requested in our purchase orders; or (ii) with reference to the market conditions and the price of the raw materials of our suppliers;
- required quality standards: we generally required our suppliers to supply raw materials which conformed to (i) standards specified by the suppliers; (ii) relevant industry standards in the PRC; or (iii) relevant international standards;
- payment terms: we were generally required to either (i) pay in advance through telegraphic transfer or (ii) settle our payment through telegraphic transfer or bank's acceptance bills with a credit term of 60 to 180 days;
- delivery: the suppliers were generally responsible for the transportation costs and they generally bore the risk of any loss during transportation of their products to our production facilities.

As advised by our PRC legal advisers, the framework purchase agreements entered into by us during the Track Record Period are legally binding, valid and enforceable under the applicable laws and regulations of the PRC. During the Track Record Period, we entered into four, five and nine framework purchase agreements with our suppliers respectively.

During the Track Record Period, there was no breach of any of these framework agreements.

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Our Directors believe that the principal raw materials we use can be sourced from a number of other suppliers at prices comparable to those being offered by our existing suppliers. We did not experience any material difficulties in obtaining supplies of raw materials or any major delay or defaults by our suppliers during the Track Record Period. Our Directors consider that our Group has maintained good relationship with the suppliers and we had not relied on any particular supplier during the Track Record Period.

For the two years ended 31 December 2015 and the six months ended 30 June 2016, cost of sales to our five largest suppliers which are all located in the PRC amounted to approximately RMB17.7 million, RMB13.5 million and RMB8.8 million respectively, which accounted for approximately 51.1%, 38.4% and 48.0% of our total cost of sales respectively. Purchase from our largest supplier amounted to approximately RMB10.4 million, RMB6.3 million and RMB2.6 million respectively, which accounted for approximately 30.0%, 18.0% and 14.1% of our total cost of sales respectively. Our Directors consider that our Group was maintained good relationships with our suppliers and we had not relied on any particular customer during the Track Record Period. Set out below are the particulars of our top five suppliers during the Tack Record Period:

Rank	Supplier	Background	Year ended 31 December 2014		
			Approximate percentage to our total cost of sales	Principal raw materials sourced	Years of business relationship with our Group
1	Jiangyin Jingniu Tempered Glass Material Co., Ltd. (江陰市金牛玻璃鋼材料有限公司)	Manufacturer of resin based in the PRC	30.0%	Resin	6 years
2	China Jushi Co., Ltd (中國巨石股份有限公司)	Established manufacturer of glass fibre based in the PRC	11.1%	Glass fibre	8 years
3	Jiayin Hua Yu Chemical Co., Ltd.* (江陰市華鈺化工有限公司)	Manufacturer of medicine, pesticide and FRP raw materials based in the PRC	3.9%	Pigment pastes	5 years
4	Nantong Chemical & Light Industry Co., Ltd (南通化工輕工股份有限公司)	Distributor of chemicals based in the PRC	3.3%	Styrene	5 years
5	Nantong Wankaihua International Freight Agent Co., Ltd. (南通萬凱華國際貨運代理有限公司)	Freight forwarding business based in the PRC	2.8%	Warehousing and freight	5 years

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Year ended 31 December 2015

Rank	Supplier	Background	Approximate percentage to our total cost of sales	Principal raw materials sourced	Years of business relationship with our Group
1	Jiangyin Jingniu Tempered Glass Material Co., Ltd. (江陰市金牛玻璃鋼材料有限公司)	Manufacturer of resin based in the PRC	18.0%	Resin	6 years
2	China Jushi Co., Ltd (中國巨石股份有限公司)	Established manufacturer of glass fibre based in the PRC	10.9%	Glass fibre	8 years
3	Haining Bo Hin Trade Co., Ltd* (海寧市博軒貿易公司)	Trading company based in the PRC	4.0%	Glass fibre	1 year
4	Nantong Minco Grille FRP Products Co., Ltd.* (南通明科格珊玻璃鋼製品有限公司)	Manufacturer of FRP grating based in the PRC	2.9%	Glass fibre	1 year
5	CNOOC Changzhou EP Coating Co., Ltd (中海油常州環保塗料有限公司)	Manufacturer of coatings based in the PRC	2.6%	Coating, curing agent and diluent	6 years

BUSINESS

Six months ended 30 June 2016

Rank	Supplier	Background	Approximate percentage to our total cost of sales	Principal raw materials sourced	Years of business relationship with our Group
1	Jiangyin Jingniu Tempered Glass Material Co., Ltd. (江陰市金牛玻璃鋼材料有限公司)	Manufacturer of resin based in the PRC	14.1%	Resin	6 years
2	China Jushi Co., Ltd (中國巨石股份有限公司)	Established manufacturer of glass fibre based in the PRC	12.2%	Glass fibre	8 years
3	Nantong Minco Grille FRP Products Co., Ltd* (南通明科格珊玻璃製品有限公司)	Manufacturer of FRP Grating based in the PRC	11.1%	Glass fibre	1 year
4	Changzhou Xinqu Huata Youqi Youmo Zhizhao Co., Ltd* (常州新區華發油漆油墨製造有限公司)	Manufacturer of coatings based in the PRC	6.5%	Coating and diluent	1 year
5	Shanghai Huazheng Composites Co., Ltd (上海華征複合材料有限公司)	Distributor of glass fibre based in the PRC	4.1%	Glass fibre	3 years

During the Track Record Period, none of our Directors, their associates or any Shareholders who holds more than 5% of the issued share capital of our Company has, to the best knowledge of our Directors, any interest or had any management control in any of our top five suppliers.

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INVENTORY CONTROL AND LOGISTICS

Our inventories mainly consist of raw materials, semi-finished products and finished products. In order to ensure sufficient supply of raw materials for our production needs, we have procedures in place to monitor the inventory level of raw materials.

We adopt different inventory policies for our commonly used raw materials and non-commonly used raw materials. Commonly used raw materials are ordered to replenish our inventory when the storage of commonly used raw materials falls below a pre-specified minimum inventory level. In setting the minimum inventory level, we take into account the delivery time and daily depletion rate of the raw materials, as well as our anticipation of the demand for our products. For non-commonly used raw materials, we place orders for replenishment when our procurement department considered necessary. The non-commonly used production materials ordered are generally delivered to our warehouse three to five days after we placed the purchase orders with our supplier. As our Group's product will only be produced when we have received an order and most finished products are delivered directly to our customers, we maintain a minimum level of finished products in our warehouse.

We did not experience any material shortage of supply or overstock of inventory during the Track Record Period and up to the Latest Practicable Date.

As at 31 December 2014 and 2015 and the six months ended 30 June 2016, our inventories amounted to approximately RMB6.3 million, RMB4.0 million and RMB4.2 million respectively, which represented 9.3%, 7.8% and 8.9% of our total current assets respectively. Our average inventory turnover days were 60 days, 53 days and 41 days during the Track Record Period respectively.

We generally deliver our products to destinations specified by our customers in the relevant purchase agreements and/or orders. We typically outsource the delivery of our products to third-party shipping and logistics service providers based in the PRC. For our PRC customers, we generally bear the risk of any loss, other than those caused by the negligence of the shipping and logistic service provider, during transportation of our products to the customers. For our overseas customers, the risk and ownership of the products passes to our customer when the products are loaded on board at the port of shipment.

QUALITY CONTROL

Our quality control department is responsible for maintaining and operating our quality control system to ensure our products meet our customers' expectation and international industry standards. Our Group has established a quality management system which is certified to be in compliance with the requirements of ISO 9001:2008. Quality testing is conducted on the raw materials, semi-finished products and finished products.

Quality certifications

Our Group has obtained various international recognised industry standards and quality system certifications. Please refer to the paragraph headed “Awards and Accreditations” in this section for details of the quality certifications obtained by our Group.

To obtain such certifications, we submitted applications to the relevant accreditation organisations, and various tests such as heat resistance test and gas toxic property test were conducted to evaluate whether or not our products complied with the technical standards issued by the relevant accreditation organisations. For instance, our USCG Approved Phenolic Grating products surpassed both the Level 3 and Level 2 fire integrity tests conducted by the USCG, confirming that our FRP Phenolic Grating products are satisfactory for use in (i) exit routes and any areas that may require access for firefighting, rescue or emergency operations during exposure to or shortly after exposure to a transitory hydrocarbon or cellulosic fire; and (ii) open deck areas where groups of people are likely to assemble such as temporary safe refuge or lifeboat embarkation areas.

Quality control of incoming raw materials

Our suppliers are required to provide us with quality inspection reports and delivery notes for the raw materials they delivered. Our warehouse personnel checks the specifications, type and quantity of the raw materials and our technical department tests the raw materials with testing equipment to ensure the quality fulfils the prescribed quality standard on a sampling basis. Sub-standard raw materials will be returned to the suppliers for exchange.

Quality control in the production process and finished products

To ensure our products meet the specifications set out by our customers, our manufacturing department and quality control department conduct regular quality inspections on the semi-finished products and random checking on the finished products to ensure that the product quality adheres to the agreed production benchmarks and the relevant quality standards. The tests include, among others, combustion test, colouring test, thickness measurements and stratification test. Sub-standard products will either be returned to the manufacturing department for repair or be used to manufacture products for customers with less stringent requirements. Material problems identified would be directed to the manufacturing department for ratification.

Apart from testing our products with our own product testing equipment such as the combustion furnace and the rotation viscometer, we also send samples to third-party national and international testing centres specialising in product quality inspection to examine whether our products comply with the relevant standards and other requirements specified by our customers. For instance, we obtained test reports from the Intertek ETL SEMKO Testing Services in 2012, the National Fire Proof Building Materials Quality Testing Centre* (國家防火建築材料質量監督檢驗中心) in 2013, and the Guangzhou Institute of Measurement and Detection* (廣州計量檢測技術研究院) in 2014.

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During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material complaints or product liability or other legal claims involving problems relating to the quality of the products.

As at the Latest Practicable Date, our quality control department is led by our senior management Mr. Liu Dansheng and comprises three employees who possess on average approximately 4 years' related working experience. For details of Mr. Liu Dansheng's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus. We also provide employees with on-going training regarding the level of quality expected.

AWARDS AND ACCREDITATIONS

The following table sets out the major awards and accreditations received by our Group for high quality of our products:

Year of grant	Awards/Accreditations	Issued by	Valid till
2015	Haimen Science and Technology Progress Award 2014 (Third Prize)* (海門市科學技術進步獎2014(三等獎)) for our FRP Subway Evacuation Platform products	Haimen People's Government (海門市人民政府)	N/A
2014	Appointment as the the Nantong Urban Rail Transit Composite Materials Engineering Research Centre* (南通市城市轨道交通用複合材料工程研究中心)	Nantong Municipal Science and Technology Bureau* (南通市科學技術局)	N/A
2014	Jiangsu Province High-tech Enterprise Certification* (江蘇省高新技術企業認證)	Jiangsu Province Science and Technology Bureau* (江蘇省科學技術廳)	October 2017
2014	Certificate of Qualified Supplier	China Nuclear Industry 23 Construction Company Limited	December 2016

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Year of grant	Awards/Accreditations	Issued by	Valid till
2014	Certificate of Design Assessment for our moulded phenolic grating products and pultruded phenolic grating products	ABS	September 2019
2013	Type Approval Certificate confirming that our products comply with the relevant technical standards issued by DNV	DNV	December 2017
2013	Certificate of Approval (Level 2) for our pultruded products and moulded phenolic gratings products	USCG	January 2018
2012	Certificate of Design Assessment for our FRP Grating products	ABS	October 2017
2012	Certificate of Manufacturing Assessment for our FRP Grating products	ABS	September 2017
2011	Certificate for compliance with the requirements of ISO 9001:2008 quality management system standard for the manufacture of FRP (except licensing requirements)	EACC	March 2017

RESEARCH AND DEVELOPMENT

Our Directors believe that our research and development capabilities are essential to the future growth of our Group. Our technical department is led by Mr. Jiang. Mr. Jiang, an entrepreneur with a chemical engineering academic background, has accumulated over 27 years of working experience in the composite material industry, in particular more than 13 years of industrial experience in the FRP industry, by working in various companies in the composite material industry. Mr. Jiang is the inventor of the nine utility model patents that our Group has registered, and he was awarded the Haimen Science and Technology Progress Award 2014 (Third Prize – First Place)* (海門市科學技術進步獎2014 (三等獎) – 第一名) by the Haimen People’s Government* (海門市人民政府) in 2015. Mr. Jiang has been able to apply his experience and expertise in the composite material industry in the management of the Group. As a result, our Group has been able to conduct in-house research and development without incurring additional costs for the engagement of external consultants. Upon Listing, we plan to further enhance our research and development capability by procuring new testing equipment and recruiting additional full-time technical personnel. Please refer to the section headed “Future Plans and Use of Proceeds – Implementation Plan” in this prospectus for details. For details of Mr. Jiang’s qualifications and relevant experience, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

Our research and development is conducted in-house by our technical department. As at the Latest Practicable Date, we have 11 management and employees participating in our research and development process which consist of one core member from the technical department and 10 management and employees selected from other departments, including our executive Director Mr. Cheng Dong and our senior management Mr. Liu Dansheng who have accumulated over 10 years and 6 years of working experience in the FRP industry, respectively. The core member of our technical department, who holds a master’s degree in Engineering from the Nanjing University of Technology (南京工業大學) and possesses approximately three years of relevant experience, is responsible for coordinating with other departments for the formulation and execution of the research and development plans. Moreover, our research and development process also involves management and employees from other departments who are selected to share relevant observations and give suggestions during the research process. For instance, employees from the manufacturing department are selected to provide opinion on the practicality of new production methods and technology solutions being developed and employees from the sales and marketing department are selected to share their views on the market trends and convey feedbacks from the customers. Therefore, apart from our normal research and development effort, we have been able to develop new patents and accumulate know-hows from time to time during our production process and business operations.

We focus our research and development efforts on the (i) development of new products and (ii) development of new technology solutions to improve existing FRP products. Leveraging on market trend information gathered by our sales and marketing team and our participation in drafting the PRC industry standards, we constantly keep track of developments and trends in the FRP industry worldwide. During the years, we have closely followed up with the PRC government’s macroeconomic stimulus when carrying out the research and

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development works. In respond to the latest “Belt and Road Initiatives” promulgated by Chinese government, we have focused our research and development efforts on developing new and improving products with potential to be used in the infrastructure projects. As a result, we have developed several new products such as the FRP Subway Evacuation Platform products and Epoxy Wedge strip products. As at the Latest Practicable Date, we have registered nine utility model patents in the PRC. We are currently developing new products such as composite crossties for the use in railways.

Our Group was awarded the Jiangsu Province High-tech Enterprise Certification* (江蘇省高新技術企業認證) by the Jiangsu Province Science and Technology Bureau* (江蘇省科學技術廳) in 2014. To obtain such certification, we had to met certain criterion set by the Jiangsu Province Science and Technology Bureau. Furthermore, the Group has been appointed as the Nantong Urban Rail Transit Composite Materials Engineering Research Centre* (南通市城市轨道交通用複合材料工程研究中心) by the Nantong Municipal Science and Technology Bureau* (南通市科學技術局) since 2014. Our Directors believe that such award and appointment served as endorsements of our strong research and development capabilities. For the two years ended 31 December 2015 and the six months ended 30 June 2016, our research and development costs amounted to approximately RMB1.1 million, RMB2.4 million and RMB0.5 million respectively, representing approximately 2.0%, 4.2% and 1.9% of our total revenue respectively. We recognised such expenditure on research activities as research and development costs. Such costs largely include staff costs, consumables used for research and development and the application fees for patents. By integrating our research efforts with our daily production operations such research and development model enabled us to develop practicable FRP products and production technology without having the need to incur substantial amount of research and development cost.

During the Track Record Period and up to the Latest Practicable Date, our additional research and development expenditure for the development our new composite crossties products amounted to approximately RMB1.2 million. Moreover, we estimate that the research and development expenditure for the year ending 31 December 2016 will be approximately RMB2.5 million, which will generally be used for the enhancement of our existing pultrusion production process and the procurement of relevant testing equipment and raw materials in relations to the FRP crosstie product development.

MARKET AND COMPETITION

PRC FRP Products Market

According to the Sullivan Report, the PRC FRP products market grew at a CAGR of 9.0% from 2010 to 2015. While the growth of the PRC FRP products market slowed down in 2013, the industry has continued to experience stable growth and the market size reached RMB122.6 billion in 2015.

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As stated in the Sullivan Report, in addition to the traditional use of FRP products, there will be great potential for FRP products to be utilised in the field of aerospace, energy and transportation industries. Therefore, Sullivan estimated that the FRP products market in the PRC will grow steadily at a CAGR of 6.7% from 2015 to 2019. In particular, due to further expansion in resource development, decrease in cost of using wind power and the development of domestic urban metro transit, the Epoxy Wedge Strip segment and the FRP Subway Evacuation Platform segment are expected to grow rapidly at CAGR of 17.7% and 15.5% from 2015 to 2019, respectively. Leveraging the forecasted rapid growth of the Epoxy Wedge Strip and FRP Subway Evacuation Platform segments and our increased effort in consolidating our market position by developing such segments which we are an early market entrant with competitive advantages over our competitors, our Directors are of the view that our Group has much growth potential in the industry we are engaged in.

Foreign FRP Products Market

According to the Sullivan Report, the U.S.'s FRP imports declined from 2010 to 2013 and then recovered strongly from US\$99.6 million in 2013 to US\$155.2 million in 2015 with its recovering economy and the market size of all grating products made of FRP composites in the U.S. increased from US\$413.5 million in 2010 to US\$495.8 million in 2015, at a CAGR of 3.7%. Moreover, while the U.K.'s FRP imports declined at a CAGR of 6.2% from 2010 to 2015, the U.K. has also witnessed similar growth trend as the U.S. in the FRP product markets. From 2010 to 2015, the market size of all grating products made of FRP composites in the U.K. increased from US\$19.2 million to US\$23.4 million, at a CAGR of 4.0%.

As stated in the Sullivan Report, the U.S. economy has been recovering strongly in recent years, which is attracting more investments on fixed assets in the manufacture industries. Also, plunging oil prices since 2014 fuelled the chemical industry in the U.S.. As a result, new investments on factories and refurbishment are expected to grow, which will raise the demand for all grating products made of FRP composites. The market of all grating products made of FRP composites in the U.S. will also benefit from metro system refurbishment and upgrading plans in some cities. Sullivan estimated that the market of all grating products made of FRP composites in the U.S. will grow at a CAGR of 2.7% from 2015 to 2019. Furthermore, as the U.K. government has plans to upgrade the metro system in considerable scale in the next five years, it is likely that there will be large demand of FRP Subway Evacuation Platforms. Sullivan estimated that the market of all grating products made of FRP composites in the U.K. will grow at a CAGR of 3.4% from 2015 to 2019.

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Competitive Analysis

The FRP industry in the PRC is relatively fragmented. As stated in the Sullivan Report, in 2015, there were more than 10,000 FRP product manufacturers in the PRC, while only over 1,000 FRP manufacturers have an annual revenue of over RMB10.0 million. The respective top five players of all grating products made of FRP composites in the PRC in 2015, the details of which are set out in the section headed “Industry Overview – Competitive Landscape – Top five players of the FRP grating sector in China” in this prospectus, contributed to approximately 8.5% of the total sales revenue of all grating products made of FRP composite in the PRC. According to the Sullivan Report in 2015, we were among the top 1.0% of the FRP manufacturers in the PRC in terms of production capacity and revenue generated with a market share of approximately 0.05% in the FRP market in the PRC. Furthermore, we ranked first in the FRP Grating products market in the PRC in 2015 in terms of revenue (approximately RMB44.0 million) with a market share of approximately 1.4% and ranked third in the market of all grating products made of FRP composites in the PRC in 2015 in terms of revenue (approximately RMB50.5 million) with a market share of approximately 1.6%. In addition, we ranked third in the USCG Approved Phenolic Grating products market, fourth in the FRP Subway Evacuation Platform product market, and second in the Epoxy Wedge Strip products market in the PRC in terms of sales revenue in 2015.

According to the Sullivan Report, brand loyalty, large investment and waste disposal are the major entry barriers for new manufacturers. Please refer to the section headed “Industry Overview – Entry Barriers” in this prospectus for further details.

LICENSES AND PERMITS

Our PRC Legal Advisors have confirmed that we have obtained all necessary licenses and permits for our operations as required by PRC laws and all such licenses and permits were valid as of the Latest Practicable Date.

During the Track Record Period, we did not encounter any difficulty or impediment in renewing our operating license and permits, nor the PRC Legal Advisors is aware of any material legal impediments in the continuous operation of the Group. Our Directors are also of the view that there are no material impediments for our Group to renew any of the existing licenses and permits upon their expiry.

ENVIRONMENTAL PROTECTION

Our Group’s operations are subject to certain environmental requirements pursuant to the laws and regulations of the PRC, the details of which are set out in the section headed “Regulatory Overview – Laws and Regulations in relation to Environmental Protection” in this prospectus.

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The major pollutants of our manufacturing processes include gas emission, dust, noise and solid wastes, which are generated in compliance with all applicable environmental laws, regulations and standards during the Track Record Period and up to the Latest Practicable Date. We are committed to minimising any negative impact on the environment which may be resulted from the production process and we have adopted various measures to achieve this objective in our daily operation, including:

- setting environmental goals and objectives and regularly reviewing such goals and objectives;
- encouraging the reduction in gas emission, dust, noise and solid waste during the production process;
- using steam instead of coal-fired boiler for heating;
- installing activated carbon filtration units and planting trees around the production facilities to reduce air emission;
- establishing a recycle system for recurring use of scraps in our production process;
- engaging qualified third parties to dispose of solid wastes; and
- providing training to our employees once a year to ensure that they work in an environmentally friendly and responsible manner.

Further, we engaged Haimen Institute of Environmental Sciences* (海門市環境科學研究所) to conduct environmental impact assessment on our production facilities in August 2014 and our production facilities have passed the inspection of Haimen Municipal Environmental Protection Bureau* (海門市環境保護局) in July 2015. As advised by the PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had no material non-compliance or violation on any relevant laws and regulations of the PRC on environmental protection.

As at the Latest Practicable Date, the expenditure, earnings and competitive position of our Group have not been materially affected by the relevant laws and regulations. Our Directors consider that there will not be any material capital expenditure for environmental control facilitates in the foreseeable future. The costs of compliance with relevant environmental laws and regulations of our Company for the two years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB9,600, RMB14,800 and RMB8,400 respectively.

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OCCUPATIONAL HEALTH AND SAFETY

We have adopted an occupational health and safety system to comply with the relevant occupational health and safety laws and regulations imposed by the government authorities in the PRC, the details of which are set out in the section headed “Regulatory Overview – Labourers and Social Insurance – The Labour Law” in this prospectus. In addition, we have obtained the Security Officer Certificate* (安全員證) issued by the Haimen Administration of Work Safety* (海門市安全監督管理局) in 2015.

Our Group has implemented the following occupational health and safety measures to maintain a safe working environment:

- guidelines for operation and safety control procedures are documented and distributed to all employees;
- our employees are provided with protective equipment such as gloves, dust masks, helmets and dust proof goggles;
- inspection and maintenance of our equipment and facilities are conducted regularly to identify and eliminate safety hazard;
- health and work safety compliance records are maintained at our office; and
- trainings are provided to our employees once a year to raise their awareness as to occupational safety.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there were no material work-related injuries or fatalities at our production facilities, and no prosecution has been made against us by the relevant government authorities in the PRC in respect of the breach of applicable health and safety laws and regulations.

PROPERTIES

As at the Latest Practicable Date, we owned two properties in the PRC, one of which is located in Haimenzhen, Haimen, Nantong, Jiangsu, the PRC, comprising a parcel of land with a site area of 20,000 m² on which our production plant, warehouse and office are erected. The land use rights of the property have been granted for a term expiring on 31 August 2056. Our workshops, warehouse and office, excluding a small ancillary facilities area of approximately 35.1 m², have a total gross floor area of approximately 7,347 m², 1,356 m² and 3,938 m², respectively.

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In order to recover overdue trade receivables amounting to approximately RMB1.3 million from a customer (the “Chengdu Customer”), on 23 November 2015, Nantong Meigu entered into a settlement agreement (以房抵款協議) with the Chengdu Customer, pursuant to which the Chengdu customer agreed to assign a residential property located in Jinniu District, Chengdu, Sichuan, the PRC with a total area of 229.2 m² (the “Sichuan Property”) to Nantong Meigu in lieu of payment. As advised by our PRC Legal Advisers, we have obtained the title to the Sichuan Property. The land use rights of the Sichuan Property have been granted for a term expiring on 15 March 2069. We intend to sell the Sichuan Property as soon as practicable. As at 30 September 2016, this property is valued at approximately RMB1.6 million.

As confirmed by our PRC Legal Advisers, save as disclosed in the paragraph headed “Compliance and Legal Proceedings” in this section, we have complied with applicable land laws and regulations of the PRC in all material respects during the Track Record Period.

Except for the property interests in the property valuation report in Appendix III to this prospectus, no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

For details of the properties owned by our Group as at the Latest Practicable Date, please refer to the property valuation report from the independent professional valuer as include in Appendix III to this prospectus.

INTELLECTUAL PROPERTIES

We rely on a combination of patents, trademark and domain names registrations to protect our intellectual property rights, which are of fundamental importance to our business.

As at the date of this prospectus, we have nine registered patents in the PRC, all of which are utility model patents, one registered trademark in the PRC and one registered trademark in Hong Kong. We have also registered three domain names in the PRC.

Further details of our intellectual property portfolio, including our patents, trademark and domain names, are provided in the paragraph headed “Statutory and General Information – B. Further Information About The Business – 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not involved in any proceedings with regard to, and we have not received notice of any claims of, infringement of any intellectual property rights that may be threatened or pending in which we may be involved either as a claimant or respondent.

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EMPLOYEES

As at the Latest Practicable Date, our Group had 120 employees who all stationed in the PRC. The following table sets forth the breakdown of our employees by functions:

	As at 31 December		As at 30	As at
	2014	2015	June 2016	the Latest Practicable Date
Management	4	4	4	4
Manufacturing	119	100	94	95
Sales and Marketing	8	8	7	8
Procurement	1	1	1	1
Technical	2	2	2	2
Quality Control	3	3	2	3
Accounting and Finance	2	2	2	2
Office	7	5	5	5
	<u>146</u>	<u>125</u>	<u>117</u>	<u>120</u>
Total	<u>146</u>	<u>125</u>	<u>117</u>	<u>120</u>

The number of our employees decreased from 146 as at 31 December 2014 to 125 as at 31 December 2015, and further decreased to 117 as at 30 June 2016. The decrease was mainly due to the increase in the degree of automation of our production process for the production of our FRP Grating products and USCG Approved Phenolic Grating products. The number of our employees subsequently increased to 120 as at the Latest Practicable Date, primarily because we hired more manufacturing personnel in anticipation of the increase in purchase orders for our Epoxy Wedge Strip products.

We generally recruit employees based on, among others, education background, capability and relevant working experiences. We provide training to new employees and they will be assigned to experienced employees as part of their mentorship programme and on-the-job training.

We offer different remuneration packages to our employees in accordance with their functions. Our sales and marketing personnel's remuneration packages generally include basic salary, commission and year-end bonus. Our mid to low level management personnel and technical personnel are paid basic salary, additional salary with reference to their respective positions in our Group and their performance and year-end bonus. For manufacturing staff, we adopt a piece-rate compensation system and the staff members are paid based on the number of products they produced. Other supporting staff members are paid fixed salary. The basic salaries of our employees are generally determined by the employees' working experience and education level. We review the remuneration packages on an annual basis to determine whether any adjustment should be made. During the Track Record Period, our staff costs incurred for the two years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB9.0 million, RMB9.0 million and RMB5.0 million respectively.

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During the Track Record Period, our Group had not experienced any significant difficulties in recruiting employees, and had not experienced any significant staff or labour disputes. Our Directors confirm that our Group's relationship with our employees is satisfactory in general. Our Directors consider that the management policies, working environment, career prospects and benefits extended to our employees have contributed to building a good employee relations and employee retention. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by our employees. As of the Latest Practicable Date, there had been no labour dispute that materially and adversely affected our operations.

INSURANCE

During the Track Record Period, the insurance coverage obtained by our Group included general insurance for our Group's fixed assets and social insurances for our employees.

We have maintained insurance in respect of potential damage to our production plant, facilities, machinery equipment and vehicles. We believe that our current insurance coverage is standard with respect to the type and scope of coverage for companies of comparable size in the FRP industry in the PRC.

Certain types of risks, such as the risk in relation to the collectability of our trade receivables and liabilities arising from events such as epidemics, natural disasters, adverse weather conditions, political unrest and terrorist attacks, are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks.

Our Group does not carry any insurance to cover product liability claims as product liability insurance is not required under the current PRC laws. We mitigate our product liability risks by adopting quality control measures during the course of production to ensure that the finished FRP products comply with the relevant standards and specifications required by our customers. Our Directors consider that our Group's insurance coverage is consistent with the industry practice.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material complaints, product claims or product recall, and, so far as we are aware of, we had not contributed to any product claims or product recall of our customers.

As required by the relevant PRC laws and regulations, our Group participates in the social security system for our employees. During the Track Record Period, there were no insurance claims by our employees. As confirmed by our PRC Legal Advisers, we have complied with applicable labour laws and social welfare laws and regulations of the PRC in all material respects during the Track Record Period.

LIQUIDITY RISK

While our suppliers generally grant us a credit term of 60 to 180 days from date of billing invoices, we generally give credit terms ranging from cash on delivery to one year after billing date to our customers. As a result, there are often time lags between receiving payments from our customers and making payments to our suppliers, resulting in potential cash flow mismatch. The extent of such cash flow mismatch is illustrated by the differences between our trade payables turnover days and trade receivable turnover days. For the two years ended 31 December 2015 and the six months ended 30 June 2016, our trade payable turnover days were approximately 101 days, 98 days and 100 days respectively and our trade receivables turnover days were approximately 158 days, 187 days and 187 days respectively, which are further discussed in the section headed “Financial Information” in this prospectus.

In order to manage our liquidity position in view of such potential cash flow mismatch, we have adopted the following measures:

- (i) our accounting and finance department is responsible for the overall monitoring of our current and expected cash flow regularly to ensure that we maintain sufficient financial resources for our operation;
- (ii) we have implemented certain internal control measures to improve the efficiency in the collection of trade receivables, including linking up the sales staff’s compensation with the amount of receivables collected each month and setting up the monthly trade receivable analysis mechanism. For details, please refer to the paragraph headed “Internal Control and Risk Management” in this section; and
- (iii) in the event that our accounting and financial department determines that there is a potential shortage of internal financial resources, we will consider different financing alternatives, including but not limited to obtaining short-term financing from banks and other financial institutions.

HEDGING

Our Group is exposed to foreign exchange risk primarily through sales which give rise to receivables and cash balances that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily US\$, which was attributable to sales transactions entered into by the Group with overseas customers. Having considered the level of our current exposure to foreign exchange risk, we have adopted the following measures to mitigate such risk:

- (i) our accounting and finance department would closely monitor the movement of relevant exchange rates to ensure that the net exposure is kept to an acceptable level;
- (ii) quotations provided to our overseas customers are generally valid for one to three months only;

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- (iii) in the event that the relevant exchange rates fluctuate more than 5.0%, our Directors and senior management would be notified such that appropriate actions could be carried out in a timely manner to address any foreign exchange risks;
- (iv) if the fluctuation in the relevant exchange rates exceeds 8.0% for more than two months, we would adjust our pricing accordingly to reflect such change; and
- (v) our Directors would regularly review the analysis prepared by our accounting and finance department and assess whether there is any material and adverse impact on our financial performance and whether we should enter into any hedging or derivative financial instruments to manage such foreign exchange risk exposures.

We are generally able to pass on the cost arising from exchange rate fluctuations to our customers by adjusting our pricing due to (i) our established and leading position in the FRP industry in the PRC, and (ii) our efforts in maintaining good relationship with our customers, such as providing value-added service relating to our products and visiting existing customers regularly.

As at the Latest Practicable Date, we had no intention to enter into any foreign exchange hedge transactions.

As (i) our Group has adopted the above measures and a pricing policy which takes into account the anticipated change in exchange rate and (ii) we were able to maintain our gross profit margin at approximately 35.6%, 37.7% and 34.2% for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively, our Directors consider that our exposure to foreign exchange risk is insignificant and it is not necessary to adopt any hedging strategy.

COMPLIANCE AND LEGAL PROCEEDINGS

Non-compliance

The table below sets out summaries of certain incidents of our historical non-compliance with applicable laws and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have material adverse effects on our business, operation and financial condition.

Non-compliance in relation to property

Particulars of non-compliance	Reasons for non-compliance	Remedial actions and internal control measures	Potential maximum penalty/fine and analysis of the risk to our Company
<p>During the Track Record Period, we had not obtained the building ownership certificate construction permit (施工許可) and completion (建設工程竣工收證) for a property (the “Property”) with an aggregate gross floor area of approximately 1,355.7 sq.m. located at 66 South Oujiang Road, Haimen, Jiangsu, the PRC (being approximately 10.7% of the total factory floor area), which was in contravention of the Construction Quality Management Regulations 《建設工程質量管理條例》 (the “Construction Regulations”).</p>	<p>The non-compliance was due to:</p> <p>(i) unfamiliarity of our management at the relevant time with the relevant regulatory requirements;</p> <p>(ii) reliance on the constructor of the Property who agreed to apply for the required certificates for us; and</p> <p>(iii) the issue of the certificates took longer than expected and we entered into sales contracts with customers according to the expected schedule.</p>	<p>We obtained the building ownership certificate on 6 February 2016, construction permit on 31 December 2015 and certificate of practical completion on 25 January 2016 in accordance with the relevant laws and regulations.</p> <p>We have been imposed a fine of RMB11,400 in relation to failure to obtain the construction permit on 29 December 2015, which was settled by us by 18 February 2016.</p> <p>Mr. Jiang and Mr. Shen have executed an undertaking (the “Undertaking”) dated 16 March 2016 stating that in the event that Nantong Meigu suffers any penalties, economic loss or any other expenses are incurred as a result of the failure to obtain the construction permit and certificate of practical completion in accordance with the relevant laws and regulations, they would unconditionally assume and pay such costs for and on behalf of Nantong Meigu.</p> <p>Provision has not been made for the potential penalty and fines since our Controlling Shareholders have provided the Undertaking and our PRC Legal Advisers are of the view that the risk of us being imposed fines and ordered to cease production and demolish the Property as a result of the aforesaid non-compliance is relatively low and we have obtained all necessary certificates in relation to the Property as at the Latest Practicable Date.</p>	<p>According to the Construction Regulations, the relevant PRC authorities may demand us to assume the following legal responsibility:</p> <p>(i) for failure to obtain the construction permit, we (a) may be ordered to cease construction before a stipulated deadline if the construction permit has not been obtained or the construction report has been disapproved; and (b) may be imposed a fine exceeding 1% and not exceeding 2% of the total construction cost of RMB1.14 million under the construction contract; and</p> <p>(ii) for failure to obtain the certificate of practical completion, we (a) may be ordered to rectify the non-compliance if we commenced usage of the Property; and (b) may be imposed a fine exceeding 2% and not exceeding 4% of the total construction cost of RMB1.14 million, i.e. RMB22,800 to RMB45,600.</p>

Our Group used the Property as one of our production sites for our Epoxy Wedge Strips productions. We estimate that the total revenue derived from the Property was approximately RMB0.1 million and RMB2.4 million, representing approximately 0.3% and 4.3% of the total revenue of our Group for each of the two years ended 31 December 2014 and 2015, respectively.

Particulars of non-compliance

Reasons for non-compliance

Remedial actions and internal control measures

Potential maximum penalty/fine and analysis of the risk to our Company

Starting from January 2016, our Group has implemented enhanced internal control procedures for ensuring compliance with the relevant laws and regulations in relation to properties owned and/or occupied by our Group, including:

(i) our Directors and senior management attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by our legal advisers. Upon Listing, we will continue to arrange various trainings to be provided by the legal advisers engaged by us and/or any appropriate accredited institution to update the knowledge of our Directors, senior management and relevant employees on the relevant laws and regulations on at least an annual basis;

(ii) we have designated Ms. Shi, our executive Director and compliance officer, to oversee and ensure the compliance of the properties owned and/or occupied by our Group in accordance with the relevant laws and regulations. For details of the compliance experience of Ms. Shi and her involvement in our Company's non-compliance incidents, please refer to the paragraph headed "Compliance officer" in this section. When we intend to acquire, lease and/or construct land and/or property(ies) in the future, she shall submit a report on the procedures and status on obtaining the necessary permits and/or certificates to the Board for approval;

Based on:

- (i) the confirmation dated 21 September 2016 and issued by the Urban-Rural Planning Bureau of Haimen City (海門市住房和城鄉建設局) (the "Planning Bureau"), the relevant and competent government authority as advised by our PRC Legal Advisers, stating that it has imposed a fine of RMB11,400 on Nantong Meigu for commencement of construction of the Property before having obtained the construction permit, and the penalty has been completed;
 - (ii) the confirmation dated 21 September 2016 and issued by the Planning Bureau stating that it has not imposed any penalties or proceedings as a result of Nantong Meigu's failure to obtain the building ownership certificate and certificate of practical completion prior to commencement of usage of the property before 5 February 2016;
 - (iii) save for the fine of RMB11,400 imposed on us in relation to the failure to obtain the construction permit, no penalty had been imposed on us as a result of the failure to obtain the building ownership certificate and certificate of practical completion as at the Latest Practicable Date;
 - (iv) we have obtained all necessary certificates in relation to the Property as at the Latest Practicable Date; and
 - (v) the Undertaking executed by Mr. Jiang and Mr. Shen,
- our PRC Legal Advisers advised that the risk of us being ordered to cease production and demolish the Property as a result of the aforesaid non-compliance is relatively low and the chance of adverse effects of the aforesaid non-compliance on our existence, operation and production is relatively low.

Particulars of non-compliance

Reasons for non-compliance

Remedial actions and internal control measures

Potential maximum penalty/fine and analysis of the risk to our Company

- (iii) we will consult legal advisers to ensure all necessary permits and/or certificates are obtained when our Group acquires, leases and/or constructs land and/or properties after Listing; and
- (iv) the title documents obtained including the relevant certificates and permits in relation to the properties owned and/or occupied by our Group shall be passed to the administration department for keeping, which will also maintain a checklist of such certificates and permits.

As advised by our PRC Legal Advisers, the Planning Bureau is the relevant and competent government authority of Nantong Meigu, which has the authority to issue a confirmation in respect of the aforesaid non-compliance, and the possibility that the confirmation issued by the Planning Bureau will be challenged by higher level of governmental authority is not high based on the following:

- (i) according to the Construction Regulations, the construction administration department or other relevant authorities of the people's government which are above county level shall strengthen supervision and management of construction quality. The Planning Bureau is a government authority which is above county level;
- (ii) the functions of the Planning Bureau include the implementation of the urban planning, rural planning, urban construction, rural construction, housing and real estate industry of Nantong City, the province and the nation; the rules, regulations, administrative measures and mandatory technical standards for municipal public affairs; formulation and implementation of the regulations of the city, as well as unified supervision and administration of the construction market of the city, reviewing, managing and attending construction permission and completion matters; and

- (iii) we have obtained all necessary certificates in relation to the Property as at the latest Practicable Date.

The total estimated cost of relocating the production facilities from the Property is approximately RMB18,000.

Our Directors are of the view the production can be quickly relocated and resumed in a period of up to one week, which would not have any material impact on our Epoxy Wedge Strip productions.

Non-compliance in relation to provision of loans to related parties

Particulars of non-compliance	Reasons for non-compliance	Remedial actions and internal control measures	Potential maximum penalty/fine and analysis of the risk to our Company
<p>During the Track Record Period, we had advanced to Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司), Nantong Jianke and Sichuan Rike Electronics Company Limited* (四川日科電子有限公司) (collectively, the “Borrowers”) certain loans in an aggregate amount of approximately RMB9.1 million (the “Loan”), which were interest bearing at rates ranging from 6.43% to 7.6% per annum, which was in contravention of the Lending General Provisions* (《貸款通則》) (the “Lending Provisions”).</p> <p>The total interest income derived from the Loan was approximately RMB1.5 million.</p>	<p>The reason of advancing the Loan was to allocate funds to meet the capital needs of the companies controlled by our then Shareholders at the relevant time.</p> <p>The non-compliance was due to unawareness of our management at the relevant time of the Lending Provisions and the lack of understanding on the relevant regulatory requirements.</p>	<p>As at 31 December 2015, the Loan was repaid and the loan arrangement between us and the Borrowers was terminated.</p> <p>Mr. Jiang and Mr. Shen have executed an undertaking (the “Undertaking”) dated 16 March 2016 stating that in the event that (i) the People’s Bank of China (Haïmen City) or other competent PRC authorities imposes penalties on Nantong Meigu, they will unconditionally pay such penalties for and on behalf of Nantong Meigu; and (ii) Nantong Meigu suffers any economic loss or any other expenses are incurred as a result of the aforesaid non-compliance, they will unconditionally assume and pay such costs for and on behalf of Nantong Meigu.</p> <p>Provision has not been made for the potential fines since our Controlling Shareholders have provided the Undertaking and our PRC Legal Advisers are of the view that the risk of us being imposed fines as a result of the aforesaid non-compliance is relatively low.</p>	<p>According to the Lending Provisions, we may be subject to a fine in an amount of one to five times of the income derived from the Loan. As the interest income from the Loan received by us amounted to RMB1,540,695, the maximum fine would be RMB7,703,475.</p> <p>Based on:</p> <p>(i) our confirmation that (a) provision of the Loan was not for the purpose of earning profits because (1) it was made for the development and operational needs of the Borrowers pursuant to their actual needs; and (2) the interest rate of the Loan was the same as the interest rate of the bank loans obtained by our Group and as such, the interest income from the Loan was used to repay the interest-bearing bank loans and our Group did not make profits by providing the Borrowers with the Loan; and (b) the non-compliance was due to unfamiliarity of our management at the relevant time with the relevant regulatory requirements;</p>
			<p>(ii) the Undertaking executed by Mr. Jiang and Mr. Shen;</p>
			<p>(iii) the Loan has been repaid and the loan arrangement between us and the Borrowers has been terminated as at the Latest Practicable Date; and</p>

Particulars of non-compliance	Reasons for non-compliance	Remedial actions and internal control measures	Potential maximum penalty/fine and analysis of the risk to our Company
		<p>Starting from January 2016, our Group has implemented enhanced internal control procedures for ensuring compliance with the relevant laws and regulations in relation to provision of loans by our Group, including:</p> <p>(i) our Directors and senior management attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by our legal advisers. Upon Listing, we will continue to arrange various trainings to be provided by the legal advisers engaged by us and/or any appropriate accredited institution to update the knowledge of our Directors, senior management and relevant employees on the relevant laws and regulations on at least an annual basis;</p> <p>(ii) we have designated Ms. Shi, our executive Director and compliance officer, to oversee all lending transactions and advances to be made by any member of our Company and ensure that the provision of loan to related parties in breach of the Lending Provisions would not happen going forward. For details of the compliance experience of Ms. Shi and her involvement in our Company's non-compliance incidents, please refer to the paragraph headed "Compliance officer" in this section; and</p> <p>(iii) we have established (a) an internal control procedure to prohibit advances to related parties including but not limited to our Shareholders, management and related companies; (b) internal authorisation and duty segregation procedures to ensure all relevant laws and regulations are fully complied with; and (c) enhanced our monitoring measures by conducting regular aging analysis and special analysis of trade receivables and other receivables, and if necessary, evaluating the possibility of making relevant provisions.</p>	<p>(iv) the confirmation dated 29 September 2016 and issued by the People's Bank of China (Haimen City), the relevant and competent government authority as advised by our PRC Legal Advisers, stating that having enquired into the credit record of Nantong Meigu, it has not discovered any records of penalty imposed on Nantong Meigu as a result of non-compliance with the laws, regulations and any other regulatory documents,</p> <p>our PRC Legal Advisers advised that the risk of us being imposed any penalty as a result of the aforesaid non-compliance is relatively low and the chance of adverse effects of the aforesaid non-compliance on our existence, operation and production is relatively low.</p>

Non-compliance in relation to bill arrangements

Particulars of non-compliance	Reasons for non-compliance	Remedial actions and internal control measures	Potential maximum penalty/fine and analysis of the risk to our Company
<p>During the Track Record Period, we were involved in the transfer of bank accepted bills with an amount of approximately RMB2.4 million (the “Bills”) with Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司) (“Nantong Sancon”) without underlying transactions, which was in contravention of the Negotiable Instruments Law of the PRC* (《中華人民共和國票據法》) (the “Instruments Law”).</p>	<p>Nantong Sancon transferred the Bills to us in return for our cash payment as certain of our third party suppliers required settlement of our purchase orders by way of bank acceptance bills issued by a particular bank, to which Nantong Sancon had applied for issuance of the bank acceptance bills. As such, we obtained the Bills from Nantong Sancon without underlying transactions for the purpose of settlement of the amounts payable to our third party suppliers but not for profit purpose. The non-compliance was therefore due to inadvertent mistake and unfamiliarity of our management at the relevant time with the relevant regulatory requirements.</p>	<p>The Bills arrangement has ceased by June 2015 and there has not been any disputes in relation to the Bills between us and Nantong Sancon and/or any other third party(ies) as at the Latest Practicable Date.</p> <p>Mr. Jiang and Mr. Shen have executed an undertaking (the “Undertaking”) dated 16 March 2016 stating that in the event that (i) the People’s Bank of China (Haimen City) or other competent PRC authorities imposes penalties on Nantong Meigu, they will unconditionally pay such penalties for and on behalf of Nantong Meigu; and (ii) Nantong Meigu suffers any economic loss or any other expenses are incurred as a result of the aforesaid non-compliance, they will unconditionally assume and pay such costs for and on behalf of Nantong Meigu.</p> <p>Provision has not been made for the potential fines since our PRC Legal Advisers are of the view that no provision(s) of the Instruments Law on penalty is applicable to the aforesaid non-compliance and the risk of us being imposed any penalty as a result of the aforesaid non-compliance is relatively low.</p>	<p>As advised by our PRC Legal Advisers, no provision(s) of the Instruments Law on penalty is applicable to the aforesaid non-compliance given that no fraud was intended or committed in relation to the transfer of the Bills.</p> <p>Based on:</p> <ul style="list-style-type: none"> (i) the confirmation from the ultimate beneficial owners, directors, supervisor and senior management of Nantong Meigu that (a) the Bills were used for settlement of the payments to third party suppliers but not for any other purposes; and (b) the ultimate beneficial owners, directors, supervisor and senior management of Nantong Meigu have not obtained any personal benefits from the Bills arrangement; (ii) the Undertaking executed by Mr. Jiang and Mr. Shen; (iii) the Bills arrangement has ceased by June 2015 and the Bills have been settled in full and there has not been any disputes in relation to the Bills between us and Nantong Sancon and/or any other third party(ies) as at the Latest Practicable Date;

Particulars of non-compliance	Reasons for non-compliance	Remedial actions and internal control measures	Potential maximum penalty/fine and analysis of the risk to our Company
		<p>Starting from January 2016, our Group has implemented enhanced internal control procedures for ensuring compliance with the relevant laws and regulations in relation to bill arrangements, including:</p> <p>(i) our Directors and senior management attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by our legal advisers. Upon Listing, we will continue to arrange various trainings to be provided by the legal advisers engaged by us and/or any appropriate accredited institution to update the knowledge of our Directors, senior management and relevant employees on the relevant laws and regulations on at least an annual basis;</p> <p>(ii) we have designated Ms. Shi, our executive Director and compliance officer, to oversee the payment by our Group to suppliers or any other third parties and ensure that bank accepted bills will only be used to settle payments if there are underlying transactions in accordance with the Instruments Law. For details of the compliance experience of Ms. Shi and her involvement in our Company's non-compliance incidents, please refer to the paragraph headed "Compliance officer" in this section; and</p> <p>(iii) our accounts department has established an internal procedure which prohibits the transfer of bank accepted bills without underlying transactions.</p>	<p>(iv) our undertaking that (a) all of our bill arrangements will be made in accordance with the Instruments Laws and any other applicable laws and regulations; and (b) we will not involve in any bill arrangements which do not comply with the Instruments Laws and any other applicable laws and regulations; and</p> <p>(v) the confirmation dated 29 September 2016 and issued by the People's Bank of China (Haimen City), the relevant and competent government authority as advised by our PRC Legal Advisers, stating that having enquired into the credit record of Nantong Meigu, it has not discovered any records of penalty imposed on Nantong Meigu as a result of non-compliance with the laws, regulations and any other regulatory documents,</p> <p>our PRC Legal Advisers advised that the risk of us being imposed any penalty as a result of the aforesaid non-compliance is relatively low and the chance of adverse effects of the aforesaid non-compliance on our existence, operation and production is relatively low.</p>

Compliance officer

Ms. Shi is the compliance officer of our Group. She joined our Group as a deputy executive officer in October 2015 and had no involvement in our non-compliance events during the Track record Period. Ms. Shi is a non-practising member of the Chinese Institute of Certified Public Accountants and has over 20 years of accounting experience in the industry sector, further details of which are set out in the section headed “Directors, Senior Management and Employees” in this prospectus. Based on her accounting background and experience, Ms. Shi accumulates knowledge and understanding on the relevant PRC laws and regulations with respect to our Group’s operation. Moreover, in preparation for the Listing, Ms. Shi attended and will after Listing continue to attend legal and compliance training provided by the legal advisers to our Company which covered and will cover, among other matters, corporate governance, directors’ responsibilities, compliance with the GEM Listing Rules, the Companies Ordinance, the SFO, and other relevant laws and regulations which is related to our Group’s operations. Ms. Shi had also been involved in the review process covering a period from 1 January 2015 to 30 November 2015 conducted by the independent internal control consultant regarding the internal control system and supervised the implementation of the recommendations made by the independent internal control consultant.

Our company secretary, Mr. Ng Chi Ho, Dennis, who is a chartered accountant of The Chartered Accountants Australia and New Zealand, an associate of the Hong Kong Institute of Company Secretaries and a fellow member of the Hong Kong Institute of Certified Public Accountants, will also assist Ms. Shi in overseeing the compliance matters. Our Group has also engaged KGI Capital Asia Limited as the Compliance Adviser upon Listing to advise our Group on compliance matters in accordance with the GEM Listing Rules. Our Company will arrange annual legal and compliance training prepared by qualified professionals for our Directors and senior management after the Listing.

Taking into account (i) the qualifications and experience of Ms. Shi; (ii) the legal and compliance training attended and to be attended by Ms. Shi; (iii) assistance from the company secretary and external professionals, including legal advisers and the Compliance Adviser; and (iv) various internal control measures as mentioned in the paragraph headed “Internal control and risk management” in this section, our Directors are of the view that Ms. Shi is capable of discharging her duties as the compliance officer.

Legal proceedings

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

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INTERNAL CONTROL AND RISK MANAGEMENT

In order to enhance the effectiveness of our internal control system, we engaged an independent internal control consultant (the “**IC Consultant**”) to perform a review on the internal control system of our Group. The IC Consultant completed an initial review in December 2015 covering a period from 1 January 2015 to 30 November 2015. After completion of such review, the IC Consultant provided a summary of key findings and recommended remedial measures to our Company. The IC Consultant then completed a follow-up review on 18 March 2016 (the “**Follow-up Review**”) after the Company implemented the recommended remedial measures. The table below sets forth the major weaknesses and the rectification status of our implementation of the remedial measures:

Major weaknesses	Recommendations	Status of implementations
1. There had been provision of loans to related parties. Please refer to the paragraph headed “Compliance and Legal Proceedings” in this section for details. Such provision of loans may expose our Group to financial risk and compliance risk.	(a) Establish internal control procedures to prohibit the provision of loans and advances to related parties. (b) Establish procedures to settle any outstanding related parties loans. (c) Enhance the monitoring measures by conducting regular aging analysis and special analysis of trade receivables and other receivables, and if necessary, evaluating the possibility of making relevant provisions.	(a) We fully settled all loans to the related parties and shareholders by 31 December 2015. (b) We have enhanced our internal control manual according to the recommendations in December 2015, and put it in practice since January 2016. (c) According to the result of the Follow-up Review, the relevant internal control measures have been implemented.

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Major weaknesses	Recommendations	Status of implementations
<p>2. We were involved in the transfer of bank accepted bills with Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司) without underlying transactions. Please refer to the paragraph headed “Compliance and Legal Proceedings” in this section for details.</p> <p>While such transfers will not directly lead to financial loss, they may expose our Group to compliance risk.</p> <p>In addition, there had not been sufficient control measures in relation to the use and management of bank accepted bill, including the lack of (i) itemised record and (ii) regular inventory and reconciliation.</p>	<p>(a) Establish internal control measures to prohibit the acceptance of bank acceptance bills for the purpose of cashing the same for other companies.</p> <p>(b) Obtain legal advice in order to avoid potential legal risks.</p> <p>(c) Establish internal control procedures to record all bank accepted bills received: (1) establish a register of bank accepted bills to input key information of such bills for proper record; (2) the finance manager is responsible for checking the register from time to time to ensure accurate and complete filing and that there are underlying transactions when receiving and transferring the bank accepted bills; and (3) the finance manager shall submit a written report to the Board on the usage of bank accepted bills on a monthly basis.</p> <p>(d) Perform regular check and balance on all the bank accepted bills to ensure accuracy.</p>	<p>(a) We have enhanced our internal control manual according to the recommendations in December 2015, and put it in practice since January 2016.</p> <p>(b) According to the result of the Follow-up Review, the relevant internal control measures have been implemented.</p> <p>(c) We engaged the IC Consultant with an additional fee to perform an additional review engagement on the internal controls of our Group in respect of our Group’s bill financing for the period from 19 March 2016 to 30 June 2016 (the “Additional Review Period”). Upon completion of the said review, the IC Consultant confirms that (i) no non-compliance incident similar to the non-compliant transfer of bank accepted bills during the Track Record Period was identified during the Additional Review Period; and (ii) all internal control procedures recommended by the IC Consultant have been implemented as of 30 June 2016.</p>

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Major weaknesses	Recommendations	Status of implementations
<p>3. There had been insufficient trade receivables monitoring and collection procedures during the Track Record Period and as a result, approximately 19.2% and 29.6% of the trade receivables were over 180 days in 2014 and 2015, respectively.</p> <p>Moreover, no written provision policies or regular trade receivables monitoring mechanism was in place. Missing such policies may pose potential risk of delay in collecting sales proceeds and increase of trade receivables impairment amount.</p>	<p>(a) Establish monthly trade receivables ageing analysis, and keep track on the trade receivables collection status.</p> <p>(b) Issue written trade receivables monitor and collection policies to all sales staff, financial staff and management, and carry out necessary actions (including legal proceedings, if necessary) against the clients with long-overdue trade receivables.</p> <p>(c) Promptly reflect the trade receivables provision into the management accounts once it becomes evident that the outstanding amount cannot be recovered.</p> <p>(d) Properly distinguish and record trade receivables from other non-operation related receivables.</p>	<p>(a) We have enhanced our internal control manual according to the recommendations in December 2015, and put it in practice since January 2016.</p> <p>(b) We have established internal control procedures to link up the sales staff's compensation with the amount of receivable collected in each month, in order to encourage sales staff to follow-up with the client with outstanding amount due to our Company on monthly basis. We have also set the proper collection actions, including initiating legal proceedings against clients with trade receivables balance of over 6-months to accelerate trade receivables collection.</p> <p>(c) We have set up the monthly trade receivables analysis mechanism executed by our Deputy Executive Officer, Ms. Shi of the Finance Department since December 2015. Aging analysis result will be directly distributed to each sales staff for follow up actions.</p> <p>(d) We will establish the trade receivables provision assessment mechanism at end of each accounting period (interim and year end) to estimate the provision amount, and identify the reasons for uncollected trade receivables executed by our Deputy Executive Officer, Ms. Shi upon Listing.</p> <p>(e) According to the result of the Follow-up Review, the relevant internal control measures have been implemented.</p>

Sanctions Related Undertakings and Risk Management

We undertake to the Stock Exchange that (i) we will not use the proceeds from the Placing, as well as any other funds raised through the Stock Exchange, to finance or facilitate any activities or business, directly or indirectly, relating to or with any Sanctioned Person or any other person or entity that is a target of any International Sanctions, and (ii) we will not undertake any sanctionable transactions that would expose our Group, or any person or entity, including our Group's investors, the Stock Exchange, the Listing Committee, the HKSCC and the HKSCC Nominees, to the risk of being sanctioned. If we breach any of these undertakings to the Stock Exchange after the Placing, it is possible that the Stock Exchange may delist our Shares.

We will continuously monitor and evaluate our business and take measures to comply with our aforesaid undertakings to the Stock Exchange and to protect the interest of our Group and our Shareholders. We have adopted the below measures to monitor and evaluate our business activities in connection with possible International Sanctions risks:

- (a) we have set up the Risk Management Committee, comprising Ms. Shi Dongying, an executive Director and our compliance officer, Mr. Tam Tak Kei Raymond, an independent non-executive Director, and Mr. Cheng Dong, the chairman of the Board, an executive Director and the vice president of sales of our Group, whose responsibilities include, among others, monitoring our exposure to sanctions risks and export controls and our implementation of the related internal control procedures;
- (b) we will evaluate sanctions risks prior to determining whether we should embark on any business opportunities in any Sanctioned Country and/or with any Sanctioned Person(s);
- (c) as and when the Risk Management Committee considers necessary, we will retain after the Listing an external International Sanctions legal advisers with necessary expertise and experience in International Sanctions matters for recommendations and advice; and
- (d) the external International Sanctions legal advisers, once engaged by us after the Listing, will provide training sessions relating to the sanctions laws to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations.

Our Directors are of the view that the risk management measures set out above will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material International Sanctions risk so as to protect the interests of our Company and our Shareholders. With regard to these measures, after undertaking relevant due diligence, and subject to the full implementation and enforcement of these measures, the Sole Sponsor is also of the view that these measures will provide a reasonably adequate and effective framework to assist our Group in identifying and monitoring any material International Sanctions risks.

VIEWS OF OUR DIRECTORS AND THE SOLE SPONSOR

Our Directors are of the view that the non-compliance incidents disclosed above were inadvertent oversight and did not involve any element of fraud or dishonesty and that such non-compliance incidents have not resulted, and are not expected to result, in any material adverse effects on our business, operation and financial condition. We have also taken all reasonable steps to remediate and establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations.

Further, in light of the followings:

- (i) our Directors are minded and alert to any issues that might result in any non-compliance having attended the relevant trainings;
- (ii) since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, our Directors confirmed that our Group had not been involved in any material breach of applicable rules and regulations other than the non-compliance incidents as disclosed above;
- (iii) our Directors are aware of the requirements and obligations as directors of a listed issuer pursuant to the GEM Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations having attended the relevant trainings;
- (iv) as advised by our PRC Legal advisers, based on the confirmations obtained from the People's Bank of China (Haimen City), the risk or likelihood of the Company being penalised as a result of the above non-compliance is remote, nonetheless, the Controlling Shareholders have given indemnity on any potential penalty arising from the above non-compliance incidents;
- (v) we adopted or will adopt the measures and policies to improve our internal control systems and to ensure our compliance with the GEM Listing Rules and the relevant laws in the PRC and Hong Kong;
- (vi) we have engaged and will continue to appoint external professional advisers, including auditors, legal advisers or other advisers to render professional advice as to compliance with the statutory requirements as applicable to our Group from time to time;
- (vii) we appointed KGI Capital Asia Limited as our Compliance Adviser to provide advice upon Listing to our Directors and management team on matters relating to the GEM Listing Rules;
- (viii) regular trainings will be provided to all Directors and senior management after Listing by our external professional advisers on compliance with the GEM Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts;

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- (ix) the Audit Committee is responsible for overseeing the financial reporting and internal control procedures of our Company. It will also periodically review our compliance status with all relevant laws and regulations after Listing. The Audit Committee will exercise its oversight by reviewing our Company's internal control and legal compliance, discussing the internal control system with management to ensure management has performed its duty to have an effective internal control system, and considering major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings; and
- (x) our Board (which shall be responsible for monitoring the corporate governance of our Group) will also periodically review our compliance status with all relevant laws and regulations after Listing,

our Directors confirmed that the internal control measures and recommendations from the IC Consultant have been fully implemented and our Directors are of the view that our Group's internal control measures are adequate and effective under Rule 6A.13 of the GEM Listing Rules. The Sole Sponsor has reviewed the measures and policies adopted by us to improve our internal control systems and has discussed with the IC Consultant on such measures and policies and the status of the implementation of the internal control procedures adopted by us, concurs with the view of our Directors that our Group's internal control measures are adequate and effective under Rule 6A.13 of the GEM Listing Rules.

Having taken into account the fact that (i) our Group has taken corrective measures, the above non-compliance incidents have been rectified and the views from our PRC Legal Advisers; (ii) our Group has implemented the above internal control measures to prevent future recurrence of the non-compliance incidents; and (iii) the non-compliance incidents were mainly due to inadvertence and inadequate understanding of the relevant regulatory requirements of our staff, did not involve any dishonesty or fraudulent act on the part of our Directors or cast doubt on their integrity, our Directors are of the view that the above non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules and the Company's suitability for listing under Rule 11.06 of the GEM Listing Rules.

The Sole Sponsor, based on its independent due diligence performed, is of the view that, each of our Directors has the character, experience and integrity required for a Director under Rule 5.01 and Rule 5.02 of the GEM Listing Rules on the following bases:

- the past non-compliance incidents were mainly due to the inadvertence and inadequate understanding of the regulatory requirements of our staff and did not involve any dishonesty on the part of our Directors or question on their integrity;
- our Directors did not obtain any personal benefit directly or indirectly from those non-compliance incidents;
- no fraudulent activities were involved in those non-compliance incidents;

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- public searches including litigation searches, bankruptcy searches and directorship searches were conducted in March and May 2016 against each of our Directors and no adverse findings are noted;
- remedial internal control measures have been adopted to address certain deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures, to prevent further incidents of non-compliance and to ensure our compliance with the GEM Listing Rules and the relevant laws in the PRC and Hong Kong;
- the Follow-up Review conducted by the IC Consultant did not identify any further internal control deficiencies;
- our Directors attended training in March 2016 in respect of the duties of directors of companies listed in Hong Kong organised by our Company's legal advisers as to Hong Kong and which they were reminded to seek professional advice whenever necessary to ensure compliance with relevant rules and regulations;
- our Directors will receive training whenever there is any update to the relevant laws and regulations; and
- external professional advisers, including the Sole Sponsor (Compliance Adviser), Loong & Yeung Solicitors (our Company's legal advisers as to Hong Kong law), Beijing Dentons Law Offices, LLP (our PRC Legal Advisers) or other advisers will be appointed to render professional advice to our Directors and assist our Directors in ensuring ongoing compliance with the statutory requirements and the GEM Listing Rules as applicable to our Group from time to time.

Having considered the above non-compliance incidents of our Group, the above internal control measures and remedial actions taken by us and the views of our Directors, the Sole Sponsor is of the view that with regard to the above non-compliance incidents, there is no further matter that the Sole Sponsor would consider affecting the suitability of our Directors to become directors of an issuer under Rules 5.01 and 5.02 of the GEM Listing Rules, and the suitability of our Company as a listing applicant under Rule 11.06 of the GEM Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

The Board currently consists of six Directors comprising three executive Directors and three independent non-executive Directors. The following table sets out the information regarding our Directors:

Name	Age	Present Position	Date of appointment of Director	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Jiang Guitang (姜桂堂)	50	Executive Director and chief executive officer	16 March 2016	April 2003	Overall management, strategic development and major decision-making of our Group	Nil
Mr. Cheng Dong (成東)	41	Chairman of the Board and executive Director	16 March 2016	August 2006	Overall management and administration of our business operations	Nil
Ms. Shi Dongying (施冬英)	42	Executive Director and compliance officer	6 May 2016	October 2015	Overall management and administration of our business operations and overseeing compliance matters of our Group	Nil
Mr. Huang Xin (黃昕)	34	Independent non-executive Director	16 December 2016	16 December 2016	Supervising and providing independent advice on the operation and management of our Group	Nil
Mr. Tam Tak Kei Raymond (譚德機)	53	Independent non-executive Director	16 December 2016	16 December 2016	Supervising and providing independent advice on the operation and management of our Group	Nil
Mr. Ng Sai Leung (吳世良)	44	Independent non-executive Director	16 December 2016	16 December 2016	Supervising and providing independent advice on the operation and management of our Group	Nil

Executive Directors

Mr. Jiang Guitang (姜桂堂), aged 50, is our executive Director, chief executive officer and one of our Controlling Shareholders. He was appointed as an executive Director on 16 March 2016. He is responsible for the overall management, strategic development and major decision-making of our Group. Mr. Jiang is a director of each of Prosperous Composite and Nantong Meigu and the general manager of Nantong Meigu. Mr. Jiang is also a member of the Remuneration Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Jiang obtained the bachelor degree of chemical engineering from Nanjing Chemical College* (南京化工學院) (now known as Nanjing Tech University), the PRC in July 1988. From March 1988 to May 1994, Mr. Jiang was a distribution sales of the chemical engineering department of Nantong Xingchen Synthetic Material Co. Ltd* (南通星辰合成材料有限公司), previously known as Nantong Composite Material Experiment Factory* (南通合成材料實驗廠). From August 1995 to April 1999, he worked as a business manager of Nantong Foreign Trade Company* (南通對外貿易公司) and was responsible for sales. He also worked as a quality controller of China region in The United States Kangbaoer Company* (美國康寶爾公司) from February 2000 to March 2001. He then became an export sales staff of Nantong Mingkang Composite Material Company Limited* (南通明康複合材料有限公司) from April 2002 to March 2003. Mr. Jiang joined our Group in April 2003 and has more than 13 years' experience in the manufacturing and sales of FRP products.

Mr. Jiang has not held any directorship in any public listed company in the past three years.

Mr. Cheng Dong (成東), aged 41, is the chairman of our Board and was appointed as an executive Director on 16 March 2016 and is mainly responsible for overall management and administration of our business operations. He is also a member of each of the Nomination Committee and the Risk Management Committee.

Mr. Cheng completed a course in Grain and Oil Storage and Inspection* (糧油貯藏與檢驗) at Jiangsu Province Zhenjiang Food School* (江蘇省鎮江糧食學校), now known as the Jiangsu University of Science and Technology* (江蘇科技大學), the PRC in July 1995. Mr. Cheng has more than 21 years' experience in sales. Before joining our Group, Mr. Cheng worked at the sales department of Jiangsu White Rabbit Textile Group Co., Ltd* (江蘇白兔紡織集團股份有限公司) from May 1995 to February 2005, and was responsible for sales. Mr. Cheng joined our Group in August 2006 as sales personnel. He has been working as a vice president of sales, responsible for marketing development and maintenance, management of sales performance and implementation of sales strategies of our Group, since May 2013.

Mr. Cheng has not held any directorship in any public listed company in the past three years.

Ms. Shi Dongying (施冬英), aged 42, is our executive Director and the compliance officer of our Group. She was appointed as an executive Director on 6 May 2016. She is responsible for overall management and administration of our business operations, as well as overseeing compliance matters of our Group. She is also the chairman of the Risk Management Committee.

Ms. Shi completed an undergraduate course in accounting at The Open University of China* (中央廣播電視大學) in January 2014. Ms. Shi has over 20 years of accounting experience and she is a non-practising member of the Chinese Institute of Certified Public Accountants. From August 1994 to May 2005, Ms. Shi worked as an accountant in Haimen Linen and Cotton Processing Factory* (海門市棉麻加工廠). From March 2006 to October 2015, she worked as a head of accounting department in Nantong Sancon Electronic Technology Corporation* (南通三鑫電子科技股份有限公司). She joined our Group in October 2015 as deputy executive officer.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Shi has not held any directorship in any public listed company in the past three years.

Independent non-executive Directors

Mr. Huang Xin (黃昕), aged 34, was appointed as an independent non-executive Director on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also a member of each of the Audit Committee and the Remuneration Committee, and the chairman of the Nomination Committee.

Mr. Huang obtained a bachelor degree of engineering from Nanjing University of Science and Technology* (南京理工大學), the PRC in June 2003 and a degree of master of business administration from The Indiana University, the United States in May 2010.

He previously worked as software engineer in Siemens Numerical Control Ltd. (Nanjing), mainly responsible for development of products and internal management software, from July 2003 to August 2004, and as quality consultant in Motorola (China) Electronics Co., Ltd., mainly responsible for company management and quality process improvement, from August 2004 to June 2008. Mr. Huang then worked as senior manager in China Investment Securities Co., Ltd., responsible for providing advice on the corporate financing and reorganisation, from October 2010 to December 2012. From December 2012 to March 2015, he worked at the investment banking department in Citi Orient Securities Company Limited, and left the company as the associate vice president of operations. Mr. Huang is currently a deputy general manager in Shenzhen Qianhai Huawei Asset Management Company Limited* (深圳前海華威資產管理有限公司), mainly responsible for assets management and capital operation.

Mr. Huang has not held any directorship in any public listed company in the past three years.

Mr. Tam Tak Kei Raymond (譚德機), aged 53, was appointed as an independent non-executive Director on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Risk Management Committee.

Mr. Tam obtained a bachelor degree of arts in accounting with computing from the University of Kent at Canterbury, United Kingdom in July 1985. He is an associate member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Tam has been appointed as an independent non-executive director of Vision Fame International Holding Limited (stock code: 1315), CNQC International Holdings Limited (Stock Code: 1240) and Li Bao Ge Group Limited (stock code: 8102) since December 2011, September 2012 and June 2016 respectively. He is also the company secretary of Branding China Group Limited (stock code: 863) since April 2013. He was an independent non-executive director of Digital Domain Holdings Limited (stock code: 547) from September 2009 to August

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

2013; Zebra Strategic Holdings Limited, now known as Yin He Holdings Limited (stock code: 8260) from June 2012 to September 2014; Tianjin Jinran Public Utilities Company Limited (stock code: 1265) from February 2011 to June 2015; Ngai Shun Holdings Limited (stock code: 1246) from September 2013 to July 2015; and Beijing Enterprises Clean Energy Group Limited, previously known as Jin Cai Holdings Company Limited (stock code: 1250), from June 2013 to July 2016. He was also the chief financial officer of King Force Security Holdings Limited (stock code: 8315) during the period from April 2014 to November 2014.

Save as disclosed above, Mr. Tam has not held any directorship in any public listed company in the past three years.

Mr. Ng Sai Leung (吳世良), aged 44, was appointed as an independent non-executive Director of our Group on 16 December 2016. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Audit Committee and a member of the Nomination Committee.

Mr. Ng obtained a bachelor degree in business administration from The University of Hong Kong in November 1995 and a master degree in business administration from The Chinese University of Hong Kong in December 2002. Mr. Ng is a fellow of American Institute of Certified Public Accountant and a Chartered Financial Analyst.

Mr. Ng has over 15 years of experience in corporate finance and accounting, including managing various initial public offerings, advising listed companies on mergers and acquisitions, reverse takeovers, privatisations, fund raising exercises and other corporate advisory transactions. Mr. Ng previously worked as an auditor in Ernst & Young Global Limited from August 1995 to March 1997, a junior internal officer in the private banking division of UBS Securities Asia Limited (previously known as Swiss Bank Corporation Hong Kong Branch) from March 1997 to February 1998, and an officer in the Compliance Department in Hong Kong Futures Exchange Limited from March 1998 to September 1999. He worked in the corporate finance department of Tai Fook Capital Limited, now known as Haitong International Capital Limited, as an assistant manager, a manager and a senior manager respectively from September 1999 to April 2004. From April 2004 to May 2006, he consecutively worked as a senior manager and an associate director in Masterlink Securities (Hong Kong) Corporation Limited. Mr. Ng worked in CIMB Securities (Hong Kong) Limited as a vice president and a senior vice president of corporate finance division from June 2006 to August 2010 respectively. From August 2010 to January 2015, he worked as a director in the investment banking department of CMB International Capital Corporation Limited. Mr. Ng has been a managing director of VBG Capital Limited since January 2015.

Save as disclosed herein, Mr. Ng has not held any directorship in any public listed companies in the past three years.

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed above, each of our Directors confirms with respect to him/her that: (i) he/she has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not hold

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

any other position in our Company or any of its subsidiaries; (iii) save as disclosed in the section headed “Statutory and General Information – C. Further information about substantial Shareholders, Directors and experts” in Appendix V to this prospectus, he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; (iv) there is no other information that should be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules; and (v) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of our Directors that need to be brought to the attention of the Shareholders.

SENIOR MANAGEMENT

The following table sets out certain information about our senior management:

Name	Age	Position	Date of appointment of current position	Date of joining our Group	Roles and responsibilities	Relationship with Director(s)/or other senior management
Mr. Jiang Guitang (姜桂堂)	50	Chief executive officer	December 2006	April 2003	Overall management, strategic development and major decision making of our Group	Nil
Mr. Cheng Dong (成東)	41	Vice president of sales	May 2013	August 2006	Overall marketing development and management of sales of our Group, and implementing sales strategy	Nil
Ms. Shi Dongying (施冬英)	42	Deputy executive officer	November 2015	October 2015	Management of daily operations and strategic planning of our Group	Nil
Mr. Liu Dansheng (劉旦生)	49	Deputy general manager	September 2010	June 2010	Internal coordination between different departments of our Group, and management of production plant	Nil

Mr. Jiang Guitang (姜桂堂), aged 50, is the chief executive officer of our Group and is responsible for overall management, strategic development and major decision making of our Group. Details of his qualifications and experience are set out in the paragraph headed “Directors – Executive Directors” in this section.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Cheng Dong (成東), aged 41, is the vice president of sales of our Group and is responsible for overall marketing development and management of sales of our Group and implementing sales strategy. Details of his qualifications and experience are set out in the paragraph headed “Directors – Executive Directors” in this section.

Ms. Shi Dongying (施冬英), aged 42, is the deputy executive officer of our Group and is responsible for management of daily operations and strategic planning of our Group. Details of her qualifications and experience are set out in the paragraph headed “Directors – Executive Directors” in this section.

Mr. Liu Dansheng (劉旦生), aged 49, is the deputy general manager of our Group and is responsible for internal coordination between different departments of our Group and management of production plant. Mr. Liu graduated from Changzhou Material School* (常州物資學校), now known as Changzhou Technical Institute of Tourism and Commerce* (常州旅遊商貿高等職業技術學校), the PRC in July 1987, majoring in operation management. From March 1987 to March 2010, Mr. Liu worked as a business officer and sales representative in Haimen Chemical and Light Industry Company* (海門化工輕工公司).

Mr. Liu joined our Group in June 2010 as deputy general manager and manager of production plant.

COMPANY SECRETARY

Mr. Ng Chi Ho Dennis (吳志豪), aged 57, was appointed as the company secretary of our Group on 16 December 2016. He is responsible for our Group’s overall company secretarial matters.

Mr. Ng obtained a degree of bachelor of commerce in accounting, finance and systems from The University of New South Wales, Australia in October 1982. He is a chartered accountant of The Chartered Accountants Australia and New Zealand, an associate of the Hong Kong Institute of Company Secretaries and a fellow member of the Hong Kong Institute of Certified Public Accountants.

He has extensive experience in auditing, accounting, financial management and corporate affairs. Mr. Ng worked as the chief financial officer and a company secretary of Matsunichi Communication Holdings Limited, now known as Goldin Properties Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 283) from August 2004 to July 2005. Mr. Ng was the company secretary of Powerleader Science & Technology Group Limited (stock code: 8236), the shares of which are listed on the GEM of the Stock Exchange from July 2007 to April 2010, and Tech Pro Technology Development Limited (stock code: 3823), the shares of which are listed on the Main Board of the Stock Exchange from December 2009 to July 2013. He was also an independent non-executive director of Sunrise (China) Technology Group Limited (stock code: 8226), the shares of which are listed on the GEM of the Stock Exchange from June 2014 to May 2015. Mr. Ng is currently the company secretary and the chief financial officer of Celebrate International Holdings Limited (stock code: 8212), an independent non-executive director of Media Asia Group Holdings Limited (stock code: 8075), and an independent non-executive director of Kirin

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Group Holdings Limited, previously known as Creative Energy Solutions Holdings Limited (stock code: 8109), all of which are companies listed on the GEM of the Stock Exchange. Save as disclosed above, Mr. Ng has not been a director of any listed companies over the past three years.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of our Group. Our Group regularly reviews and determines the remuneration and compensation package of our Directors and senior management, by reference to market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of our Group.

After Listing, our Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group.

REMUNERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to our Directors, were approximately RMB212,000, RMB215,000 and RMB504,000, respectively.

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, the aggregate emoluments paid by our Group to our senior management were approximately RMB1.5 million, RMB1.3 million and RMB0.9 million, respectively.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment of any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

	<i>HK\$</i>
Executive Directors	
Mr. Jiang Guitang	350,000
Mr. Cheng Dong	280,000
Ms. Shi Dongying	150,000
Independent non-executive Directors	
Mr. Huang Xin	120,000
Mr. Tam Tak Kei Raymond	120,000
Mr. Ng Sai Leung	120,000

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The emoluments in respect of our Group's five highest paid individuals during the Track Record Period are as follows:

	For the year ended		For the six
	31 December		months
	2014	2015	ended
	RMB'000	RMB'000	30 June
			2016
			RMB'000
Salaries and allowances	1,468	1,295	646
Discretionary bonuses	–	–	–
Retirement scheme contributions	41	46	71
Total	1,509	1,341	717

During the Track Record Period, no emoluments were paid by our Group to the above highest paid individuals as (i) an inducement to join or upon joining our Group or (ii) as compensation for loss of office as a director or management of any members of our Group.

BOARD COMMITTEES

Audit Committee

Our Company established the Audit Committee on 16 December 2016 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The Audit Committee consists of three members, being Mr. Huang Xin, Mr. Tam Tak Kei Raymond and Mr. Ng Sai Leung. Mr. Ng Sai Leung currently serves as the chairman of the Audit Committee.

Remuneration Committee

Our Company established the Remuneration Committee on 16 December 2016 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Remuneration Committee are to make recommendations on the remuneration of the Directors and senior management to the Board and to review the overall remuneration policy and structure relating to the Directors and senior management.

The Remuneration Committee consists of three members, being Mr. Jiang Guitang, Mr. Tam Tak Kei Raymond and Mr. Huang Xin. Mr. Tam Tak Kei Raymond currently serves as the chairman of the Remuneration Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Nomination Committee

Our Company established the Nomination Committee on 16 December 2016 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee consists of three members, being Mr. Cheng Dong, Mr. Huang Xin and Mr. Ng Sai Leung. Mr. Huang Xin currently serves as the chairman of the Nomination Committee.

Risk Management Committee

Our Company established the Risk Management Committee on 16 December 2016 with written terms of reference. The Risk Management Committee currently comprises of Ms. Shi Dongying (acting as a chairman of the Risk Management Committee), who is an executive Director and our compliance officer, Mr. Tam Tak Kei Raymond, an independent non-executive Director and Mr. Cheng Dong, an executive Director and the vice president of sales of our Group. The primary duties of the Risk Management Committee include, among others, monitoring our exposure to sanction risks and export controls and our implementation of the related internal control procedures, and evaluate sanctions risks prior to determining whether we should embark on any business opportunities in any Sanctioned Country and/or with any Sanctioned Person(s).

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed KGI Capital Asia Limited as its Compliance Adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will consult with and seek advice from the Compliance Adviser on a timely basis in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

CORPORATE GOVERNANCE

Our Company will comply with the Corporate Governance Code in Appendix 15 to the GEM Listing Rules.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with “comply or explain” principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the Capitalisation Issue and the Placing (without taking into account of any Shares which may be issued upon exercise of the Offer Size Adjustment Option), each of Munsing and Singa will directly own approximately 34.10% and approximately 40.90% of the issued share capital of our Company respectively, and Mr. Shen, Mr. Jiang, Munsing and Singa will together form a group of Controlling Shareholders within the meaning of the GEM Listing Rules and together control 75% of the issued share capital of our Company. Munsing and Singa are investment-holding companies and have not commenced any substantive business activities as at the Latest Practicable Date. Each of Mr. Shen, Mr. Jiang, Munsing and Singa confirms that, apart from the business operated by members of our Group, he or it and their respective close associates and/or companies controlled by them do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

Our Controlling Shareholders have been parties acting in concert (having the meaning ascribed to it under the Takeovers Code) during the Track Record Period and in the course of the Reorganisation and will continue to be parties acting in concert (having the meaning ascribed to it under the Takeovers Code) until such arrangement is terminated in writing by them pursuant to the Concert Party Deed. For details, please refer to the section headed “History, Reorganisation and Development – Concert Party Deed” in this prospectus.

INDEPENDENCE OF OUR GROUP

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group’s business independently from our Controlling Shareholders and their close associates after the Placing:

Management and Administrative Independence

The Board consists of six Directors, of whom three are executive Directors and the remaining three are independent non-executive Directors. Save for Mr. Jiang who is a director of Singa, none of our Directors or senior management serves any executive or management role in our Controlling Shareholders or any of their respective close associates.

Each of our Directors is aware of his fiduciary duties as a Director which require that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the senior management team of our Group is independent from the Controlling Shareholders. The three independent non-executive Directors will also bring independent judgement to the decision-making process of the Board.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Most members of the senior management of our Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of our Group. The responsibilities of the senior management team of our Group include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of our Group. This ensures the independence of the daily management and operations of our Group. Further details of the senior management are set out in the section headed “Directors and senior management” in this prospectus.

Financial Independence

Our Company has an independent financial system and makes financial decisions according to our Group’s own business needs. We have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. As at 30 June 2016, our Group had borrowings from financial institutions in an aggregate amount of approximately RMB20.0 million which was guaranteed by Mr. Shen Qixian, the father of Mr. Shen, and Mr. Jiang, and their related parties. The personal guarantees for the aforesaid loan will be replaced by our Company’s corporate guarantee upon Listing. During the Track Record Period, our Group had certain amounts due from the related parties of Mr. Shen and Mr. Jiang. The amount due from such related parties have been subsequently settled in full in December 2015. For details, please refer to notes 21 and 27 to the Accountants’ Report set out in Appendix I to this prospectus.

Our Directors are of the view that there has been sufficient cash flow to support the operation of our business. For the two years ended 31 December 2015 and the six months ended 30 June 2016, our Group has relied principally on cash generated from operations and bank borrowings to carry on our businesses and this is expected to continue after the Placing. Our Directors also believe that our Group is capable of obtaining financing from independent third parties, if necessary, without reliance on our Controlling Shareholders after the Listing. Therefore, our Group will be financially independent from our Controlling Shareholders after the Listing.

Operational Independence

On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from its Controlling Shareholders or other companies controlled by its Controlling Shareholders:

- (i) our Group has established its own organisational structure made of individual departments, each with specific areas of responsibilities;
- (ii) our Group did not share its operational resources, such as contractors, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period;
- (iii) our Group has also established a set of internal controls to facilitate the effective operation of its business;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (iv) our Group's customers and suppliers are all independent from our Controlling Shareholders;
- (v) our Group does not rely on our Controlling Shareholders or their close associates and has its independent access to customers and suppliers; and
- (vi) our Group is the holder of all relevant licences material to the operation of the our business and has sufficient capital, equipment and employees to operate the business independently.

Management Independence

On the basis of the following reasons, our Directors consider that our Directors and members of the senior management of our Group are able to manage the business independently from our Controlling Shareholders:

- (i) with three independent non-executive Directors out of a total six Directors in the Board, which complies with the requirements under the GEM Listing Rules, there will be a sufficiently robust and independent voice within the Board to counter-balance any situation involving a conflict of interest and protect the interests of the independent Shareholders;
- (ii) all members of the senior management are full-time employees of our Group and most have, during the entire or most of the Track Record Period, undertaken senior management supervisory responsibilities in the business. The responsibilities of the senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) each of our Directors is aware of his/her fiduciary duties as a Director, which require that he or she acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interests to affect the performance of his or her duties as a Director;
- (iv) connected transactions between our Company and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the GEM Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval requirements (where applicable);
- (v) all of the FRP products manufacturing businesses in the PRC held by our Controlling Shareholders have been consolidated into our Group as part of the Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (vi) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of the independent Shareholders.

Having considered the aforesaid factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates.

RULE 11.04 OF THE GEM LISTING RULES

Save as otherwise disclosed, our Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business apart from our Group's business which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders, namely Mr. Shen, Mr. Jiang, Munsing and Singa entered into the Deed of Non-competition on 16 December 2016 in favour of our Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries) that, save and except as disclosed in this prospectus, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group within the PRC, Hong Kong and such other parts of the world where any member of our Group may operate from time to time, or any business activity to be conducted by any member of our Group from time to time within the PRC, Hong Kong and such other parts of the world after the Listing, save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/its close associates).

Each of the Controlling Shareholders further undertakes that if he/it or his/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with any business opportunity of our Group, he/it shall procure that his/its close associates to promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Controlling Shareholder(s) whether our Group will exercise the right of first refusal.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Our Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

- (a) the independent non-executive Directors shall review on an annual basis the above undertakings from the Controlling Shareholders and to evaluate the effective implementation of the Deed of Non-competition;
- (b) each of the Controlling Shareholders undertakes to provide any information as is reasonably required by our Group or the independent non-executive Directors, for their annual review, including but not limited to the confirmation from the Controlling Shareholders on the compliance of the Deed of Non-competition by the Controlling Shareholders and each of their close associates; and
- (c) our Company shall disclose the decisions on those matters reviewed by its independent non-executive Directors relating to the compliance of the Deed of Non-competition in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Division granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreement having been fulfilled (or where applicable, waived) and the Underwriting Agreement not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date specified in the Underwriting Agreement (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this prospectus, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on the date on which (i) in relation to any Controlling Shareholders, when he/it together with his/its close associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Controlling Shareholders; or (ii) the Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As the Controlling Shareholders have given non-competition undertakings in favour of our Company, and other than members of our Group, none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that we are capable of carrying on the business independently of the Controlling Shareholders following the Listing.

Other than members of our Group, none of the Controlling Shareholders and our Directors or their respective close associates has interests in any business which competes or is likely to compete with the business of our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (a) the Articles provide that a Director shall not vote (nor shall he/she be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he/she or any of his/her close associates has/have a material interest, and if he/she shall do so his/her vote shall not be counted (nor shall he/she be counted in the quorum for that resolution), but this prohibition shall not apply to the exceptions as stated in the Articles where such exceptions are consistent with those provided in Appendix 3 to the GEM Listing Rules;
- (b) the independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (c) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (d) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (e) our Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (f) the independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its close associates to involve or participate in any business in competition with or likely to be in competition with the existing business activity of any member of our Group within the PRC, Hong Kong and such other parts of the world where any member of our Group may operate from time to time and if so, any condition to be imposed; and
- (g) the independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-competition or connected transaction(s) at the cost of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Further, any transaction that is proposed between our Group and/or our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out under the paragraphs headed "Corporate Governance Measures" in this section, our Directors believe that the interest of the Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), the following persons will have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in the Shares

Name	Capacity/Nature of interest	Number of Shares held/ interested in	Percentage of interest in our Company
Munsing <i>(Notes 1 and 3)</i>	Interests held jointly with other persons; Beneficial owner	300,000,000	75%
Singa <i>(Notes 2 and 3)</i>	Interests held jointly with other persons; Beneficial owner	300,000,000	75%
Mr. Shen <i>(Notes 1 and 3)</i>	Interests held jointly with other persons; Interest in a controlled corporation	300,000,000	75%
Mr. Jiang <i>(Notes 2 and 3)</i>	Interests held jointly with other persons; Interest in a controlled corporation	300,000,000	75%
Ms. Gong <i>(Note 4)</i>	Interest of spouse	300,000,000	75%
Ms. Chen Lijuan <i>(Note 5)</i>	Interest of spouse	300,000,000	75%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Munsing for the purposes of the SFO.
2. Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa. Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Shares held by Singa for the purposes of the SFO.
3. Pursuant to the Concert Party Deed entered into among Mr. Shen, Mr. Jiang, Munsing and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Takeovers Code) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, details of which are set out in the section headed "History, Reorganisation and Development – Concert Party Deed" in this prospectus. As such, immediately following the completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), Mr. Shen, Mr. Jiang, Munsing and Singa will together control 75% of the entire share capital of our Company.
4. Ms. Gong is the spouse of Mr. Shen and is deemed or taken to be interested in all the Shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.
5. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately following the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option) will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Placing:</i>	
750 Shares in issue at the date of this prospectus	7.5
299,999,250 Shares to be issued pursuant to the Capitalisation Issue	2,999,992.5
<u>100,000,000</u> Shares to be issued pursuant to the Placing	<u>1,000,000.0</u>
<i>Total</i>	
<u>400,000,000</u> Shares	<u>4,000,000.0</u>

Assuming the Offer Size Adjustment Option is exercised in full, our issued share capital immediately following the Capitalisation Issue and the Placing will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Placing:</i>	
750 Shares in issue at the date of this prospectus	7.5
299,999,250 Shares to be issued pursuant to the Capitalisation Issue	2,999,992.5
100,000,000 Shares to be issued pursuant to the Placing	1,000,000.0
<u>15,000,000</u> Shares to be issued upon exercise of the Offer Size Adjustment Option in full	<u>150,000.0</u>
<i>Total</i>	
<u>415,000,000</u> Shares	<u>4,150,000.0</u>

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

RANKING

The Placing Shares will rank pari passu in all respects with all our Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the written resolutions of our Shareholders passed on 16 December 2016, subject to the share premium account of our Company being credited as a result of the Placing, our Directors are authorised to allot and issue a total of 299,999,250 Shares credited as fully paid at par to the holder of Shares on the register of members of our Company at the close of business on 19 December 2016 (or as they may direct) in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK\$2,999,992.5 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that such number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Placing (not including any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option); and
- (b) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

SHARE CAPITAL

This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Company Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information – A. Further information about our Company – 3. Written resolutions of our Shareholders passed on 16 December 2016” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with such number of Shares not exceeding 10% of the total number of Shares in issue following the completion of the Capitalisation Issue and the Placing (not including any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option).

This mandate only relates to repurchases made on GEM, 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, and such repurchases are made in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “Statutory and General Information – A. Further information about our Company – 6. Repurchase of our Shares by our Company” in Appendix V to this prospectus.

The general mandates to issue and repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Company Law or any other applicable law of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information – A. Further information about our Company – 6. Repurchase of Shares by our Company” in Appendix V to this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Company Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our combined financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Company's combined financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Company in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Company believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Company's expectations and projections will depend on a number of risks and uncertainties over which our Company does not have control. For further information, you should refer to the section "Risk factors" in this prospectus.

OVERVIEW

We are an established and leading manufacturer in the PRC engaged in the research and development, production and sale of a variety of FRP products. Our major FRP products can be divided into (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products. In addition to the PRC market, we sell our products to overseas markets including but not limited to the U.S., U.K., France, Canada, Germany and Indonesia. Our major customers in the PRC primarily consists of corporate customers such as downstream manufacturers and construction enterprises, whereas our major customers in the U.S. and U.K. are mainly distributors. These distributors are considered by our Group as our end-customers since we do not enter into any distribution arrangement with such distributors regarding distribution of our FRP products.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

The major factors affecting our business, financial condition and results of operations are set out below.

(i) Market acceptance of our products

Due to its long-lasting service life, lightweight, heat resistance, electrical insulation and corrosion resistance properties, FRP products are finding increasingly wider applications in difference fields. According to the Sullivan's Report, FRP products have been widely used in construction, electronics and telecommunications, and transportation industries in the past and are expected to demonstrate rapid penetration in the aerospace and wind energy industries in the near future. As we positioned our FRP products as substitutes of metals, the demands of our

FINANCIAL INFORMATION

products depend on the demands and supplies of metals, the price of metals, the relative competitiveness of our FRP products over metals and other substituted products in terms of quality, durability and application spectrum, as well as preferences of our customers and potential customers.

(ii) Global economic conditions

During the Track Record Period, we derived the majority of our revenue from the PRC, the U.S. and the U.K. markets. For the two years ended 31 December 2015 and the six months ended 30 June 2016, revenue derived from the PRC, the U.S. and the U.K. markets accounted for approximately 94.2%, 94.9% and 95.3% of our total revenue, respectively. As such, the demands of our FRP products are dependent on the health of global economic conditions and levels of global customer demand in general. Any fluctuation in the global economy, in particular the economic conditions of the PRC, the U.S. and the U.K., may affect our business, financial condition and results of operation.

(iii) Operation of our production plant

Our production volume is dependent on our production capacity. We manufacture all of our FRP products in our self-owned production base situated at Haimenzhen, Haimen, Nantong, Jiangsu, the PRC. Please refer to the section headed “Business – Production Operation and Facilities – Production facilities, production capacity and utilisation rate” in this prospectus for further information. As we relied on this production base for production of our products during the Track Record Period and as at the Latest Practicable Date, our results are dependent upon the production capacity and efficiency of this production base. Any power failures, disruptions, breakdown, failure or substandard performance of equipment, destruction of buildings and other facilities of this production base may affect our ability to continue our operations, delay our delivery schedules, and may cause significant property damage and personal injuries, and may in turn have an adverse impact on our results.

(iv) Sales to our major customers

Our sales to our five largest customers during each of the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 accounted for approximately 54.5%, 42.5% and 46.0% of our total revenue, respectively. During each of the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, revenue derived from our largest customer accounted for approximately 21.1%, 11.1% and 11.8% of our total revenue, respectively. Our profitability and financial position will be affected by our continuing business relationship with these major customers in the future.

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(v) Timing of collection of our trade and bills receivables

Due to the industry practice of the FRP industry and the strong credibility of our major customers, we generally grant to our customers credit periods ranging from cash on delivery to one year after invoice date. According to Sullivan, giving longer credit terms to downstream manufacturers such as vessel manufacturers and public infrastructure construction enterprises in the PRC is an industry norm as (i) the duration of such customers' projects are usually long (typically lasting for one year to two years), and (ii) such customers are usually granted with a product warranty period of one year to two years after the completion of their projects to their satisfactions before settling the payments in full. Our trade and bills receivables turnover days were approximately 158 days, 187 days and 187 days for the two years ended 31 December 2015 and the six months ended 30 June 2016, respectively, suggesting that we may take a relatively long time to collect our trade receivables. Our net trade and bills receivables as at 31 December 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB26.2 million, RMB31.4 million and RMB29.3 million, representing approximately 39.1%, 61.4% and 62.3% of our current asset as at 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively. As at 31 December 2014 and 2015 and the six months ended 30 June 2016, our allowance for doubtful debt of trade receivables were approximately RMB1.1 million, RMB1.9 million and RMB1.5 million respectively. In the event that we are unable to collect our trade receivables, our cash management and operations may be adversely affected. Any allowance required for doubtful debts of trade receivables may also have an adverse effect to the results of our operations.

BASIS OF PRESENTATION

As all the entities of our Group, being the Company, Prosperous Composite and Nantong Meigu, are ultimately controlled by the same group of individuals, namely our Controlling Shareholders, before and after the Reorganisation, the financial information during the relevant periods are prepared as if Prosperous Composite and Nantong Meigu had been subsidiaries of the Company, to the extent of their beneficial interests held by our Controlling Shareholders, throughout the relevant periods on the basis as set out in Notes 3(c) and 3(d)(ii) to Appendix I to this prospectus and in accordance with the principles of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

Items included in the financial information of each entity in our Group are measured using the currency of the primary economic environment in which the entity operates. These financial information are presented in Renminbi, rounded to the nearest thousand except for per share data. Renminbi is our Company's functional and our Group's presentation currency.

The measurement basis used in the preparation of the financial information is the historical cost basis. The preparation of financial information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, judgments and estimates that are important for you to understand our financial condition and results of operations, are set forth in detail in Note 3 and Note 29 of Appendix I to this prospectus respectively. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Our estimates are based on historical experience, latest information and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions. We believe the following accounting policies, estimates and judgments are of critical importance to us in the preparation of our consolidated financial statements.

(i) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less any accumulated depreciation and any accumulated impairment losses. 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.

(ii) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula 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.

(iii) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(iv) 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.

FINANCIAL INFORMATION

(v) 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.

(vi) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments 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.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period during the Track Record Period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of receivables

Our Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. Our Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

(ii) Impairment of property, plant and equipment

Our property, plant and equipment are assessed collectively as a cash generating unit ("CGU") for the production of FRP products.

The impairment assessment of the CGU is based on the calculation of recoverable amount of our property, plant and equipment for productions, which is the greater of their fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. At the end of each financial year, in accordance with our accounting policy as set out in Note 3(g)(ii) of the Accountants' Report in Appendix I of this Prospectus, the Directors and senior management will consider the recoverable amount of the production of each category of FRP products and determine whether the recoverable amount is greater than the carrying amount, and if any impairment is necessary.

FINANCIAL INFORMATION

(iii) Estimated useful lives of property, plant and equipment

Our Group determines the estimated useful lives, residual values and related depreciation charges for our Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. Our Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or we will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Income tax

Our Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

(v) Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences 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 assets to be recovered.

(vi) Deferred tax liabilities for withholding taxes

Deferred tax liabilities have been established for withholding tax payable on undistributed earnings of the subsidiary in the PRC based on that our Directors considered that the undistributed earnings are to be repatriated and distributed by way of dividends. Our Directors' assessment is constantly reviewed and deferred tax liabilities are adjusted when the results of assessment change.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table sets out our Group's consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2015 and 2016. This information is derived and should be read in conjunction with the consolidated financial information contained in the Accountant's Report in Appendix I to this prospectus, aside from the adjusted net profit, which is a non-HKFRS measurement.

	For the year ended		For the six months	
	31 December		ended 30 June	
	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue	53,672	56,405	25,051	27,881
Cost of sales	(34,565)	(35,141)	(17,540)	(18,352)
Gross profit	19,107	21,264	7,511	9,529
Other revenue	1,208	1,096	372	22
Other net income	92	657	147	503
Distribution cost	(7,384)	(6,376)	(2,915)	(2,617)
Administrative expenses	(4,023)	(6,107)	(1,844)	(6,434)
– Listing expenses	–	(577)	–	(3,744)
– other administrative expenses	(4,023)	(5,530)	(1,844)	(2,690)
Finance costs	(2,767)	(2,447)	(1,112)	(588)
Profit before taxation	6,233	8,087	2,159	415
Income tax	(2,001)	(2,762)	(698)	(1,524)
Profit/(loss) and total comprehensive income/(loss) for the year/period attributable to owners of the Company	<u>4,232</u>	<u>5,325</u>	<u>1,461</u>	<u>(1,109)</u>
Adjusted net profit	<u>4,232</u>	<u>5,902</u>	<u>1,461</u>	<u>2,635</u>

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Revenue represents net invoiced value of goods sold, less value-added and sales taxes, returns and discounts. During the Track Record Period, our Group's revenue was principally generated from the sale of (i) FRP Grating products; (ii) USCG Approved Phenolic Grating products; (iii) FRP Subway Evacuation Platform products; and (iv) Epoxy Wedge Strip products. Our FRP Grating products were mainly sold to corporate customers in the PRC who generally are end-users of such products, as well as distributors in the U.S. and the U.K. who generally buy our products on per purchase order basis with no distribution arrangement. Our USCG Approved Phenolic Grating products were generally sold to shipbuilders and offshore oilfields construction companies in the PRC, whereas our FRP Subway Evacuation Platform products were generally sold to main contractors who principally engaged in railway construction works in the PRC. To diversify our products portfolio and to capture the opportunities in the growing market, we successfully developed and launched our Epoxy Wedge Strip products in 2014 which targeted manufacturers of wind turbine blades in the PRC.

Breakdown of revenue by product categories

The following table sets forth a breakdown of our revenue and the percentage contribution to our total revenue by product categories for the periods indicated:

	For the year ended 31 December				For the six months ended			
	2014		2015		2015		30 June 2016	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
FRP Grating products	47,092	87.7	43,978	78.0	20,239	80.8	21,531	77.2
USCG Approved Phenolic Grating products	2,550	4.8	6,531	11.6	2,747	11.0	4,886	17.5
FRP Subway Evacuation Platform products	3,889	7.2	3,471	6.1	839	3.3	67	0.3
Epoxy Wedge Strip products	141	0.3	2,425	4.3	1,226	4.9	1,397	5.0
Total	53,672	100.0	56,405	100.0	25,051	100.0	27,881	100.0

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During the Track Record Period, sales of our FRP Grating products remained the largest contributor to our revenue and accounted for approximately 87.7%, 78.0% and 77.2% of our revenue, respectively. The revenue derived from the sales of our FRP Grating products decreased by approximately RMB3.1 million or approximately 6.6% from approximately RMB47.1 million for the year ended 31 December 2014 to approximately RMB44.0 million for the year ended 31 December 2015, primarily because of the decrease of approximately RMB5.2 million in 2015 in sales of our FRP Grating products to the U.S. to Customer A, who was our largest and second largest customer for the year ended 31 December 2014 and 2015, respectively, which was partially offset by the increase of approximately RMB3.1 million in sales of such products to one of our PRC customers as a result of our effort in consolidating our leading market position in this segment in the PRC. Since Customer A is a distributor and manufacturer of FRP products who may from time to time purchase FRP products from us on a needed basis to fulfil its own production needs, our Directors believe that the decrease in the sales of our FRP products to Customer A was primarily due to the decrease in sales of relevant FRP products by Customer A to its own customers. For the six months ended 30 June 2016, the revenue derived from the sale of our FRP Grating products increased by approximately RMB1.3 million or approximately 6.4% from approximately RMB20.2 million for the six months ended 30 June 2015 to approximately RMB21.5 million. The increase was mainly due to (i) increase in the total number of PRC customers placing purchase orders for such products with us; and (ii) increase in sale of such products to existing U.K., French and PRC customers by approximately RMB2.1 million, partially offset by the decrease in sales amounting to approximately RMB0.8 million to U.S., Canadian, German, and Australian customers.

The sales of our USCG Approved Phenolic Grating products increased by approximately RMB4.0 million or 156.1% from approximately RMB2.6 million for the year ended 31 December 2014 to approximately RMB6.5 million for the year ended 31 December 2015. The increase was primarily attributable to the increased order sizes from our existing customers, and the new orders from nine new domestic customers in 2015 for such products in 2015. For the six months ended 30 June 2016, the revenue derived from the sale of our USCG Approved Phenolic Grating products increased by approximately RMB2.2 million or approximately 77.9% from approximately RMB2.7 million for the six months ended 30 June 2015 to approximately RMB4.9 million. The increase was primarily due to increase in the total number of PRC customers placing purchase orders for such products with us, which was partially offset by the decrease in per customer purchase volume by our PRC customers who purchased such products during the six months ended 30 June 2015 and 2016.

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Our Group recorded a slight decrease of approximately RMB0.4 million or 10.7% in revenue recognised from our FRP Subway Evacuation Platform products from approximately RMB3.9 million for the year ended 31 December 2014 to approximately RMB3.5 million for the year ended 31 December 2015. The decrease was mainly due to decrease in order sizes our FRP Subway Evacuation Platform products sold to our major customers of such products in 2015 which was partially offset by purchases of such products from two new customers in 2015. The revenue derived from the sale of our FRP Subway Evacuation Platform products decreased from approximately RMB0.8 million for the six months ended 30 June 2015 to RMB67,000 for the six months ended 30 June 2016. The decrease was mainly because except for an existing customer who placed a small amount of orders for replenishment on an ad hoc basis, none of our customers placed any purchase order during the six months ended 30 June 2016, due to delay in the progress of railway construction projects undertaken by our existing and potential customers. As at the Latest Practicable Date, we have entered into a sale and purchase agreement for such products with a PRC customer at the consideration of approximately RMB6.3 million. Since the FRP Subway Evacuation Platform products will only be manufactured and delivered to such customer at the later stage of the subway construction project concerned, which is currently estimated to be around October 2017, it is expected that the substantial amount of revenue from such sale and purchase agreement will only be recognised at around the end of 2017 with no revenue will be recognised in 2016.

We commenced the sales of our Epoxy Wedge Strip products in 2014. The revenue derived from the sales of our Epoxy Wedge Strip products increased by approximately RMB2.3 million or 16.2 times from approximately RMB0.1 million for the year ended 31 December 2014 to approximately RMB2.4 million for the year ended 31 December 2015, mainly because (i) we first launched our Epoxy Wedge Strip products in July 2014 with only less than six months of sale in 2014, while we had a whole year sales of our Epoxy Wedge Strip products in 2015; (ii) the quality of our Epoxy Wedge Strip products resulted in the increasing market acceptance and demands; and (iii) the growing application of FRP materials in manufacturing wind-power blade roots for wind driven generator in the PRC. The revenue derived from the sale of our Epoxy Wedge Strip products increased by approximately RMB0.2 million or approximately 13.9% from approximately RMB1.2 million for the six months ended 30 June 2015 to approximately RMB1.4 million for the six months ended 30 June 2016. The increase was mainly due to the increase in the total number of PRC customers placing purchase orders for such products with us.

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The following table sets forth a breakdown of the average selling price and the sales volume by product categories during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	Average selling price per unit	Volume	Average selling price per unit	Volume	Average selling price per unit	Volume	Average selling price per unit	Volume
	(RMB)		(RMB)		(RMB)		(RMB)	
FRP Grating products (m ²)	297.2	158,467	300.5	146,346	288.5	70,154	271.3	79,363
USCG Approved Phenolic Grating products (m ²)	624.4	4,084	586.7	11,132	579.9	4,738	536.5	9,106
FRP Subway Evacuation Platform products (m ²)	555.6	7,000	659.6	5,262	638.7	1,313	854.7	78
Epoxy Wedge Strip products (m)	68.0	2,073	52.8	45,962	73.9	16,602	15.0	92,845

Our Group generally adopts a cost-plus pricing model without selling at loss in setting the selling price of our FRP products. This policy takes into account various factors including: (i) production costs such as raw materials costs, labour costs and other utilities expenses; (ii) our targeted gross margin percentage mark ups; (iii) the prevailing market condition; and (iv) the trend of exchange rate movement.

While numerous small-scale manufacturers disturbs normal pricing of the FRP industry by adopting low price strategy at the expense of quality of their products, our Group can survive the fierce competition without having to adopt such low price strategy and even expand due to (i) our well-established brand image among domestic customers who are willing to pay more for products of better quality and (ii) growing export to countries requiring higher standard of product quality, according to Sullivan.

The average selling price of our FRP Grating products per m² remained relatively stable at approximately RMB297.2 per m² and RMB300.5 per m² for the two years ended 31 December 2015 respectively, primarily because our PRC customers generally purchase FRP Grating products with similar specifications. The average selling price of our FRP Grating products decreased by approximately 6.0% from approximately RMB288.5 per m² for the six months ended 30 June 2015 to RMB271.3 per m² for the six months ended 30 June 2016. The

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average selling price of our FRP Grating product per m² decreased by approximately 9.7% from approximately RMB300.5 per m² for the year ended 31 December 2015 to approximately RMB271.3 per m² for the six months ended 30 June 2016. Such decreases were primarily due to (i) normal fluctuations in prices of different FRP Grating products and (ii) the variation in the composition of lower priced FRP Grating products sold.

Our USCG Approved Phenolic Grating products had approximately 6.0% price decrease from approximately RMB624.4 per m² for the year ended 31 December 2014 to approximately RMB586.7 per m² for the year ended 31 December 2015. The average selling price of our USCG Approved Phenolic Grating products per m² decreased by approximately 7.5% from approximately RMB579.9 per m² for the six months ended 30 June 2015 to RMB536.5 per m² for the six months ended 30 June 2016. The average selling price of our USCG Approved Phenolic Grating products per m² decreased by approximately 8.6% from approximately RMB586.7 per m² for the year ended 31 December 2015 to approximately RMB536.5 per m² for the six months ended 30 June 2016. Such decreases were primarily due to (i) normal fluctuations in prices of different USCG Approved Phenolic Grating products; (ii) the variation in the raw material composition of the USCG Approved Phenolic Grating products sold, using higher portion of fibre glass than resin in accordance with our customers' requests; and (iii) the increase in sale of pultruded USCG Approved Phenolic Grating products, which had a lower average selling price.

We experienced approximately 18.7% increase in the average selling price of our FRP Subway Evacuation Platform products from approximately RMB555.6 per m² for the year ended 31 December 2014 to approximately RMB659.6 per m² for the year ended 31 December 2015. The increase was mainly attributable to our Group having received purchase orders for customised FRP Subway Evacuation Platform products of more stringent specifications that required higher costs of raw materials used and more sophisticated production know-how in 2015, allowing us to charge a higher average selling price for such products. The average selling price of our FRP Subway Evacuation Platform products increased by approximately 33.8% from approximately RMB638.7 per m² for the six months ended 30 June 2015 to approximately RMB854.7 per m² for the six months ended 30 June 2016. The average selling price for our FRP Subway Evacuation Platform products increased by approximately 29.6% from approximately RMB659.6 per m² for the year ended 31 December 2015 to approximately RMB854.7 per m² for the six months ended 30 June 2016. Such increases were attributable to our Group having received a small amount of purchase orders from an existing customer for replenishment on an ad hoc basis in 2016 which incurred higher cost of sales, allowing us to charge a higher average selling price.

The average selling price of our Epoxy Wedge Strip products decreased by approximately 22.4% from approximately RMB68.0 per m for the year ended 31 December 2014 to approximately RMB52.8 per m for the year ended 31 December 2015 were primarily because the increased sale of low-cost based wedge strip product sets in 2015, which are with different and cheaper component mix. Our Epoxy Wedge Strip products had approximately 79.6% price decrease from approximately RMB73.9 per m for the six months ended 30 June 2015 to RMB15.0 per m for the six months ended 30 June 2016. The average selling price of our Epoxy Wedge Strip products decreased by approximately 71.6% from approximately RMB52.8 per m for the year ended 31 December 2015 to approximately 15.0 per m for the six months ended 30 June 2016.

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Such decreases were mainly due to (i) our strategy since January 2016 to lower our selling price of Epoxy Wedge Strip products to capture certain prospective customers and to gain market share and (ii) the substantial increase in sale in a kind of our Epoxy Wedge Strip products with different shape, weight and dimensions which had a lower average selling price. While such kind of Epoxy Wedge Strip products are produced with the same production facilities and substantially similar raw materials as the rest of our Epoxy Wedge Strip products, their overall weight and dimensions are smaller. As such, converting the average selling price from the meters sold to customers, to the equivalent raw material input basis using kilogram, is a more appropriate comparison in this case and it shows that the average selling price for our Epoxy Wedge Strip products was relatively stable during the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June	
	2014		2015		2016	
	Average Sales Volume	Average selling price per kg	Average Sales Volume	Average selling price per kg	Average Sales Volume	Average selling price per kg
	(kg)	(RMB)	(kg)	(RMB)	(kg)	(RMB)
Epoxy Wedge Strip products	6,143	23.0	86,743	28.0	47,023	29.7

Breakdown of revenue by geographical location

The table below sets forth a breakdown of our revenue as derived from the sale of our FRP products by geographical location and as a percentage of our revenue during the Track Record Period:

	Revenue for the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)							
PRC	22,280	41.5	29,273	51.9	11,040	44.1	14,693	52.7
U.S.	23,146	43.1	17,315	30.7	8,928	35.6	7,330	26.3
U.K.	5,137	9.6	6,953	12.3	3,656	14.6	4,553	16.3
Others ^(Note)	3,109	5.8	2,864	5.1	1,427	5.7	1,305	4.7
Total	<u>53,672</u>	<u>100.0</u>	<u>56,405</u>	<u>100.0</u>	<u>25,051</u>	<u>100.0</u>	<u>27,881</u>	<u>100.0</u>

Note: Others include but not limited to France, Canada, Germany and Indonesia.

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Sales of our products in the PRC market increased by approximately RMB7.0 million or 31.4% from approximately RMB22.3 million for the year ended 31 December 2014 to approximately RMB29.3 million for the year ended 31 December 2015, primarily attributable to: (i) the increase in sales of our FRP Grating products in the PRC as a result of our effort in consolidating our market leading position in terms of revenue generated in such segment in the PRC; (ii) the substantial increase in sales of our USCG Approved Phenolic Grating products due to the increase of orders from the new PRC customers; and (iii) the increase in sales of our Epoxy Wedge Strip products as a result of whole-year sale of such products in the year ended 31 December 2015 as compared to a partial period sale in the year ended 31 December 2014. Sale of our products in the PRC market increased by approximately RMB3.7 million or 33.1% from approximately RMB11.0 million for the six months ended 30 June 2015 to approximately RMB14.7 million for the six months ended 30 June 2016, mainly because of the substantial increase in sales of our FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products, partially offset by the decrease in sales of FRP Subway Evacuation Platform products.

Sales of our products to the U.S. market decreased by approximately RMB5.8 million or 25.2% from approximately RMB23.1 million for the year ended 31 December 2014 to approximately RMB17.3 million for the year ended 31 December 2015, primarily because of the decrease of approximately RMB5.2 million in sales of our FRP Grating products to the U.S. to Customer A, who was our largest customer for the year ended 31 December 2014 and our second largest customer for the year ended 31 December 2015, respectively. Sales of our products to the U.S. market decreased by approximately RMB1.6 million or 17.9% from approximately RMB8.9 million for the six months ended 30 June 2015 to approximately RMB7.3 million for the six months ended 30 June 2016, primarily attributable to the decrease of approximately RMB0.7 million in sales of our FRP Grating products to the U.S. Customer A, and the decrease of approximately RMB0.6 million in sales of our FRP Grating products to Customer the U.S. to Customer B, who was our second largest customer for the year ended 31 December 2014 and our largest customer for the year ended 31 December 2015, respectively. Our customers in the U.S. (who are generally distributors and manufacturers of FRP products) normally purchase our products on a needed basis. Our Directors believe that the aforesaid decrease in revenue from the U.S. market during the Track Record Period despite the increase in import value of FRP products in the U.S. during the same period (further details of which are set out in the section headed “Industry Overview – Recent Developments in the Foreign FRP Market – Products Made of FRP Composites Imports in U.S. and U.K.”) was primarily attributable to the decrease in the sales of FRP products by Customer A and Customer B (as the case may be) to their respective customers.

Sales of our products to the U.K. market increased by approximately RMB1.9 million or 35.4% from approximately RMB5.1 million for the year ended 31 December 2014 to approximately RMB7.0 million for the year ended 31 December 2015, primarily because of the increase of approximately RMB1.9 million in sales of our FRP Grating products to Customer E in the U.K. who made more purchases in recognition of the quality of our products; and partially offset by the decrease of approximately RMB0.2 million in sales of our FRP Grating products to the U.K. to Customer C, who was our third largest customer for the years ended 31 December 2014 and 2015, respectively. Sale of our products to the U.K. market increased by approximately RMB0.9 million or 24.5% from approximately RMB3.7 million for the six months ended 30 June 2015 to approximately RMB4.6 million for the six months ended 30 June 2016, primarily because of the increase of approximately RMB0.9 million in sales of our FRP Grating products to the U.K. to Customer C, our third largest customer for the years ended 31 December 2014 and 2015.

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Sales of our products to other geographical locations (for instance France, Canada, Germany and Indonesia) remained relatively stable during the Track Record Period at approximately RMB3.1 million and RMB2.9 million for the two years ended 31 December 2015, respectively, primarily where revenue generated from Indonesia decreased from approximately RMB0.6 million for the year ended 31 December 2014 to nil for the year ended 31 December 2015 due to completion of a project engaged in by our customer who used our FRP products in such project in 2014; and the decrease of approximately RMB0.1 million in sales of our products to France, which was partially offset by the increase in sales of our products in other countries such as Canada due to our increased marketing activities of our products to overseas customers. Sale of our products to other geographical locations (for instance France, Canada, Germany and Indonesia) decreased by approximately RMB0.1 million or 8.5% from approximately RMB1.4 million for the six months ended 30 June 2015 to approximately RMB1.3 million for the six months ended 30 June 2016, primarily where (i) revenue generated from Australia and Uruguay decreased to nil for the months ended 30 June 2016 as we did not receive any purchase orders from such customers and (ii) revenue generated from Canada and Germany decreased from approximately RMB0.3 million and RMB0.2 million for the six months ended 30 June 2015 to approximately RMB92,000 and RMB0.1 million for the six months ended 30 June 2016, respectively, due to normal fluctuations in demand for our FRP Grating products, which was partially offset by the increase in sale of our products to France from approximately RMB0.1 million for the six months ended 30 June 2015 to approximately RMB0.5 million for the six months ended 30 June 2016 due to increase in sales of our products to one of our existing customers in France.

Cost of sales

Our cost of sales comprises principally cost of materials used, direct labour and others. The table below sets forth a breakdown of our cost of sales by nature and percentage contribution to total cost of sales for the periods indicated:

	For the year ended 31 December				For the six months ended			
	2014		2015		2015		2016	
	<i>RMB'000</i>	<i>% to cost of sales</i>	<i>RMB'000</i>	<i>% to cost of sales</i>	<i>RMB'000</i> (unaudited)	<i>% to cost of sales</i>	<i>RMB'000</i>	<i>% to cost of sales</i>
Materials used:								
- Glass fibre	5,209	15.1	7,814	22.2	4,129	23.6	4,195	22.8
- Resin	12,254	35.4	10,398	29.6	3,702	21.1	3,762	20.5
- Others	6,000	17.4	7,396	21.0	3,478	19.8	3,534	19.3
Subtotal	23,463	67.9	25,608	72.8	11,309	64.5	11,491	62.6
Direct labour	5,180	15.0	5,329	15.2	2,939	16.7	2,707	14.8
Others	5,922	17.1	4,204	12.0	3,292	18.8	4,154	22.6
Total	<u>34,565</u>	<u>100.0</u>	<u>35,141</u>	<u>100.0</u>	<u>17,540</u>	<u>100.0</u>	<u>18,352</u>	<u>100.0</u>

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During the Track Record Period, the main factor affecting our total cost of sales was cost of materials used. The cost of materials used mainly comprises costs of glass fibre, resin and other consumables which include but not limited to pigment paste, styrene, catalyst, aluminium oxide and other chemicals procured and used in manufacturing our FRP products. It represented approximately 67.9%, 72.8% and 62.6% of our cost of sales for the year ended 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively. Since we derived the majority of our revenue from the selling of our FRP Grating products during the Track Record Period, most of our cost of materials used was primarily used for manufacturing FRP Grating products. Our cost of materials used increased by approximately RMB2.1 million or 9.1% from approximately RMB23.5 million for the year ended 31 December 2014 to approximately RMB25.6 million for the year ended 31 December 2015, primarily due to the increase in sales of our products during the same period, which was partially offset by the decrease in the raw material prices of resin during the same period. Our cost of materials used increased by approximately RMB0.2 million or 1.6% from approximately RMB11.3 million for the six months ended 30 June 2015 to approximately RMB11.5 million for the six months ended 30 June 2016, mainly due to the increase in sales of our FRP Grating products and USCG Approved Phenolic products, leading to increase in purchase of glass fibre, which was partially offset by the decrease in the raw material prices of resin during the same period. Please refer to the section headed “Industry Overview – Recent Developments in Raw Material Prices” for further details on the fluctuation in price of principal raw materials used in the production of FRP products.

Direct labour costs mainly represented wages to our manufacturing workers. The ratio of our direct labour costs to our total cost of sales was 15.0%, 15.2% and 14.8% for the two years ended 31 December 2015 and the six months ended 30 June 2016 respectively. Our direct labour costs remained relatively stable at approximately RMB5.2 million and RMB5.3 million for the two years ended 31 December 2015, respectively, primarily because the effect of increase of production volume based payments during the period, and the increased production yield rate with the reduced number of our manufacturing staff. Please refer to the section headed “Business – Employees” for further details. We recorded a decrease in our direct labour cost by approximately RMB0.2 million or 7.9% from approximately RMB2.9 million for the six months ended 30 June 2015 to approximately RMB2.7 million for the six months ended 30 June 2016. The decrease was mainly due to the increase in the degree of automation of our production process for the production of our FRP Grating products and USCG Approved Phenolic Grating products.

Other costs mainly comprised of (i) depreciation; (ii) electricity, steam and water; and (iii) other manufacturing costs (which include indirect labour costs, comprising salaries and bonuses paid to personnel who were not involved in the manufacturing processes). We recorded a decrease in our other costs by approximately RMB1.7 million or 29.0% from approximately RMB5.9 million in 2014 to approximately RMB4.2 million in 2015. The decrease was mainly due to the increased adoption of pultrusion production technology over moulding production technology, which required less steam consumption during the manufacturing process. Our other costs increased by approximately RMB0.9 million or 26.2% from approximately RMB3.3 million for the six months ended 30 June 2015 to approximately RMB4.2 million for the six months ended 30 June 2016. The increase was primarily attributable to the increase in the overall sales volume of our products.

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The following table sets out a breakdown of our cost of sales and average cost of sales per m² by product categories for the periods indicated:

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	Cost of sales	Average cost of sales per unit	Cost of sales	Average cost of sales per unit	Cost of sales	Average cost of sales per unit	Cost of sales	Average cost of sales per unit
	(RMB'000)	(RMB)	(RMB'000)	(RMB)	(RMB'000)	(RMB)	(RMB'000)	(RMB)
					(unaudited)		(unaudited)	
FRP Grating products (m ²)	30,603	193.1	28,043	191.6	14,293	203.7	14,461	182.2
USCG Approved Phenolic Grating products (m ²)	1,374	336.4	3,559	319.7	1,802	380.3	3,056	335.6
FRP Subway Evacuation Platform products (m ²)	2,155	307.9	2,127	404.2	568	432.6	52	666.7
Epoxy Wedge Strip products (m)	433	208.9 ^(Note)	1,412	30.7	877	52.8	783	8.4
Total	34,565		35,141		17,540		18,352	

Note:

The average cost of sales per unit of our Epoxy Wedge Strip products per metre for the year ended 31 December 2014 is much higher than the average selling price per unit for the same period, being RMB68.0 per m, mainly because the average cost of sales per unit for the year ended 31 December 2014 has taken into account the one-off expensed trial cost during the same year prior to the launching of such products.

The average cost of sales of our FRP Grating products per m² decreased by approximately RMB1.5 or 0.8% from approximately RMB193.1 for the year ended 31 December 2014 to approximately RMB191.6 for the year 2015, primarily because of the decrease in raw material price of resin during the period. The average cost of sales of our FRP Grating products per m² decreased by approximately RMB21.5 or 10.6% from approximately RMB203.7 for the six months ended 30 June 2015 to approximately RMB182.2 for the six months ended 30 June 2016, mainly due to decrease in costs for purchasing raw materials and the adoption of a more cost-effective method by increasing the degree of automation of our production process for the production of our FRP Grating products and USCG Approved Phenolic Grating products, which led to the rationalisation in number of our manufacturing personnel and resulted in lower staff costs.

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The average cost of sales of our USCG Approved Phenolic Grating products per m² decreased by approximately RMB16.7 or 5.0% from approximately RMB336.4 for the year ended 31 December 2014 to approximately RMB319.7 for the year 2015, primarily because of (i) the decrease in raw material price of resin during the period; and (ii) the increase in production yield rate as a result of the improvement of our production technology, which in turn enhanced our raw materials and labour efficiency. The average cost of sales of our USCG Approved Phenolic Grating products per m² decreased by approximately RMB44.7 or 11.8% from approximately RMB380.3 for the six months ended 30 June 2015 to approximately RMB335.6 for the six months ended 30 June 2016, mainly due to decrease in costs for purchasing raw materials and the adoption of a more cost-effective method that resulted in lower staff costs. The variation from 31 December 2015 to 30 June 2016 was due to the sales of products with different sizes and dimensions.

The average cost of sales of our FRP Subway Evacuation Platform products per m² increased by approximately RMB96.3 or 31.3% from approximately RMB307.9 for the year ended 31 December 2014 to approximately RMB404.2 for the year 2015, primarily because the specifications of such products required by our customers were generally more sophisticated, hence requiring higher costs of raw materials and labour used. The average cost of sales of our FRP Subway Evacuation Platform products per m² increased by approximately RMB234.1 or 53.9% from approximately RMB432.6 for the six months ended 30 June 2015 to approximately RMB666.7 for the six months ended 30 June 2016, mainly due to the small amount of orders our customer placed for replenishment on an ad hoc basis, which incurred higher average costs of raw materials and labour used compared to mass production.

The average cost of sales of our Epoxy Wedge Strip products per metre decreased by approximately RMB178.2 or 85.3% from approximately RMB208.9 for the year ended 31 December 2014 to approximately RMB30.7 for the year 2015, primarily because of the recognition of one-off expensed trial production cost during the year of 2014 prior to the launching of such products. The average cost of sales of our Epoxy Wedge Strip products per meter decreased by approximately RMB44.4 or 84.1% from approximately RMB52.8 for the six months ended 30 June 2015 to approximately RMB8.4 for the six months ended 30 June 2016, mainly due to the substantial increase in sales from a kind of our Epoxy Wedge Strip products with different shapes, weight and dimensions which had a lower average cost of sales per unit. While such kind of Epoxy Wedge Strip products were produced with the same production facilities and substantially similar raw materials as the rest of our Epoxy Wedge Strip products, their overall weight and dimensions were smaller. As such, converting the average cost of sales from the metres sold to customers, to the equivalent raw material input basis using kilogram, is a more appropriate comparison in this case and it shows that the average cost of sales for our Epoxy Wedge Strip products was relatively stable during the Track Record Period:

	For the year ended 31 December		2015		For the six months ended		
	2014		2015		2016		
	Average cost	Average cost	Average cost	Average cost	Average cost	Average cost	
Sales	of sales per	Sales	of sales per	Sales	of sales per	Sales	of sales per
Volume	kg	Volume	kg	Volume	kg	Volume	kg
(kg)	(RMB)	(kg)	(RMB)	(kg)	(RMB)	(kg)	(RMB)
Epoxy Wedge Strip products	6,143	70.5	86,743	16.3	47,023	16.7	

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The following sensitivity analysis illustrates the impact of hypothetical changes of cost of raw materials used and direct labour costs on profit before taxation for the two years ended 31 December 2015 and the six months ended 30 June 2016, with reference to the historical fluctuation of our cost of sales from 2014 to 2015 and the six months ended 30 June 2016:

	Impact on profit before taxation			
	For the year ended		For the six months ended	
	31 December		30 June	
	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of raw materials used change by:				
+10%	(2,346)	(2,561)	(1,131)	(1,149)
+5%	(1,173)	(1,280)	(565)	(575)
-5%	1,173	1,280	565	575
-10%	2,346	2,561	1,131	1,149

	Impact on profit before taxation			
	For the year ended		For the six months ended	
	31 December		30 June	
	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Direct labour costs change by:				
+10%	(518)	(533)	(294)	(271)
+5%	(259)	(266)	(147)	(136)
-5%	259	266	147	136
-10%	518	533	294	271

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Gross Profit

The following table sets forth our gross profits and gross profit margins by product categories for the Track Record Period.

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	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	%
FRP Grating products	16,489	35.0	15,935	36.2	5,946	29.4	7,070	32.8
USCG Approved Phenolic Grating products	1,176	46.1	2,972	45.6	945	34.4	1,830	37.5
FRP Subway Evacuation Platform products	1,734	44.6	1,344	38.7	271	32.3	15	22.4
Epoxy Wedge Strip products	(292) ^(Note)	— ^(Note)	1,013	41.8	349	28.5	614	44.0
Total	19,107	35.6	21,264	37.7	7,511	30.0	9,529	34.2

Note: We experienced a gross loss for our Epoxy Wedge Strip products for the year ended 31 December 2014, mainly because the cost of sales for the year ended 31 December 2014 has taken into account the one-off expensed trial cost during the same year prior to the launching of such products. Excluding the one-off expensed trial cost, our gross profit and gross profit margin for our Epoxy Wedge Strip products for the year ended 31 December 2014 amounted to approximately RMB42,000 and 29.8%, respectively.

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our overall gross profit was approximately RMB19.1 million, RMB21.3 million and RMB9.5 million and our gross profit margins were approximately 35.6%, 37.7% and 34.2% for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively. Our overall gross profit margin increased during the years ended 31 December 2014 and 2015 primarily because of (i) the relatively slower increase in our cost of sales as a result of the decrease in raw material price of resin; (ii) the increase in sales of our FRP Grating products to our PRC customers which generally enjoy a higher gross profit margin than selling to overseas customers; (iii) the increase in sales and gross profit margin of our Epoxy Wedge Strip products due to its production reverting to its normal cost level. Such increases were partially offset by the decrease in gross profit margins of our USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products. Our overall gross profit margin increased by approximately 4.2% from approximately 30.0% for the six months ended 30 June 2015 to approximately 34.2% for the six months ended 30 June 2016. The increase was mainly

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due to (i) the decrease in costs for purchasing raw materials because of the decrease in the raw material prices of resin during the period and (ii) the decrease in staff costs as a result of the increase in automation of the production processes for our FRP Grating products and USCG Approved Phenolic Grating products. The gross margin decrease from 31 December 2015 to 30 June 2016 was a combination of all of our products were sold at the lower average price levels.

The gross profit margin of our FRP Grating products increased by approximately 1.2% from approximately 35.0% for the year ended 31 December 2014 to approximately 36.2% for the year ended 31 December 2015. Such increase was mainly attributable to (i) the slight increase in sales price of our FRP Grating products in the PRC due to our effort in consolidating our leading market position in this segment; (ii) the decrease in raw material price of resin; and (iii) the decrease in revenue contribution from the sales of FRP Grating products to overseas customers which we generally set a lower average selling price. The gross profit margin of our FRP Grating products increased by approximately 3.4% from approximately 29.4% for the six months ended 30 June 2015 to 32.8% for the six months ended 30 June 2016, primarily because of (i) the decrease in costs for purchasing raw materials because of the decrease in the raw material prices of resin during the period and (ii) the decrease in staff costs as a result of the increase in automation of the production processes for our FRP Grating products. The gross profit margin of our FRP Grating products decreased from approximately 36.2% for the year ended 31 December 2015 to approximately 32.8% for the six months ended 30 June 2016. The decrease was mainly attributable to the decrease in average selling price of our FRP Grating products due to normal price fluctuations, which was partially offset by the decrease in costs for purchasing raw materials because of the decrease in the raw material prices of resin during the period.

The gross profit margin of our USCG Approved Phenolic Grating products remained relatively stable at approximately 46.1% for the year ended 31 December 2014 and approximately 45.6% for the year ended 31 December 2015, primarily because we had been able to reduce the production cost which partially offset the decrease of the sales price from 2014 to 2015. The gross profit margin of our USCG Approved Phenolic Grating products increased by approximately 3.1% from approximately 34.4% for the six months ended 30 June 2015 to approximately 37.5% for the six months ended 30 June 2016, mainly because of (i) the decrease in costs for purchasing raw materials as a result of the decrease in the raw material prices of resin during the period and (ii) the decrease in staff costs as a result of the increase in automation of the production processes for our USCG Approved Phenolic Grating products. The gross profit margin of our USCG Approved Phenolic Grating products decreased from approximately 45.6% for the year ended 31 December 2015 to approximately 37.5% for the six months ended 30 June 2016. The decrease was primarily due to the decrease in average selling price of our USCG Approved Phenolic Grating products because of normal price fluctuations and the variation in the raw material composition of such products, which was partially offset by the decrease in costs for purchasing raw materials as a result of the decrease in the raw material prices of resin during the period.

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The gross profit margin of our FRP Subway Evacuation Platform products decreased by approximately 5.9% from approximately 44.6% for the year ended 31 December 2014 to approximately 38.7% for the year ended 31 December 2015. Such decrease was primarily due to the extent of increase in average cost of sales for such products as a result of the more sophisticated specifications requirements from our customers was larger than the relatively smaller increase in average sales prices of such products. The gross profit margin of our FRP Subway Evacuation Platform products decreased by approximately 9.9% from approximately 32.3% for the six months ended 30 June 2015 to approximately 22.4% for the six months ended 30 June 2016. Such decrease was mainly attributable to the extent of increase in average cost of sales for such products as a result of the small amount of purchase orders we received from an existing customers for replenishment on an ad hoc basis was larger than the relatively smaller increase in average sales price of such products.

Our Epoxy Wedge Strip products reported a loss for the year ended 31 December 2014, mainly because we recognised the one-off trial production cost of this product in 2014. In 2015, the production cost reverted back to its normal level at a gross profit margin level of approximately 41.8%. The gross profit margin of our Epoxy Wedge Strip products increased from approximately 28.5% for the six months ended 30 June 2015 to approximately 44.0% for the six months ended 30 June 2016, and increased from approximately 41.8% for the year ended 31 December 2015 to approximately 44.0% for the six months ended 30 June 2016, primarily attributable to the substantial increase in sales of a kind of our Epoxy Wedge Strip products with different shapes, weight and dimensions which had a higher gross profit margin.

Other revenue

Our other revenue mainly consisted of interest income on bank deposits, reversal of impairment loss on trade and bill receivables, interest income on amounts due from related companies and others. The following table sets forth the breakdown of our other revenue for the periods indicated.

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Interest income on bank deposits	241	20.0	460	42.0	1	0.2	14	63.6
Interest income on amounts due from related companies	946	78.3	595	54.3	341	91.7	-	-
Government grants	21	1.7	41	3.7	30	8.1	8	36.4
Total	1,208	100.0	1,096	100.0	372	100.0	22	100.0

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Our interest income on bank deposits increased by RMB0.2 million or 90.9% from approximately RMB0.2 million for the year ended 31 December 2014 to approximately RMB0.5 million for the year ended 31 December 2015. Such increase was mainly attributable to the interest income of approximately RMB0.2 million generated in 2015 from a deposit of approximately RMB10.0 million pledged to a bank as security for a bank borrowing that was repaid in August 2015, while no interest was generated from such deposit in 2014. Our interest income on bank deposits increased from approximately RMB1,000 for the six months ended 30 June 2015 to approximately RMB14,000 for the six months ended 30 June 2016. Such increase was primarily due to the increase in cash in bank as a result of the repayment of shareholders' loan to our Group, which was deposited in our bank account prior to the dividend distribution, acquisition of Nantong Jianke and the repurchase of Shares as a result of the unwinding of Pre-IPO Investment during the period, and incurred interest income accordingly.

The interest income on amounts due from related companies was primarily derived from interest bearing loans in the aggregate amount of approximately RMB9.1 million to a related company, namely Sichuan Rike Electronics Co., Ltd. ("**Sichuan Rike**"). Our Controlling Shareholder, Mr. Shen, has controlling beneficial interest in Sichuan Rike. The said loans have interest rates ranging from 6.43% to 7.60% per annum. Please refer to the section headed "Business – Compliance and Legal Proceedings – Non-compliance" for further details of the non-compliance issue in relation to such loans. Our interest income on amounts due from related companies decreased by approximately RMB0.3 million or 37.1% from approximately RMB0.9 million for the year ended 31 December 2014 to approximately RMB0.6 million for the year ended 31 December 2015, primarily because (i) Sichuan Rike completely repaid the said loans prior to 31 December 2015 and hence less interest income was generated for the year ended 31 December 2015; and (ii) the said loans were short-term by nature, carried smaller interest rates than those loans in 2014. Our interest income on amount due from related companies decreased approximately RMB0.3 million or 100% from RMB0.3 million for the six months ended 30 June 2015 to nil for the six months ended 30 June 2016 as all loans due from related parties were repaid in full in 2015.

Government grants represent research and development funds received from the relevant government authorities in Haimenzhen. Government grants increased by approximately RMB20,000 or 95.2% from approximately RMB21,000 for the year ended 31 December 2014 to approximately RMB41,000 for the year ended 31 December 2015. Such increase was mainly due to government's initiatives for technology upgrading to award technology companies and companies conducting research and development. We record a decrease of government grants from approximately RMB30,000 for the six months ended 30 June 2015 to approximately RMB8,000 for the six months ended 30 June 2016, primarily because government grants are provided from time to time at the discretion of the relevant government authorities.

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Other net income

Other net income represents net foreign exchange gain and reversal of impairment loss on trade and bills receivables during the Track Record Period. Our other net income increased by approximately RMB0.6 million or over 6 times from approximately RMB0.1 million for the year ended 31 December 2014 to approximately RMB0.7 million for the year ended 31 December 2015 as a result of the appreciation of U.S. dollars against Renminbi, as most of our overseas sales were settled in U.S. dollars while almost all of our supplies were settled by Renminbi. Our other net income increased by approximately RMB0.4 million or approximately 242.2% from approximately RMB0.1 million for the six months ended 30 June 2015 to approximately RMB0.5 million for the six months ended 30 June 2016. Such increase was primarily attributable to the increase in reversal of impairment loss on trade and bills receivables from nil for the six months ended 30 June 2015 to approximately RMB0.4 million for the six months ended 30 June 2016 as we received certain overdue trade and bills receivables, which was partially offset by the decrease of approximately RMB24,000 in our net foreign exchange gain due to the depreciation of U.S. dollars against Renminbi. As our Group adopted a pricing policy that took into account the anticipated change in exchange rate, our Directors were of the view that our exposure to foreign exchange risk was insignificant and not necessary to adopt any hedging strategy. In the future, we will continue to monitor our foreign exchange exposure and take approximate actions should the needs arise. Please refer to the section headed “Business – Hedging” for details.

Distribution costs

Distribution costs are principally salaries, wages and other benefits for our sales personnel, marketing and advertising expenses, and delivery costs. The following table sets forth a breakdown of our distribution costs for the periods indicated:

	For the year ended 31 December		For the year ended 31 December		For the six months ended 30 June		For the six months ended 30 June	
	2014	2015	2014	2015	2015	2016	2015	2016
	% of total		% of total		% of total		% of total	
	distribution		distribution		distribution		distribution	
	RMB'000	costs	RMB'000	costs	RMB'000	costs	RMB'000	costs
	(unaudited)							
Sales personnel								
salaries, wages								
and other benefits	2,028	27.5	1,822	28.6	1,001	34.3	974	37.2
Marketing and								
advertising								
expenses	500	6.8	730	11.4	146	5.0	266	10.2
Delivery costs	2,224	30.1	1,996	31.3	1,191	40.9	827	31.6
Others ^(Note)	2,632	35.6	1,828	28.7	577	19.8	550	21.0
Total	7,384	100.0	6,376	100.0	2,915	100.0	2,617	100.0

Note: Others include but not limited to impairment of accounts receivables, installation fees and travelling fees.

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For the two years ended 31 December 2015 and six months ended 30 June 2015 and 2016, our distribution costs were approximately RMB7.4 million, RMB6.4 million and RMB2.9 million and RMB2.6 million, representing approximately 13.8%, 11.3%, 11.6% and 9.4%, respectively, of our revenue for the same period. Our distribution costs as a percentage to our revenue decreased during the Track Record Period, primarily because of (i) our adoption of a cost-effective distribution model, which include (a) controlling the amount of commission paid to our sales personnel by generally paying less commissions for recurring purchase orders from existing customers; (b) controlling our marketing expenses by requiring our sales personnel to stay in budget hotels and travel by economic means during visits to existing and potential customers; and (c) controlling our delivery costs by optimising delivery schedule to reduce the transport frequency; (ii) the decrease in salaries and commissions paid to our sales personnel due to the reduction in number of our sales personnel; and (iii) the decrease in delivery costs due to the change in our PRC customer mix, leading to the change in delivery routes and reduction in transportation fees incurred.

Delivery costs were the single largest component of our distribution expenses for the two years ended 31 December 2015 and the six months ended 30 June 2015 and the second largest component for the six months ended 30 June 2016, accounting for approximately 30.1%, 31.3%, 40.9% and 31.6% of our total distribution expenses for the same period, respectively. The decrease of our delivery costs amount during the two years ended 31 December 2015 was primarily due to the decrease in sales to our overseas customers and therefore less transportation fees and custom duties were incurred. The decrease in delivery costs amount from the six months ended 30 June 2015 to the six months ended 30 June 2016 was due to the increase in number of customers who were within closer proximities to our production base, thus a further reduced distance for product delivery routes.

Salaries, wages and other benefits for our sales personnel were the second largest component of our distribution expenses for the two years ended 31 December 2015 and the six months ended 30 June 2015 and the largest component for the six months ended 30 June 2016, accounting for approximately 27.5%, 28.6%, 34.3% and 37.2% of our total distribution expenses for the same period, respectively. The decrease of our salaries, wages and other benefits for our sales personnel during the two years ended 31 December 2015 was primarily due to the decrease in commissions paid to our sales personnel, since an increased portion of our revenue was recognised from the recurring purchases from our existing customers in 2015, we generally pay less commissions to our sales personnel for repeated purchase orders placed by such customers. Our salaries, personnel salaries, wages and other benefits decreased during the six months ended 30 June 2015 and 2016 mainly because of the decrease in salaries and commissions paid to our sales personnel due to (i) the departure of two of our sales personnel and (ii) the increased portion of our revenue was recognised from the recurring purchases from our existing customers in the first half of 2016.

Marketing and advertising fees accounted for approximately 6.8%, 11.4%, 5.0% and 10.2% of our total distribution expenses for the two years ended 31 December 2015 and the six months ended 30 June 2015 and 2016, respectively. The increase of our marketing and advertising fees during the Track Record Period was primarily due to the increase in our marketing effort to promote our brand name and to expand our sales network in 2015 and the first half of 2016.

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Administrative expenses

Administrative expenses mainly include staff costs, research and development costs, listing expenses and other costs. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended 31 December				For the six months ended 30 June			
	2014		2015		2015		2016	
	% of total administrative expenses		% of total administrative expenses		% of total administrative expenses		% of total administrative expenses	
	RMB'000		RMB'000		RMB'000		RMB'000	
	(unaudited)							
Staff costs	1,054	26.2	1,101	18.0	548	29.7	841	13.1
Research and development costs	1,077	26.8	2,377	38.9	475	25.8	538	8.3
Listing expenses	-	-	577	9.5	-	-	3,744	58.2
Others ^(Note)	1,892	47.0	2,052	33.6	821	44.5	1,311	20.4
Total	4,023	100.0	6,107	100.0	1,844	100.0	6,434	100.0

Note: Others include but not limited to depreciation and handling fees.

For the two years ended 31 December 2015 and the six months ended 30 June 2015 and 2016, our administrative expenses were approximately RMB4.0 million, RMB6.1 million, RMB1.8 million and RMB6.4 million, respectively, representing approximately 7.5%, 10.8%, 7.4% and 23.1%, respectively, of revenue for the same period.

Staff costs primarily includes salaries, wages and other benefits for our management, administrative and financial personnel and contributions to deferred contribution retirement schemes. As a result of our costs control measures, our staff costs remained relatively stable at approximately RMB1.1 million and RMB1.1 million for the years ended 31 December 2014 and 2015, respectively, despite the growth in our sales. Our staff costs increased by approximately RMB0.3 million or 53.5% from approximately RMB0.5 million for the six months ended 30 June 2015 to RMB0.8 million for the six months ended 30 June 2016. The increase was mainly because we have commenced to make social insurance and housing provident fund contributions for our employees in full in accordance with the relevant laws and regulations since January 2016.

Our research and development costs increased by approximately RMB1.3 million or 120.7% from approximately RMB1.1 million for the year ended 31 December 2014 (which include, among others, approximately RMB0.7 million salaries and bonuses paid to relevant personnel) to approximately RMB2.4 million the year ended 31 December 2015 (which include, among others, approximately RMB0.6 million salaries and bonuses paid to relevant

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personnel), primarily because we strengthened our research and development efforts in (i) improving our production technology for our FRP Grating products; and (ii) enhancing the quality of our USCG Approved Phenolic Grating products. Our research and development costs remained relatively stable at approximately RMB0.5 million (which include, among others, approximately RMB0.3 million salaries and bonuses paid to relevant personnel) and RMB0.5 million (which include, among others, approximately RMB0.4 million salaries and bonuses paid to relevant personnel) for the six months ended 30 June 2015 and 2016 respectively, as our Group maintained a similar research and development strategy.

During the year ended 31 December 2015 and the six months ended 30 June 2016, we incurred one-off, non-operating related Listing expenses of approximately RMB0.8 million, and RMB4.8 million, respectively, of which approximately RMB0.6 million and RMB3.7 million were charged as expenses into the consolidated statement of profit or loss for the year ended 31 December 2015 and the six months ended 30 June 2016.

Finance costs

Finance costs represent interest on bank borrowings. Our finance costs were approximately RMB2.8 million, RMB2.4 million, RMB1.1 million and RMB0.6 million for the two years ended 31 December 2015 and the six months ended 30 June 2015 and 2016, respectively, owing to the smaller borrowing amount from banks coupled with lower interest rates during the period. For details, please refer to the section headed “Relationship with Controlling Shareholders – Financial Independence” and notes 21 and 27 to the Accountants’ Report set out in Appendix I to this prospectus.

Income tax

Income tax consists of current tax and deferred tax. Current tax comprises PRC enterprise income tax on profits of our PRC subsidiary, Nantong Meigu. Nantong Meigu was subject to PRC enterprise income tax rate at 25% during the Track Record Period. Deferred tax is primarily recognised based on temporary differences in respect of (i) provision for impairment loss on trade and bills receivable; and (ii) withholding tax on distributable profits of our Group’s PRC subsidiary. Under the EIT Laws of the PRC, a 10% withholding tax is levied on dividends declared to non-resident shareholders in respect of profits earned by the PRC subsidiary after 1 January 2008. Our effective income tax rate, equal to the sum of our income tax expenses divided by our profit before tax, was approximately 32.1%, 34.2%, 32.3% and 367.2% for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively.

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI.

Non-HKFRS Measures

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted net profit and adjusted net profit margin as additional measures. Adjusted net profit excluding the one-off Listing expenses is calculated by net profit

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for the period excluding the one-off Listing expenses amounting to approximately RMB0.6 million and RMB3.7 million for the year ended 31 December 2015 and six months ended 30 June 2016, respectively. We present these financial measures because they are used by our management to evaluate our financial performance after eliminating the impact of items that we do not consider indicative to investors and others 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.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2015 compared with six months ended 30 June 2016

Revenue

The overall revenue of our Group increased by RMB2.8 million or 11.3% from RMB25.1 million for the six months ended 30 June 2015 to RMB27.9 million for the six months ended 30 June 2016. The increase was mainly attributable to increase in sales of our FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products, which was partially off-set by the decrease in sales of our FRP Subway Evacuation Platform products. For details of the revenue movement of each product category and of each geographical location, please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue” in this prospectus.

Cost of sales

Our cost of sales increased by approximately RMB0.9 million or 4.6% from approximately RMB17.5 million for the six months ended 30 June 2015 to approximately RMB18.4 million for the six months ended 30 June 2016, primarily attributable to the increase in sales costs due to (i) the increase in the total production volume of our products and (ii) the increase in cost of materials used, which was partially offset by the decrease in direct labour costs due to the increase in automation of the production lines for our FRP Grating products and USCG Approved Phenolic Grating products. Please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Cost of sales” in this prospectus for details relating to our cost of sales during the period.

Gross profit and gross profit margin

Consistent with the increase in our revenue, our gross profit increased by approximately RMB2.0 million or 26.9% from approximately RMB7.5 million for the six months ended 30 June 2015 to approximately RMB9.5 million for the six months ended 30 June 2016. The increase in our gross profit was mainly due to (i) the increase in sales of our FRP Grating products, USCG Approved Phenolic Grating products and Epoxy Wedge Strip products and (ii) decrease in direct labour costs due to the increase in automation of the production lines for our

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FRP Grating products and USCG Approved Phenolic Grating products, which was partially offset by the decrease in sales of our FRP Subway Evacuation Platform products and the increase in cost of materials used. Please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin” in this prospectus for details of analysis of our gross profit and gross profit margin during the period.

Other revenue

Our other revenue decreased by approximately RMB350,000 or 94.1% from approximately RMB372,000 for the six months ended 30 June 2015 to approximately RMB22,000 for the six months ended 30 June 2016. Such decrease was primarily due to (i) the decrease in our interest income on amount due from related companies as a result of the repayment in full of loans due from related parties in 2015 and (ii) the decrease in government grants as government grants are provided from time to time at the discretion of the relevant government authorities, which was partially offset by the increase in interest income on bank deposits because of the repayment of shareholders’ loan to our Group, which was deposited in our bank account and incurred interest income accordingly.

Other net income

We recorded an increase in our other net income by approximately RMB0.4 million or 242.2% from approximately RMB0.1 million for the six months ended 30 June 2015 to approximately RMB0.5 million for the six months ended 30 June 2016. This was mainly attributable to increase in reversal of impairment loss on trade and bills receivables as we received certain overdue trade and bills receivables, which was partially offset by the decrease in our net foreign exchange gain as a result of the depreciation of U.S. dollars against Renminbi.

Distribution costs

Our distribution costs decreased by approximately RMB0.3 million or 10.2% from approximately RMB2.9 million for the six months ended 30 June 2015 to approximately RMB2.6 million for the six months ended 30 June 2016, primarily because of (i) our adoption of a cost-effective distribution model; (ii) the decrease in salaries and commissions paid to our sales personnel due to the reduction in number of our sales personnel; and (iii) the decrease in delivery costs due to the change in our PRC customer mix, leading to the change in delivery routes and reduction in transportation fees incurred.

Administrative expenses

Our administrative expenses increased by approximately RMB4.6 million or over two times from approximately RMB1.8 million for the six months ended 30 June 2015 to approximately RMB6.4 million for the six months ended 30 June 2016. The increase was mainly due to (i) the incurring of listing expenses amounting to approximately RMB3.7 million and (ii) our commencement to making social insurance and housing provident fund contributions for our employees in full in accordance with the relevant laws and regulations since January 2016.

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Finance costs

Our finance costs decreased by approximately RMB0.5 million or 47.1% from approximately RMB1.1 million for the six months ended 30 June 2015 to approximately RMB0.6 million for the six months ended 30 June 2016, primarily attributable to decrease in the amount of our loans from banks which carried lower interest rates.

Income tax

Income tax increased by approximately RMB0.8 million or 118.3% from approximately RMB0.7 million for the six months ended 30 June 2015 to approximately RMB1.5 million for the six months ended 30 June 2016. This was mainly because of increase in profits (excluding the one-off Listing expenses of approximately RMB3.7 million which cannot be deducted when calculating the income tax) of our PRC subsidiary, Nantong Meigu, during the Period.

Loss for the period

As a result of the aforesaid and in particular the recognition of significant non-recurring of Listing expenses of approximately RMB3.7 million for the six months ended 30 June 2016, we recorded a loss for the period of approximately RMB1.1 million for the six months ended 30 June 2016, as opposed to a profit for the period of approximately RMB1.5 million for the six months ended 30 June 2015.

Year ended 31 December 2014 compared to year ended 31 December 2015

Revenue

The overall revenue of our Group increased by approximately RMB2.7 million or 5.1% from RMB53.7 million for the year ended 31 December 2014 to approximately RMB56.4 million for the year ended 31 December 2015, which was primarily due to increase in revenue from our USCG Approved Phenolic Grating products and Epoxy Wedge Strip products as a result of an increase in market recognition and demand of such products in the PRC. Such increase was partially offset by (i) the decrease in revenue from our FRP Grating products as a result of less purchase order placed by our major customer in the U.S., namely Customer A who was our largest customer for the two years ended 31 December 2015, respectively; and (ii) the decrease in revenue from our FRP Subway Evacuation Platform products as a result of the decrease in quantity of such product sold due to completion of certain railway construction projects undertaken by the relevant customers. For details of the revenue movement of each product category and of each geographical location, please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue” in this prospectus.

Cost of sales

Our cost of sales remained relatively stable at approximately RMB34.6 million for the year ended 31 December 2014 and approximately RMB35.1 million for the year ended 31 December 2015, primarily because the effect of increase in sales of our products was largely

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offset by (i) the decrease in raw material price of resin; and (ii) the decrease in raw materials and labour required for production as a result of the improvement in our production technology. For details of our cost of sales during the period, please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Cost of sales” in this prospectus.

Gross profit and gross profit margin

In line with the increase in our revenue, our gross profit increased by approximately RMB2.2 million or 11.3%, from approximately RMB19.1 million for the year ended 31 December 2014 to approximately RMB21.3 million for the year ended 31 December 2015. The increase in our gross profit was primarily due to (i) increase in gross profit margin of our FRP Grating products as a larger portion of such products were sold to our PRC customers than to overseas customers, where we generally set a higher average selling price of our FRP Grating products for our PRC customers than for our overseas customers; and (ii) increase in revenue contribution from our Epoxy Wedge Strip products which has a higher gross profit margin of approximately 41.8% for the year ended 31 December 2015. Please refer to the section headed “Financial Information – Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin” in this prospectus for details of analysis of our gross profit and gross profit margin during the period.

Other revenue

Our other revenue decreased by approximately RMB0.1 million or 9.3% from approximately RMB1.2 million for the year ended 31 December 2014 to approximately RMB1.1 million for the year ended 31 December 2015, which was primarily due to the net effect of (i) the decrease of approximately RMB0.4 million in interest income on amounts due from related companies as a result of the related loans being completely settled by Sichuan Rike in November 2015 and the related principal loans amount in 2015 generally earned lower interest rate than those in 2014; and (ii) the increase of approximately RMB0.2 million in interest income on bank deposits because interest was generated in 2015 from the relevant bank deposits of RMB10.0 million pledged to the bank as security for a bank borrowing while no interest was generated from such deposits in 2014.

Other net income

Our other net income increased by approximately RMB0.6 million or over 6 times from approximately RMB0.1 million for the year ended 31 December 2014 to approximately RMB0.7 million for the year ended 31 December 2015. This was mainly attributable to the appreciation of U.S. dollars against Renminbi in 2015.

Distribution costs

We recorded a decrease in our distribution costs by approximately RMB1.0 million or 13.7% from approximately RMB7.4 million for the year ended 31 December 2014 to approximately RMB6.4 million for the year ended 31 December 2015, primarily because (i) our

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effort in enhancing cost control; (ii) the decrease in sales personnel salaries, wages and other benefits by approximately RMB0.2 million; and (iii) the decrease in our delivery costs by approximately RMB0.2 million due to the decrease in sales to overseas customers, which was partially offset by the increase in our marketing and advertising costs by approximately RMB0.2 million as a result of increase in our marketing effort to promote our brand name and to expand our sales network.

Administrative expenses

Our administrative expenses increased by approximately RMB2.1 million or 51.8% from approximately RMB4.0 million for the year ended 31 December 2014 to approximately RMB6.1 million for the year ended 31 December 2015. The administrative expenses increased mainly because of the increase in our research and development costs by approximately RMB1.3 million owing to our increased effort in advancing our production technique and product quality, partially offset by the decrease in our staff costs by approximately RMB0.1 million as a result of our effort in streamlining our human resources and enhancing costs control.

Finance costs

Finance costs decreased by approximately RMB0.3 million or 11.6%, from approximately RMB2.8 million for the year ended 31 December 2014 to approximately RMB2.4 million for the year ended 31 December 2015, which was primarily attributable to the decrease in the average outstanding balance of our bank borrowings during the year ended 31 December 2015.

Income tax

Income tax increased by approximately RMB0.8 million or 38.0%, from approximately RMB2.0 million for the year ended 31 December 2014 to approximately RMB2.8 million for the year ended 31 December 2015, which was mainly due to increase in profits of our PRC subsidiary, Nantong Meigu, during the period.

Profit for the year

As a result of the foregoing, the profit for the year of our Group increased by approximately RMB1.1 million or 25.8%, from approximately RMB4.2 million for the year ended 31 December 2014 to approximately RMB5.3 million for the year ended 31 December 2015. The net profit margin of our Group increased from approximately 7.9% for the year ended 31 December 2014 to approximately 9.4% for the same period of 2015. The increase in our Group's profit for the year was mainly due to increase in our gross profit as discussed above while partially offset by the increase in administrative expenses and income tax expenses.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are mainly to finance our operations and satisfy our capital expenditure needs. During the Track Record Period, our principal sources of liquidity and capital resources were cash flow generated from operations and bank borrowings.

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Cash flows

The following table sets forth the selected cash flow data from the consolidated statements of cash flows for the period as indicated. This information should be read together with the consolidated financial information contained in the Accountant's Report in Appendix I to this prospectus.

	For the year ended		For the six months ended	
	31 December		30 June	
	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Unaudited)	
Operating cash flow before changes in working capital	10,333	12,089	4,081	1,645 ^(Note)
Net cash generated from operating activities	9,861	27,246	2,460	479 ^(Note)
Net cash (used in)/generated from investing activities	(977)	339	(209)	(48)
Net cash (used in)/generated from financing activities	(9,755)	(13,447)	(1,112)	(5,786)
Net (decrease)/increase in cash and cash equivalents	(871)	14,138	1,139	(5,355)
Cash and cash equivalents at beginning of the year	1,449	578	578	14,716
Cash and cash equivalents at end of the year	578	14,716	1,717	9,361

Note: Inclusive of one-off Listing expenses of approximately RMB3.7 million and prepaid Listing expenses of approximately RMB1.4 million.

Net cash generated from operating activities

Net cash generated from operating activities primarily consisted of profit before taxation adjusted for non-cash items, such as depreciation of property, plant and equipment, amortisation of interest in leasehold land held for own use under operating lease, impairment loss on trade receivables, finance costs and interest income.

Cash flow generated from operating activities is the major source of funds of our Group during the Track Record Period. We primarily derive our cash inflows from the sales of our various FRP products in the PRC and overseas. Our cash used in operations principally comprises payments for purchase of glass fibre and resin from our suppliers for the production of our FRP products.

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For the year ended 31 December 2014, our net cash generated from operating activities was approximately RMB9.9 million, primarily as a result of the combined effects of (i) approximately RMB10.3 million operating cash flows before changes in working capital; (ii) the decrease in amounts due from related companies of approximately RMB6.1 million; (iii) the decrease in amounts due from related parties of approximately RMB0.6 million; and (iv) the increase in trade and other payables of approximately RMB2.0 million. This was partially offset by (i) the increase in inventories of approximately RMB1.2 million; and (ii) the increase in trade and other receivables of approximately RMB7.0 million.

For the year ended 31 December 2015, our net cash generated from operating activities was approximately RMB27.2 million, primarily as a result of the combined effects of (i) approximately RMB12.1 million operating cash flows before changes in working capital; (ii) the decrease in inventories of approximately RMB2.3 million; (iii) the decrease in amounts due from related companies of approximately RMB13.3 million; and (iv) the decrease in amounts due from related parties of approximately RMB8.5 million. This was partially offset by (i) the increase in trade and other receivables of approximately RMB4.8 million; and (ii) the decrease in trade and other payables of approximately RMB1.6 million.

For the six months ended 30 June 2015, our net cash generated from operating activities was approximately RMB2.5 million, mainly due to (i) approximately RMB4.1 million operating cash flows before changes in working capital; (ii) the decrease in trade and other receivables and property held for sale of approximately RMB2.6 million; (iii) the decrease in amounts due from related companies of approximately RMB2.7 million. This was partially offset by (i) the increase in inventories of approximately RMB7,000; (ii) the decrease in trade and other payables of approximately RMB2.9 million; and (iii) the increase in amounts due from related parties of approximately RMB2.7 million.

For the six months ended 30 June 2016, our net cash generated from operating activities, including the one-off Listing Expenses, was approximately RMB0.5 million, primarily attributable to (i) approximately RMB1.6 million operating cash flow before changes in working capital and (ii) the increase in trade and other payables of approximately RMB2.3 million. This was partially offset by (i) the increase in inventory of approximately RMB0.1 million and (ii) the increase in trade and other receivables and property held for sale of approximately RMB0.6 million.

Net cash used in or generated from investing activities

For the year ended 31 December 2014, our net cash used in investing activities was approximately RMB1.0 million. The amount was mainly attributable to the payment for the purchase of property, plant and equipment of approximately RMB2.2 million, partially offset by the interest received of approximately RMB1.2 million.

For the year ended 31 December 2015, our net cash generated from investing activities was approximately RMB0.3 million. The amount was mainly attributable to the interest received of approximately RMB1.1 million, partially offset by the payment for the purchase of property, plant and equipment of approximately RMB0.7 million.

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For the six months ended 30 June 2015, our net cash used in investing activities was approximately RMB0.2 million. The amount was mainly attributable to the payment for the purchase of property, plant and equipment of approximately RMB0.6 million, partially offset by the interest received of approximately RMB0.3 million.

For the six months ended 30 June 2016, our net cash used in investing activities was approximately RMB48,000. The amount was primarily attributable to the payment for the purchase of a set of moulds of approximately RMB62,000, partially offset by interest received of approximately RMB14,000.

Net cash used in generated from financing activities

For the year ended 31 December 2014, our net cash used in financing activities was approximately RMB9.8 million, mainly attributable to the repayment to bank loans of approximately RMB50.5 million, the increase in pledged bank deposits of approximately RMB3.5 million, and the interest paid of approximately RMB2.8 million, partially offset by the proceeds of new bank loans of approximately RMB47.0 million.

For the year ended 31 December 2015, our net cash used in financing activities was approximately RMB13.4 million, mainly attributable to the repayment to bank loans of approximately RMB40.0 million, the interest paid of approximately RMB2.4 million and the distributions paid to a non-controlling shareholder of a subsidiary, Nantong Jianke, of RMB1.0 million, partially offset by the proceeds of new bank loans of approximately RMB20.0 million and the decrease in pledged bank deposits of approximately RMB10.0 million.

For the six months ended 30 June 2015, our net cash used in financing activities was approximately RMB1.1 million, mainly attributable to the interest paid of RMB1.1 million.

For the six months ended 30 June 2016, our net cash used in financing activities was approximately RMB5.8 million, primarily attributable to (i) interest paid of approximately RMB0.6 million; (ii) the acquisition of 14.63% equity interest in Nantong Meigu owned by Nantong Jianke at the consideration of approximately RMB4.4 million; and (iii) the distributions paid to Nantong Jianke of approximately RMB0.8 million. The proceeds from issuance of Shares of approximately RMB12.6 million is offset by the payment for repurchase of Shares due to the unwinding of Pre-IPO Investment during the period.

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NET CURRENT ASSETS

The table below sets forth our current assets and current liabilities as at 31 December 2014 and 2015, as at 30 June 2016 and as at 31 October 2016.

	As at 31 December		As at 30 June	As at 31 October
	2014	2015	2016	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current assets				
Inventories	6,256	3,982	4,173	3,918
Trade and other receivables	28,464	32,522	32,033	35,544
Property held for sale	–	–	1,468	1,468
Amounts due from related companies	13,269	–	–	–
Amounts due from related parties	8,494	–	–	–
Pledged bank deposits	10,000	–	–	–
Income tax recoverable	–	–	–	–
Cash and cash equivalents	578	14,716	9,361	5,081
	<u>67,061</u>	<u>51,220</u>	<u>47,035</u>	<u>46,011</u>
Current liabilities				
Trade and other payables	12,998	11,407	13,710	12,437
Bank borrowings	40,000	20,000	20,000	20,000
Distributions payable to a non-controlling shareholder of a subsidiary	–	756	–	–
Income tax payable	1,164	2,235	589	435
	<u>54,162</u>	<u>34,398</u>	<u>34,299</u>	<u>32,872</u>
Net current assets	<u>12,899</u>	<u>16,822</u>	<u>12,736</u>	<u>13,139</u>

Our current assets mainly included inventories, trade and other receivables, amounts due from related companies, amounts due from related parties, pledged bank deposits and cash and cash equivalents. Our current liabilities mainly included trade and other payables, bank borrowings, distributions payable to a non-controlling shareholder of a subsidiary and income tax payable.

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We recorded net current assets of approximately RMB12.9 million and RMB16.8 million as at 31 December 2014 and 2015, respectively. The increase in the net current assets was mainly due to (i) an increase of approximately RMB4.1 million in trade and other receivables; (ii) an increase of approximately RMB14.1 million in cash and cash equivalents; (iii) a decrease of approximately RMB1.6 million in trade and other payables; and (iv) a decrease of approximately RMB20.0 million in bank borrowings. The change in the net current assets was partially offset by (i) a decrease of approximately RMB2.3 million in inventories; (ii) a decrease of approximately RMB13.3 million in amounts due from related companies; (iii) a decrease of approximately RMB8.5 million in amounts due from related parties; (iv) a decrease of approximately RMB10.0 million in pledged bank deposits; (v) an increase of approximately RMB0.8 million in distributions payable to a non-controlling shareholder of a subsidiary; (vi) an increase of approximately RMB1.1 million in income tax payable.

Our net current assets decreased from approximately RMB16.8 million as at 31 December 2015 to approximately RMB12.7 million as at 30 June 2016. The decrease was mainly due to (i) the decrease in trade and other receivables of approximately RMB0.5 million; (ii) the decrease in cash and cash equivalents of approximately RMB5.4 million; and (iii) the increase in trade and other payables of approximately RMB2.3 million, and partially offset by (i) the increase in inventories of approximately RMB0.2 million; (ii) the increase in property held for sale of approximately RMB1.5 million; (iii) the decrease in distributions payable to Nantong Jianke of approximately RMB0.8 million; and (iv) the decrease in income tax payable of RMB1.6 million.

Inventories

Our inventories primarily consist of raw materials, work in progress and finished goods. The following table sets out the breakdown of our inventories as at the dates indicated and the inventory turnover days for the periods indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	3,218	2,133	2,500
Work in progress	1,908	1,152	1,414
Finished goods	1,130	697	259
	<u>6,256</u>	<u>3,982</u>	<u>4,173</u>
Total:	<u>6,256</u>	<u>3,982</u>	<u>4,173</u>

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	For the year ended		For the
	31 December		six months
	2014	2015	ended
	<i>Days</i>	<i>Days</i>	30 June
	<i>(Note 1)</i>	<i>(Note 1)</i>	2016
			<i>Days</i>
			<i>(Note 2)</i>
Inventory turnover days	60	53	41

Notes:

1. Inventory turnover days for the two years ended 31 December 2015 are calculated by dividing the average inventory balance by cost of sales for the period multiplied by 365 days for the two years ended 31 December 2015. Average inventory balance is the average of the beginning and ending inventory balances for the period.

2. Inventory turnover days for the six months ended 30 June 2016 are calculated by dividing the average inventory balance by the adjusted cost of sales derived by adding the cost of sales for the six months ended 30 June 2016 to and subtracting the cost of sales for the six months ended 30 June 2015 from the cost of sales for the year ended 31 December 2015. Average inventory balance is the average of the inventory balance as at 31 December 2015 and 30 June 2016.

Our inventories decreased by approximately RMB2.3 million or 36.3% from approximately RMB6.3 million as at 31 December 2014 to approximately RMB4.0 million as at 31 December 2015. The decrease was primarily due to (i) the decrease of approximately RMB1.1 million in purchases of raw materials; (ii) the decrease of approximately RMB0.8 million in our work in progress; and (iii) the decrease of approximately RMB0.4 million in our finished goods. Our inventories were higher as at 31 December 2014 than as at 31 December 2015, primarily because of our Group having received bulk purchase of our FRP Grating products during the end of 2014, the production and sales of which were completed in early 2015.

Our inventories increased by approximately RMB0.2 million or 4.8% from approximately RMB4.0 million as at 31 December 2015 to RMB4.2 million as at 30 June 2016. The increase was mainly due to (i) the increase in purchase of raw materials of approximately RMB0.4 million and (ii) the increase in our work in progress of approximately RMB0.3 million, partially offset by the decrease in finished goods of approximately RMB0.4 million.

Our inventory turnover days decreased from 60 days for the year ended 31 December 2014 to 53 days for the year ended 31 December 2015. The decrease was owing to a combination of the abovementioned reasons.

Our inventory turnover days decreased from 53 days for the year ended 31 December 2015 to 41 days for the six months ended 30 June 2016. The decrease was due to the reinforced inventory monitoring and raw materials procurement measures in place since January 2016.

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We closely monitor our inventory and maintain them on a first-in-first-out basis. In addition, to minimise our inventory risks, we generally adopted a “just-in-time” production model where we generally only commence procurement of raw materials and production of the required products upon receiving confirmed purchase orders from our customers. Please refer to the section headed “Business – Inventory Control and Logistics” of this prospectus for further details of our inventory control policies. As at 31 October 2016, approximately 89.5% of our inventories as at 30 June 2016, have been sold or utilised. No specific provision for obsolete inventories was made for the two years ended 31 December 2015 and the six months ended 30 June 2016.

Trade and other receivables

The following table sets out a summary of our trade and other receivables as at the dates indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	26,538	31,331	30,786
Less: allowance for doubtful debts	<u>(1,111)</u>	<u>(1,881)</u>	<u>(1,501)</u>
Net trade receivables	25,427	29,450	29,285
Bills receivables	<u>806</u>	<u>1,985</u>	<u>–</u>
Net trade and bills receivables	26,233	31,435	29,285
Prepayments, deposits and other receivables	<u>2,231</u>	<u>1,087</u>	<u>2,748</u>
	<u><u>28,464</u></u>	<u><u>32,522</u></u>	<u><u>32,033</u></u>

Trade and bills receivables

Our net trade receivables primarily represent net receivables from our customers for the sales of our FRP products. We generally grant credit periods to our customers ranging from cash on delivery to one year from the invoice date, based on factors such as their financial positions, credit history, duration of business relationship, market share and prospect, as well as the economic environment in which the customers operate. In particular, as part of our effort in consolidating our leading market position in the FRP Grating products segment in the PRC, we may grant certain PRC customers who (i) have good credit history; (ii) are involved in projects which require relatively long completion time; (iii) purchased comparatively large amount of products from us; and (iv) have good business relationship with us a credit term of one year in order to maintain our relationship with these customers.

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During the Track Record Period, we granted longer credit terms to 8 customers (ranging from three months from the invoice date to one year from the invoice date), who are generally downstream manufacturers in the PRC such as vessel manufacturers and public infrastructure construction enterprises. According to Sullivan, giving longer credit terms to such customers is an industry norm as (i) the duration of such customers' projects are usually long (typically lasting for one year to two years), and (ii) such customers are usually granted with a product warranty period of one year to two years after the completion of their projects to their satisfactions before settling the payments in full.

Our net trade receivables increased from approximately RMB25.4 million as at 31 December 2014 to approximately RMB29.5 million as at 31 December 2015, which was in line with the increase in our revenue during the same period and was primarily attributable to the increase in sale of our FRP products to our major customers in the PRC who we generally allowed longer settlement terms, taking into account their good settlement track record with our Group and financial capabilities. Our net trade receivables subsequently decreased to approximately RMB29.3 million as at 30 June 2016 mainly because we strengthened our collection of trade receivables.

For the bills receivables, our Group generally accepts settlement of trade receivables by bank acceptance bills for our PRC customers. Our bills receivables increased from approximately RMB0.8 million as at 31 December 2014 to approximately RMB2.0 million as at 31 December 2015, primarily as a result of the increase in revenue recognised from our PRC customers and the increased use of bank acceptance bills by some of our key PRC customers. We did not have any bill receivables as at 30 June 2016.

Our Group has in place a credit policy to monitor the recoverability of our trade and bills receivables on an ongoing basis, and, when appropriate, provides for impairment for these trade and bills receivables. Credit evaluations of our customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on our customer's past history of making payments when due and current ability to pay, and take into account information specific to our customer as well as pertaining to the economic environment in which the customer operates. Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of our Group about one or more of the following loss events: (i) significant financial difficulty of our customer; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it becoming probable that our customer will enter bankruptcy or other financial reorganisation; and (iv) significant changes in the technological, market, economic or legal environment that have an adverse effect on our customer. For those trade and bills receivables whose recovery is considered doubtful but not remote, impairment losses are recorded using an allowance account and will be written off against trade and bills receivables directly. When we are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the

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allowance account. As at 31 December 2014 and 2015 and the six months ended 30 June 2016, allowance for doubtful debts amounted to RMB1.1 million, RMB1.9 million and RMB1.5 million, respectively, which primarily related to the trade receivables from customers that our Directors considered to be uncollectible based on their recent repayment history and results of Company searches conducted on such customers.

The following table sets forth the breakdown of trade and bills receivables balance by PRC customers and overseas customer as at the dates indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC customers	22,665	24,862	23,818
Overseas customers	3,568	6,573	5,467
Total:	<u>26,233</u>	<u>31,435</u>	<u>29,285</u>

The following table sets forth the aging analysis of our trade and bills receivables (net of allowance for doubtful debts) based on the invoice date (or date of revenue recognition, if earlier) as at the dates indicated and the subsequent settlement of trade and bills receivables as at 30 June 2016 up to 31 October 2016:

	As at 31 December		As at	Subsequent
	2014	2015	30 June	settlement up
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	to 31 October
				2016
				<i>%</i>
0 – 30 days	12,120	6,498	6,835	47.9
31 – 90 days	4,908	11,530	8,454	62.5
91 – 180 days	4,180	4,099	5,337	59.7
Over 180 days	5,025	9,308	8,659	45.9
Total:	<u>26,233</u>	<u>31,435</u>	<u>29,285</u>	53.7

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The following table sets forth the ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	24,593	28,534	26,881
Past due but not impaired			
Less than 1 month past due	120	291	–
1 to 3 months past due	41	30	139
Over 3 months and less than 1 year past due	950	821	1,583
More than 1 year past due	529	1,759	682
	1,640	2,901	2,404
Total:	26,233	31,435	29,285

As at 31 December 2014 and 2015 and 30 June 2016, trade and bills receivables of approximately RMB1.6 million, RMB2.9 million and RMB2.4 million, respectively, were past due but not impaired. These relate to several credible customers who have a good track record with our Group.

As at 31 October 2016, 53.7% and 81.0% of our Group's net trade and bills receivables as at 30 June 2016 and 31 December 2015, respectively were subsequently settled.

Based on past experience, financial capabilities of the relevant customers and the subsequent settlements received from these customers, our Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality or possible default in payment, and the balances are still considered fully recoverable.

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The following table sets out the average trade and bills receivables turnover days for the periods indicated:

	For the year ended		For the
	31 December		six months
	2014	2015	ended
	<i>Days</i> ^(Note 1)	<i>Days</i> ^(Note 1)	30 June
			2016
			<i>Days</i> ^(Note 2)
Net trade and bills receivables turnover			
days	158	187	187

Notes:

1. Net trade and bills receivables turnover days for the two years ended 31 December 2015 are calculated by dividing the average net trade and bill receivables by corresponding revenue for the period multiplied by 365 days for the two years ended 31 December 2015. Average trade and bills receivables balance is the average of the beginning and ending trade and bills receivables balances for the period.

2. Net trade and bills receivables turnover days for the six months ended 30 June 2016 are calculated by dividing the average net trade and bills receivables by the adjusted revenue derived by adding the revenue for the six months ended 30 June 2016 to and subtracting revenue for the six months ended 30 June 2015 from the revenue for the year ended 31 December 2015. Average net trade and bills receivables is the average of net trade and bills receivables balance as at 31 December 2015 and 30 June 2016.

Our trade and bills receivables turnover days increased from 158 days in 2014 to 187 days in 2015, primarily due to increase in sale and partially due to increase in trade and bills receivables that were neither past due nor impaired, past due for less than 1 month, and more than 1 year, and remained at 187 days for the six months ended 30 June 2016 due to the consistent receivable collection measures applied since January 2016.

The following table sets forth the breakdown of trade and bills receivables turnover days by PRC customers and overseas customer for the periods indicated:

	For the year ended		For the six
	31 December		months
	2014	2015	ended
	<i>Days</i>	<i>Days</i>	30 June
			2016
			<i>Days</i>
PRC customers	288	296	270
Overseas customers	65	68	84

The trade and bills receivables turnover days of our PRC customers increased from 288 days in 2014 to 296 days in 2015, primarily mainly due to (i) the increase in sale to our PRC customers who had comparatively longer credit terms and partially due to increase in trade and

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bills receivables that were neither past due nor impaired, and subsequently decreased to 270 days for the six months ended 30 June 2016 mainly because the Group had no bill receivables as at the six months ended 30 June 2016. The trade and bills receivables turnover days of our overseas customers increased from 65 days in 2014 to 68 days in 2015, and continued to increase to 84 days. Such increases were primarily due to (i) the decrease in sales of our FRP Grating products to Customer A, one of our major customers in the U.S., who generally settled its payments within a shorter period of time when compared with other overseas customers; and (ii) the generally slowed settlements from Customer A during the corresponding periods.

Prepayments, deposits and other receivables

As at 31 December 2014 and 2015 and the six months ended 30 June 2016, our Group had prepayments, deposits and other receivables of approximately RMB2.2 million, RMB1.1 million and RMB2.7 million, respectively, which mainly represented billing deposits, utility deposits, interests generated from bank acceptance bills received by our Group and prepaid Listing expenses.

The prepayments, deposits and other receivables decreased by approximately RMB1.1 million from approximately RMB2.2 million as at 31 December 2014 to approximately RMB1.1 million as at 31 December 2015, primarily due to the repayment from both Mr. Jiang and Mr. Cheng Dong, the executive Directors of our Group, in settling the loans previously advanced to them.

Amounts due from related companies

The following table sets forth the breakdown of amounts due from related companies as at the dates indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nantong Sancon Electronics Technology Co., Ltd. (“Nantong Sancon”) ^(Note)	2,535	–	–
Sichuan Rike ^(Note)	9,734	–	–
Nantong Jianke	1,000	–	–
	13,269	–	–
Total:	13,269	–	–

Note: Mr. Shen, one of the Controlling Shareholders of the Company, has controlling interests in such company.

The amounts due from related companies represent advance to our related companies for their respective private use. As at 31 December 2014 and 2015, except for an outstanding amount of approximately RMB9.7 million due from Sichuan Rike as at 31 December 2014,

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which was interest bearing at 6.43% to 7.60% per annum, the remaining balances of approximately RMB3.5 million due from Nantong Sancon and Nantong Jianke were unsecured, interest-free and repayable within one year. All amounts due from our related companies as at 31 December 2014 was subsequently settled in full by 31 December 2015.

Amounts due from related parties

The following table sets forth the breakdown of amounts due from related parties as at the dates indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ms. Xu Yulan ^(Note)	3,172	–	–
Ms. Cao Xiaohong ^(Note)	5,322	–	–
	<hr/>	<hr/>	<hr/>
Total:	<u>8,494</u>	<u>–</u>	<u>–</u>

Note: Ms. Xu Yulan is a close family member of Mr. Shen, the Controlling Shareholder of the Company, while Ms. Cao Xiaohong is a close family member of Mr. Jiang Guitang, the Controlling Shareholder and an executive Director of the Company.

The amounts due from our related parties, which is non-trade nature, was unsecured, interest-free and repayable within one year. The amounts due from our related parties were approximately RMB8.5 million and nil as at 31 December 2014 and 2015, respectively, and represent advance to our related parties for their respective private use. The amount due from our related parties as at 31 December 2014 have been subsequently settled in full by 31 December 2015.

Pledged bank deposits

The balances of our pledged bank deposits were approximately RMB10.0 million, RMB113,000 and RMB113,000 as at 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively. Our pledged bank deposits represent (i) a deposit of approximately RMB10.0 million pledged to a bank as security for a bank borrowing amounting to RMB20.0 million to our Group; and (ii) an amount of approximately RMB113,000 placed in a bank account pledged in favour of a customer of our Group in relation to a sales transaction in lieu of the relevant customer retaining certain portion of the purchase price to secure the quality of the FRP Grating products procured. The deposit of approximately RMB10.0 million has been released when the relevant bank borrowing was repaid by our Group in August 2015. The amount of approximately RMB113,000 pledged to our customer will be released in January 2018 according to the sales agreement entered into between our Group and the customer.

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Cash and cash equivalents

Our cash and cash equivalents comprise cash at bank and cash on hand. Cash and cash equivalents amounted to approximately RMB0.6 million, RMB14.7 million and RMB9.4 million as at 31 December 2014 and 2015 and 30 June 2016, respectively. The increase in cash and cash equivalents from 31 December 2014 to 31 December 2015 was primarily due to increase in repayment from related companies and increase in repayment from related parties. The decrease in our cash and cash equivalents from 31 December 2015 to 30 June 2016 was mainly due to (i) acquisition of approximately 14.63% equity interest in Nantong Meigu owned by Nantong Jianke and (ii) the Listing expenses incurred during such period.

Trade and other payables

The following table sets forth the trade and other payables as at the dates indicated:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	10,175	8,701	11,028
Other payables	2,823	2,706	2,682
	<hr/>	<hr/>	<hr/>
Total:	12,998	11,407	13,710
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Trade payables

Our trade payables primarily relate to purchases of raw materials and machinery and equipment from our suppliers. Settlement is generally made in accordance with the terms specified in the contracts governing the relevant transactions. Our suppliers generally grant us credit terms of 30 days to 120 days from date of billing invoices. We normally settle such payables by bank transfer and bank acceptance bills.

Despite the increase in purchase of raw materials as a result of an increase in demand and sales of our FRP products, our trade payables balance decreased by approximately RMB1.5 million from approximately RMB10.2 million as at 31 December 2014 to approximately RMB8.7 million as at 31 December 2015, primarily due to increased cash flow from net cash generated from operating activities during the year ended 31 December 2015, which enabled us to settle payments to our suppliers in timely manner. Our trade payables increased by approximately RMB2.3 million or 26.7% to RMB11.0 million as at 30 June 2016, mainly because of the increase in procurement of raw materials during the first half of 2016.

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The following table sets forth an analysis of trade payables by age based on the invoice date:

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	3,907	1,406	4,068
31 – 90 days	4,573	3,450	4,237
91 – 180 days	1,571	2,834	1,565
Over 180 days	124	1,011	1,158
Total:	10,175	8,701	11,028

The following table sets out the average trade payables turnover days for the periods indicated:

	For the year ended		For the
	31 December		six months
	2014	2015	ended
	<i>Days^(Note 1)</i>	<i>Days^(Note 1)</i>	30 June
	<i>Days^(Note 1)</i>	<i>Days^(Note 1)</i>	<i>Days^(Note 2)</i>
Trade payables turnover days	101	98	100

Notes:

1. Trade payables turnover days are calculated by dividing the average trade payables by corresponding cost of sales for the period multiplied by 365 days for the two years ended 31 December 2015. Average trade payables balance is the average of the beginning and ending trade payables balances for the period.
2. Trade payables turnover days for the six months ended 30 June 2016 are calculated by dividing the average trade payables by the adjusted cost of sales derived by adding the cost of sales for the six months ended 30 June 2016 to and subtracting the cost of sales for the six months ended 30 June 2015 from the cost of sales for the year ended 31 December 2015. Average trade payables is the average of the trade payables balance as at 31 December 2015 and 30 June 2016.

Our trade payables turnover days remained stable from 101 days in 2014 to 98 days in 2015, primarily due to the increased cash flow from operations enabled a settlement of trade payables in a timely fashion, and remained relatively stable at 100 days for the six months ended 30 June 2016, because (i) we were able to settle payments to our suppliers in timely manner and (ii) there was no significant increase in procurement of raw materials during the first half of 2016.

As at 31 October 2016, 68.8% and 90.8% of our Group's trade payables as at 30 June 2016 and 31 December 2015, respectively were subsequently settled.

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Other payables

Other payables mainly represent commissions payable to our sales personnel for new customers secured. Our other payables remained relatively stable at approximately RMB2.8 million and RMB2.7 million as at 31 December 2014 and 2015, respectively, and subsequently decreased to RMB2.7 million as at 30 June 2016 mainly due to previous year's commissions payable was settled during the period.

Bank borrowings

Please refer to the paragraph headed "Indebtedness – Bank borrowings" below in this section for further information.

Distributions payable to a non-controlling shareholder of a subsidiary

Our distributions payable to a non-controlling shareholder of a subsidiary increased from approximately nil as at 31 December 2014 to approximately RMB0.8 million as at 31 December 2015. The increase was primarily attributable to our PRC subsidiary, Nantong Meigu, having declared a dividend of approximately RMB12.0 million in respect of the financial year ended 31 December 2014 to its then shareholders, of which approximately RMB1.8 million was payable to Nantong Jianke, who was a non-controlling shareholder holding approximately 14.63% of the total issued share capital of Nantong Meigu throughout the Track Record Period. Of the RMB1.8 million dividends declared by Nantong Meigu to Nantong Jianke, approximately RMB1.0 million had been settled in 2015 by setting off against the amount due from Nantong Jianke. The remaining dividends of approximately RMB0.8 million was fully settled as at 30 June 2016.

Income tax payable

The tax payable balances of our Group were approximately RMB1.2 million and RMB2.2 million as at 31 December 2014 and 2015, respectively. The increase in income tax payable was mainly due to increase in profits in 2015. The tax payable balance subsequently decreased to approximately RMB0.6 million as at 30 June 2016 mainly due to us paying approximately RMB2.7 million during the period.

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INDEBTEDNESS

Bank borrowings

Our Group had bank borrowings of approximately RMB40.0 million, RMB20.0 million and RMB20.0 million as at 31 December 2014 and 2015 and 30 June 2016 respectively. The following table sets forth the analysis of the carrying amount as at the dates indicated:

	As at 31 December		As at	As at
	2014	2015	30 June	31 October
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand^(Note 1)				
Secured ^(Note 2)	20,000	10,000	10,000	10,000
Unsecured ^(Note 3)	20,000	10,000	10,000	10,000
Total	40,000	20,000	20,000	20,000

Notes:

- (1) As at 31 December 2014, 31 December 2015 and 30 June 2016, all the bank borrowings were guaranteed by Mr. Shen Qixian, being the father of Mr. Shen and a director of Nantong Meigu, and Mr. Jiang, a Controlling Shareholder and a Director of our Company, and their respective close family members. In August 2016 and as at 31 October 2016, the guarantee had been released.
- (2) As at 31 December 2014, the bank borrowings were secured by buildings, a leasehold land and a bank deposit of our Group. As at 31 December 2015, 30 June 2016 and 31 October 2016, the bank borrowings were secured by buildings and a leasehold land of our Group.
- (3) The unsecured bank borrowings were further guaranteed by a guarantee company in the PRC.

Our Group's bank borrowings were primarily used in financing the general capital requirements of our operations. With the increase in cash flow from operating activities and the decrease in cash flow requirement due to our enhanced cost control measures, our Group settled all bank borrowings as at 31 December 2014 in 2015 and subsequently obtained short term bank loans of smaller amount, which led to the decrease in our bank borrowings as at 31 December 2015. The bank borrowings as at 31 December 2015 and 30 June 2016 are at a fixed interest rate of 5.8% per annum. We did not obtain any additional bank loan as at 30 June 2016. As at 31 October 2016, such bank borrowings were fully utilised. Our Directors confirm that the personal guarantees provided by Mr. Shen, Mr. Jiang Guitang and their respective close family members will be released and replaced by a corporate guarantee provided by the Company upon Listing.

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During the Track Record Period, the bank borrowing agreements were entered into with the lenders under normal standard terms and conditions and do not contain any special restrictive covenants. During the Track Record Period and as of the Latest Practicable Date, none of our lenders have claimed default against us under any of the terms in the bank borrowing agreements.

Our Directors confirm that our Group has not experienced any difficulty in obtaining bank borrowings, default in payment on bank borrowings or breach of finance covenants during the Track Record Period and up to the Latest Practicable Date and that they do not foresee any difficulty in obtaining bank borrowing after the Latest Practicable Date.

Save as aforesaid or otherwise disclosed herein, we did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, debentures, finance lease obligations or material contingent liabilities or guarantees outstanding as at 31 October 2016.

WORKING CAPITAL

Taking into account the financial resources available to our Group, including the available cash and cash equivalents, banking facilities, cash flows generated from our operations, and the estimated net proceeds from the Placing, our Directors are of the view, that, after due and careful inquiry, our Group has available sufficient working capital for our present requirements for at least the next 12 months commencing from the date of this prospectus.

CAPITAL EXPENDITURE

The following table sets forth our historical capital expenditures during the periods indicated:

	For the year ended		For the six months	
	31 December		ended 30 June	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	2,164	716	551	62

During the Track Record Period, we incurred capital expenditures for the purchase of new production equipment for manufacturing our pultruded FRP products so as to enhance our production capacity to fulfill the anticipated increase in purchase orders for our USCG Approved Phenolic products, FRP Subway Evacuation Platform products and Epoxy Wedge Strip products. Our capital expenditures decreased from approximately RMB2.2 million for the year ended 31 December 2014 to approximately RMB0.7 million for the year ended 31

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December 2015, and decreased from approximately RMB0.6 million for the six months ended 30 June 2015 to approximately RMB62,000 for the six months ended 30 June 2016, primarily because our Group has sufficient production capacity to fulfill our sales and hence we slowed down the pace of acquiring new production moulds. We principally funded our capital expenditures through internal resources and bank borrowings.

We expect to incur approximately RMB10.8 million capital expenditure for the year ending 31 December 2017 for (i) the enhancement of our existing pultrusion equipment and associated resin basins and pre-form machine and the procurement of testing equipment to optimise production costs and improve our product quality; (ii) the purchase of hydraulic presses to produce the parts for our FRP Subway Evacuation Platform products; (iii) the automation of the cutting process of our pultrusion production process; (iv) purchase of automated FRP moulding production facilities; (v) purchase of new production equipment for our new FRP crosstie products; and (vi) procurement of testing equipment for our continuous research and development for our new FRP crosstie products. We expect to meet future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operations and bank borrowings, as well as net proceeds from the Placing. Where our Directors consider appropriate and necessary, we may raise additional funds on terms that are acceptable to us.

CAPITAL AND LEASE COMMITMENTS

As at the end of each of the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our Group had no material outstanding capital and lease commitments.

CONTINGENT LIABILITIES

As at the end of each of the year ended 31 December 2014 and 2015 and the six months ended 30 June 2016, our Group did not have any material contingent liabilities.

SUBSEQUENT EVENTS

Other than the reorganisation as referred in the section headed “History, reorganisation and development – Reorganisation” in this prospectus, we had no material events subsequent to the Track Record Period and up to the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangement.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 27 to the Accountants’ Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties and were fair and reasonable and in the interest of the Shareholders as a whole.

FINANCIAL INFORMATION

SELECTED KEY FINANCIAL RATIOS

The following table sets forth our selected key financial ratios during the Track Record Period:

	As at/for the year ended		As at/ for the six months ended
	31 December		30 June
	2014	2015	2016
Gross profit margin ^(Note 1)	35.6%	37.7%	34.2%
Net profit margin ^(Note 2)	7.9%	9.4%	(4.0%) ^(Note 9)
Adjusted net profit margin ^(Note 3)	7.9%	10.5%	9.5%
Gearing ratio ^(Note 4)	133.1%	59.5%	71.0%
Current ratio ^(Note 5)	1.2x	1.5x	1.4x
Quick ratio ^(Note 6)	1.1x	1.4x	1.2x
Return on equity ^(Note 7)	15.1%	16.7%	8.9% ^(Note 10)
Return on assets ^(Note 8)	7.6%	10.3%	6.2% ^(Note 10)

Notes:

- (1) The gross profit margin is calculated by dividing the gross profit by the revenue for the respective year/trailing twelve months immediately up to the end of the period multiplied by 100%.
- (2) The net profit margin is calculated by dividing the net profit by the revenue for the respective year/trailing twelve months immediately up to the end of the period multiplied by 100%.
- (3) The adjusted net profit margin is calculated by dividing the net profit (excluding the one-off Listing expenses amounting to approximately RMB0.6 million and RMB3.7 million for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively) by the revenue for the respective year/period multiplied by 100%. The terms of adjusted net profit margin and adjusted net profit are not defined under HKFRS. Please see section headed “Financial Information – Non-HKFRS Measures” in this prospectus for details.
- (4) The gearing ratio is calculated by dividing total bank borrowings with total equity as at the end of respective periods multiplied by 100%.
- (5) The current ratio is calculated by dividing current assets with current liabilities as at the end of the respective periods.
- (6) The quick ratio is calculated by dividing current assets less inventories with current liabilities as at the end of the respective periods.
- (7) Return on equity equals the net profit or loss for the respective year/trailing twelve months immediately up to the end of the period divided by the average balance of total equity as at the end of the respective periods multiplied by 100%.
- (8) Return on assets is calculated by the net profit or loss for the respective year/trailing twelve months immediately up to the end of the period divided by the average balance of total assets as at the end of the respective periods multiplied by 100%.
- (9) Negative net profit margin, return on equity and return on assets were calculated based on the net loss recorded for the six months ended 30 June 2016.
- (10) Calculated based on the trailing twelve months net profit, divided by using average balance as at 31 December 2015 and 30 June 2016.

Gross profit margin

Gross profit margin is our gross profit for the year/trailing twelve months immediately up to the end of the period as a percentage of our total revenue for each financial period.

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Our gross profit margin increased from approximately 35.6% for the year ended 31 December 2014 to approximately 37.7% for the year ended 31 December 2015, primarily because of (i) the relatively less increase in our cost of sales as a result of the decrease in raw material price of resin; (ii) the increase in sales of our FRP Grating products to our PRC customers which generally enjoy a higher gross profit margin than selling to overseas customers; and (iii) the increase in sales and gross profit margin of our Epoxy Wedge Strip products due to the epoxy wedge strips production reverting to its normal cost level, partially offset by the decrease in gross profit margins of our USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products. Our gross profit margin subsequently decreased to approximately 34.2% for the six months ended 30 June 2016 mainly because of the decrease in sales of our FRP Subway Evacuation Platform products and the decrease in gross profit margins of our FRP Grating products, USCG Approved Phenolic Grating products and FRP Subway Evacuation Platform products. For further information in relation to our gross profit margin, please refer to the paragraph headed “Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross Profit” in this section.

Net profit margin

Net profit margin is our net profit for the year/trailing twelve months immediately up to the end of the period as a percentage of our total revenue for each financial period.

Our net profit margin increased from approximately 7.9% for the year ended 31 December 2014 to approximately 9.4% for the year ended 31 December 2015, primarily due to the increase in our gross profit as discussed above while partially offset by the increase in administrative expenses and income tax expenses. A negative net profit margin of (4.0%) was recorded for the six months ended 30 June 2016, which was primarily due to the one-off Listing expenses amounting to approximately RMB3.7 million during the period, such expenses were not tax deductible. For further details of our change in products mix during the Track Record Period, please refer to the paragraph headed “Description of Selected Items from Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue – Breakdown of revenue by products categories” in this section to the prospectus.

Adjusted net profit margin

Adjusted net profit margin is our net profit excluding the one-off Listing expenses for the year/trailing twelve months immediately up to the end of the period as a percentage of our total revenue for each financial period.

Our adjusted net profit margin increased from approximately 7.9% for the year ended 31 December 2014 to approximately 10.5% for the year ended 31 December 2015, mainly due to the increase in our gross profit as discussed above while partially offset by the increase in administrative expenses and income tax expenses. Our adjusted net profit margin subsequently decreased to approximately 9.5% for the six months ended 30 June 2016, primarily because of the decrease in sales of our FRP Subway Evacuation Platform products as the current progress of our customers’ projects has not reached the stages where the use of our FRP Subway Evacuation Platform products is required. For details, please refer to the paragraph headed “Non-HKFERS Measures” in this section.

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Gearing Ratio

Gearing ratio is the total amount of our loans and borrowings as a percentage of total equity as at the end of each financial period.

Our gearing ratio decreased from approximately 133.1% as at 31 December 2014 to 59.5% as at 31 December 2015 mainly because of the decrease in bank borrowings from approximately RMB40.0 million as at 31 December 2014 to RMB20.0 million as at 31 December 2015 owing to (i) settlement of bank borrowings by our Group; and (ii) increased net cash generated from operating activities to fulfill general working capital requirement of our Group. Our gearing ratio subsequently increased to approximately 71.0% as at 30 June 2016, mainly because of (i) the loss and total comprehensive loss for the period of approximately RMB1.1 million; (ii) the acquisition of 14.63% equity interest in Nantong Meigu owned by Nantong Jianke at the consideration of approximately RMB4.4 million; and (iii) the payment for repurchase of shares of approximately 12.6 million, partially offset by the proceeds from issuance of shares of approximately RMB12.6 million.

Current ratio

Current ratio is derived by dividing our current assets by our current liabilities at the end of each financial period.

Our current ratio increased from approximately 1.2 times as at 31 December 2014 to approximately 1.5 times as at 31 December 2015, primarily due to (i) the increase in our trade and other receivables as a result of our growth in sales; and (ii) the decrease in our short-term bank borrowings because of our enhanced net cash generated from operating activities and cost control measures. Our current ratio slightly decreased to approximately 1.4 times as at 30 June 2016, primarily attributable to (i) the decrease in trade and other receivables; (ii) the decrease in cash and cash equivalents; and (iii) the increase in trade and other payables, and partially offset by (i) the increase in inventories; (ii) the increase in property held for sale; (iii) the decrease in distributions payable to Nantong Jianke; and (iv) the decrease in income tax payable.

Quick ratio

Our quick ratio is derived by dividing current assets less inventory with current liabilities at the end of each financial period.

Our quick ratio increased from approximately 1.1 times as at 31 December 2014 to approximately 1.4 times as at 31 December 2015 primarily due to (i) the increase in our trade and other receivables as a result of our growth in sales; and (ii) the decrease in our short-term bank borrowings because of our enhanced net cash generated from operating activities and cost control measures. Our quick ratio decreased to approximately 1.2 times as at 30 June 2016, primarily attributable to (i) the decrease in trade and other receivables; (ii) the decrease in cash and cash equivalents; and (iii) the increase in trade and other payables, and partially offset by (i) the increase in property held for sale; (ii) the decrease in distributions payable to Nantong Jianke; and (iii) the decrease in income tax payable.

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Return on equity

Our return on equity is our profit for the year/trailing twelve months immediately up to the end of the period as a percentage of our equity for each financial period.

Our return on equity increased from approximately 15.1% for the year ended 31 December 2014 to approximately 16.7% for the year ended 31 December 2015, primarily due to the increase in our net profit for the year ended 31 December 2015 as detailed above.

Return on equity of 8.9% was recorded for the six months ended 30 June 2016, which was mainly due to the one-off Listing expenses amounting to approximately RMB3.7 million as detailed above, partially offset by the reduced equity balance as at 30 June 2016 of approximately RMB5.4 million, owing to the decrease of the cash balance.

Return on assets

Return on assets is our profit for the year/trailing twelve months immediately up to the end of the period as a percentage of our total assets for each financial year/period.

Our return on assets increased from approximately 7.6% for the year ended 31 December 2014 to approximately 10.3% for the year ended 31 December 2015, primarily due to (i) the increase in our net profit for the year ended 31 December 2015 as detailed above; and (ii) the decrease in our total assets in 2015 as a result of the settlement of dividend declared in 2014.

Return on assets of 6.2% was recorded for the six months ended 30 June 2016, which was mainly due to the one-off Listing expenses amounting to approximately RMB3.7 million as detailed above, partially offset by the reduced assets balance as at 30 June 2016 of approximately RMB5.1 million, owing to the decrease of the cash balance.

FINANCIAL RISK MANAGEMENT

During our conduct of business, we are exposed to various types of market risks including credit risk, liquidity risk, interest rate risk and currency risk.

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Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to our Group. Our Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Our Group's credit risk is primarily attributable to trade and bills receivables. In order to minimise risk, our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of our customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on our customer's past history of making payments when due and current ability to pay, and take into account information specific to our customer as well as pertaining to the economic environment in which our customer operates. Trade and bills receivables are usually due within one year from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, our Group does not obtain collateral from its customers.

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2014 and 2015 and 30 June 2016, 17.4%, 11.8% and 14.7%, and, 51.3%, 43.5%, and 41.1%, of the total trade and bills receivables was due from our largest debtor and our five largest debtors, respectively.

As at 31 December 2014, our Group's credit risk was also attributable to amounts due from related companies and related parties. Our Group's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the amounts have been fully settled during the year ended 31 December 2015.

Liquidity risk

Individual operating entities within our Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to each entity's board approval. Our Group's policy is to regularly monitor current and expected liquidity requirements to ensure that we maintain sufficient amount of cash to meet our liquidity requirements in the short and longer term.

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The following tables set out the remaining contractual maturities at the end of each reporting period during the relevant periods of our Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date our Group can be required to pay.

	Total undiscounted cash flows within 1 year <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
As at 31 December 2014		
Trade and other payables	12,998	12,998
Bank borrowings	41,083	40,000
	54,081	52,998
As at 31 December 2015		
Trade and other payables	11,407	11,407
Bank borrowings	20,718	20,000
Distributions payable to a non-controlling shareholder of a subsidiary	756	756
	32,881	32,163
As at 30 June 2016		
Trade and other payables	11,028	11,028
Bank borrowings	20,128	20,000
Distributions payable to a non-controlling shareholder of a subsidiary	–	–
	31,156	31,028

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Interest rate risk

Our Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and amounts due from related companies. Interest rate risks are managed by our Group by maintaining an appropriate mix between fixed and variable rate borrowings and amounts due from related companies.

The following table details the interest rate profile of our Group's material interest bearing financial investments at the end of each reporting periods during the relevant periods:

	As at 31 December				As at 30 June	
	2014		2015		2016	
	Effective interest rates %	RMB'000	Effective interest rate %	RMB'000	Effective interest rates %	RMB'000
Fixed rate borrowings						
Bank borrowings	5.28 – 7.50	40,000	5.82	20,000	5.82	20,000
Fixed rate receivables						
Amounts due from related companies	6.43 – 7.60	9,000	–	–	–	–

All of the bank borrowings and amounts due from related companies which are fixed rate financial instruments are insensitive to any change in interest rates. A change in interest rate at the end of each reporting period during the relevant periods would not affect profit or loss.

Currency risk

Our Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances 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, which were attributable to sales transactions entered into by our Group with foreign customers.

The following table details our Group's exposure at the end of each reporting periods during the relevant 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 RMB, translated using the spot rate at the end of each reporting period during the relevant periods.

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	As at 31 December		As at 30 June
	2014	2015	2016
	United States Dollars	United States Dollars	United States Dollars
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	3,568	6,573	5,682
Cash and cash equivalents	131	21	848
Gross exposure arising from recognised assets and liabilities	3,699	6,594	6,530

The following table indicates the instantaneous change in our Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which our Group has significant exposure at the end of each reporting periods during the relevant periods had changed at that date, assuming all other risk variables remained constant:

	For the year ended 31 December		For the six months		ended 30 June	
	2014	2015	2016			
Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
United States	5%	139	5%	247	5%	245
Dollars	(5%)	(139)	(5%)	(247)	(5%)	(245)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period during the relevant periods for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by our Group which expose our Group to foreign currency risk at the end of each reporting periods during the relevant periods.

PROPERTY VALUATION

Our independent property valuer, APAC Asset Valuation and Consulting Limited, has valued our properties at RMB18.7 million as of 30 September 2016. The text of its letter, summary of valuation and valuation certificates is included in the section headed "Appendix III – Property Valuation Report" in this prospectus.

FINANCIAL INFORMATION

The table below sets forth the reconciliation of aggregate amounts of certain properties as reflected in our audited consolidated financial statements as of 30 June 2016 as set forth in “Appendix I – Accountants’ Report” to this prospectus with the valuation of these properties as of 30 September 2016:

The tables below set forth the reconciliation of the aggregate amount of net book value of our property interests from our consolidated financial information as at 30 June 2016 with the valuation of property interests as at 30 September 2016:

	<i>RMB’000</i>
Net book value of property held for sale of the property interests as at 30 June 2016 (audited) and 30 September 2016 (unaudited)	1,468
Valuation surplus as at 30 September 2016	<u>132</u>

Valuation of land and buildings of the property interests as at 30 September 2016 as set out in the Property Valuation Report in Appendix III	<u><u>1,600</u></u>
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	<i>RMB’000</i>
Net book value of land of property interests as at 30 June 2016 (audited)	1,531
Net book value of buildings of property interests as at 30 June 2016 (audited)	<u>9,690</u>

Net book value of land and buildings of property interests as at 30 June 2016 (audited)	11,221
Depreciation and amortisation	<u>(206)</u>

Net book value of land and buildings of property interests as at 30 September 2016 (unaudited)	11,015
Valuation surplus as at 30 September 2016	<u>6,085</u>

Valuation of land and buildings of the property interests as at 30 September 2016 as set out in the Property Valuation Report in Appendix III	<u><u>17,100</u></u>
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Total valuation of property interests as at 30 September 2016 as set out in the Property Valuation Report in Appendix III	<u><u>18,700</u></u>
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FINANCIAL INFORMATION

DIVIDEND AND DISTRIBUTABLE RESERVES

For the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, Nantong Meigu declared dividends of approximately RMB12.0 million, nil and nil respectively to its then shareholders, namely Prosperous Composite and Nantong Jianke. The dividend payable of Prosperous Composite of approximately RMB10.2 million was net off against the dividend receivables of Prosperous Composite due to the accounting consolidation of audited financial statements of our Company upon completion of the Reorganisation. Of the RMB1.8 million dividends declared by Nantong Meigu to Nantong Jianke, approximately RMB1.0 million had been settled in 2015 by setting off against the amounts due from Nantong Jianke. The remaining dividends of approximately RMB0.8 million payable to Nantong Jianke was fully settled been paid as at 30 June 2016. Investors in the Placing and persons becoming Shareholders after the Listing will not be entitled to such dividends. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future.

After completion of the Placing, while we currently have no plans to pay dividends to the Shareholders in the foreseeable future, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or pay any dividend in the future and the amount of any dividends depends on a number of factors, including but not limited to our results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

As at the Latest Practicable Date, our Company has no distributable reserves available for distribution to our Shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of the Company and the Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the proposed Placing, as if the Placing had taken place on 30 June 2016.

FINANCIAL INFORMATION

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity holders of the Company had the Placing been completed as at 30 June 2016 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2016 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited Consolidated Net Assets of the Group Attributable to equity holders of the Company as at 30 June 2016 <i>Note 1</i> RMB'000	Estimated Net Proceeds from the Placing <i>Note 2</i> RMB'000	Unaudited Proforma Adjusted Combined Net Tangible Assets of the Group attributable to equity holders of the Company RMB'000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company per Share	
				<i>Note 3</i> RMB	<i>Note 5</i> HK\$
Based on the Placing Price of HK\$0.30 per share	28,187	9,872	38,059	0.095	0.112
Based on the Placing Price of HK\$0.35 per share	28,187	13,934	42,121	0.105	0.124

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as of 30 June 2016 is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as of 30 June 2016 of about RMB28,187,000, as shown in the Accountant's Report.
- (2) The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.30 and HK\$0.35 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 about RMB4.3 million which have been accounted for prior to 30 June 2016) paid or payable by the Company and takes no account of any shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (3) The unaudited pro forma adjusted combined net tangible assets per share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 400,000,000 Shares are in issue assuming that the Capitalisation Issue and the Placing have been completed on 30 June 2016.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016.
- (5) For the purpose of this unaudited pro forma adjusted combined net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1 = RMB0.8462. 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.

FINANCIAL INFORMATION

LISTING EXPENSES

Our Listing expenses mainly include underwriting commissions and professional fees in relations to the Listing. The total expenses (based on the mid-point of our indicative Placing Price range and including underwriting commissions) for the Listing is estimated to be approximately HK\$23.5 million. During the Track Record Period and up to the date of this prospectus, we incurred actual listing expenses of approximately HK\$6.8 million, of which approximately HK\$0.7 million and HK\$4.4 million were charged to our consolidated statement of profit or loss for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively, and a prepaid Listing expenses of approximately HK\$1.7 million as at 30 June 2016, which are expected to be charged against equity as deduction against the Placing proceeds upon successful Listing under the relevant accounting standards. With respect of the remaining expected additional Listing expenses of approximately HK\$16.7 million, approximately HK\$11.6 million is expected to be charged to our consolidated statement of profit or loss for the remaining six months of the year ending 31 December 2016 and approximately HK\$5.1 million to be capitalised as deferred expenses that is expected to be charged against equity upon successful Listing under the relevant accounting standards.

In view of the above, prospective investors should note that the financial results of our Group for the year ending 31 December 2016 will be adversely affected by the non-recurring expenses in relation to the Listing, and the Company is expected to incur a net loss for the year ending 31 December 2016. Our Directors would like to emphasise that the expenses in relation to the Listing is a current estimate for reference only and the financial amounts to be recognised in the equity and the statement of profit or loss and comprehensive income of our Group for the year ending 31 December 2016 are subject to adjustment due to changes in estimates and assumptions.

MATERIAL ADVERSE CHANGE

Save as disclosed in the paragraph headed “Listing Expenses” in this section and the paragraph headed “Recent Development” in the “Summary” section of this prospectus, our Directors confirmed that since 30 June 2016 (being the date to which the latest audited consolidated financial statement of our Group were prepared) and up to the date of this prospectus, (i) there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants’ Report set out in Appendix I in this prospectus.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rule 17.15 to 17.21 of the GEM Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS, BUSINESS OBJECTIVES AND STRATEGIES

Our objectives are to maintain our leading position in the FRP industry in the PRC and achieve continued and sustainable growth in our business by further diversifying our FRP product offerings and applications to enhance long-term shareholder's value. Please refer to section headed "Business - Our Business Strategies" for details of our strategies.

REASONS FOR THE LISTING

Background

Our Group, through its principal operating subsidiary, has been operating in the FRP industry in the PRC since 2003. Historically, we principally relied on our internal resources comprising mainly operating cash flows, and shareholders' funds, as well as external banking facilities as our major sources of financing to grow our business. In addition to having the technical know-how in the production of FRP products, our business requires considerable upfront investments in both tangible assets in terms of production plants and facilities, and the continuous capital expenditures on research and development initiatives to improve our production processes, diversify our production facilities to cater for different requirements from our customers, and develop new FRP products to reach our leading position.

Industry trend for production automation and product quality improvements

According to Sullivan, some of the key industry development directions include, among others, to develop specialised and diversified FRP products for wider applications, improvement of the automation and mechanisation level of thermosetting composite materials manufacturing technologies, and promotion of the overall competitiveness in the industrial chain. Our Directors consider that one of our key competitive strengths is our ability to produce a variety of FRP products of various dimensions and specifications for diversified applications and industries per our customers' requests and our research and development capabilities that enable us to introduce new FRP products. Unlike manufacturers of standardised products who could fully utilise their production equipment to bring down production costs by economics of scale, we are required to equip ourselves with abundant production equipment, each of which is designed to produce a particular type of FRP products with specific dimensions, in order to allow ourselves to satisfy orders of FRP products of various dimensions and specifications as required by our customers. In addition, according to Sullivan, with the accelerated development of the FRP industry in the PRC towards high international standards in terms of product quality, we must actively improve our technologies and equipment and attach importance to new product development in order to stay competitive in the market. Therefore, in order for us to maintain our competitive strengths and our leading market position, our Directors are of the view that additional investments in further automating our FRP grating production facilities and enhancing our product qualities are crucial. We would be able to accelerate the implementation of our production automation and new product development plans via the Listing as the majority of the net proceeds will be applied for such purpose.

FUTURE PLANS AND USE OF PROCEEDS

In addition, our current operation functions on a labour-intensive basis with particular regard to production efficiency and productivity. Furthermore, apart from their basic salaries, our manufacturing workers receive production volume based payments, and hence any increase in sales would result in the corresponding increase in direct labour costs should there be no change in the current labour cost structure. In light of the anticipated increase in direct labour costs as a result of our expansion and the general increase in salaries in the PRC according to Sullivan, it is important for us to control or even reduce our direct labour costs through optimisation and enhancement of degree of automation in our production process so as to avoid undue burden on our liquidity and to maintain our profit margins. By accelerating the implementation of our production automation, we would be able to reduce our reliance on manufacturing workers and decrease our direct labour costs. It is currently estimated that the acquisition of automated cutting machines and moulding facilities and the enhancement of resin basins and pre-formed machines to improve our production quality and optimise production costs at the total costs of approximately HK\$3.9 million (further details of which are set out in the section headed “Future Plans and Use of Proceeds – Implementation Plans”) among which approximately HK\$3.2 million for the acquisition of automated cutting machines and moulding facilities would enable the Group to reduce its reliance on manufacturing workers and decrease its direct labour costs by approximately RMB1.0 million per year going forward and induce approximately RMB0.2 million of additional annual depreciation for a period of 10 years. The remaining approximately HK\$0.7 million will be deployed for the enhancement of our pultrusion facilities.

Development of new FRP crosstie product

In light of the PRC’s policies in promoting “Belt and Road Initiatives”, we intend to develop a new FRP crosstie product and to apply it as the replacement of wooden crossties for the railway sector. According to Sullivan, FRP crosstie products, which are a relatively new type of products being used as railway crossties, generally have the following advantages compared with other types of rail crossties: (i) having an expected life span ranging from 30 to 80 years, which is longer than wooden crossties, the life span of which is approximately 15 years; (ii) being impervious to rotting, insect attack, weather changes, moisture, fire, corrosion, electricity and other harsh environments; (iii) being more resistant to plate cutting, showing improved lateral strength and minimal vibration in rail gauge after over two billion gross tons of heavy axle traffic; (iv) having the same total track stiffness and total track modulus as wooden crossties, and producing less surface vibration than other crossties; and (v) being more economical and environmentally friendly than wooden crossties while having similar mass and ease of processing.

According to Sullivan, the market size of all railway crossties in the PRC increased from RMB21.0 billion in 2009 to RMB33.3 billion in 2015, representing a CAGR of 8.3% during the same period. Also, driven by the continuous investment by the PRC government in the establishment of new national railway lines and the refurbishment of old railway lines, the market size of railway crosstie is expected to remain at above RMB30.0 billion each year during the period from 2016 to 2019, according to Sullivan. Moreover, as stated in the Sullivan Report, due to the stable performance and growing acceptance of composite plastic railroad

FUTURE PLANS AND USE OF PROCEEDS

cross ties, the market size of composite plastic railroad cross ties in the PRC experienced a rapid growth from 2009 to 2015 from approximately RMB9.6 million in 2009 to RMB21.2 million in 2015, representing a CAGR of 14.1%. Going forward, the market size of composite plastic railroad cross ties is expected to further expand and reach approximately RMB29.1 million in 2019, representing a CAGR of 8.2%. Furthermore, according to Sullivan, as composite plastic railroad cross ties are a new type of products in the PRC market, there are only two suppliers for such products in the PRC. Therefore, our Directors consider that the composite plastic railroad cross ties industry has much growth potential and development of the new FRP cross tie product will establish ourselves as early market entrant in the composite plastic railroad cross ties market and further strengthen our established and leading position in the FRP industry in the PRC.

We are currently developing and testing the chemical formulae of the FRP cross tie product. As at the Latest Practicable Date, we have developed the first prototype, conducted trial production for an extended period of time and introduced our FRP cross tie products to the transportation sector by displaying the prototype in InnoTrans 2016, an international trade fair for transport technology held in Germany. We intend to further develop this product in accordance with the below time frame:

- (i) conduct tests on the final products and obtain relevant test reports from third-party testing centres: around March 2017;
- (ii) acquisition of quality control and testing facilities: around June 2017;
- (iii) procurement of tailored production facilities: around November 2017; and
- (iv) commercial production: around December 2017.

Our Group plans to invest approximately RMB6.3 million for the development and purchase of relevant production line, raw materials and testing equipment. The production capacity of the relevant production line is estimated to be approximately 9,072 m³ per year. As this product is a relatively new type of railroad cross tie, we expect the utilisation rate for the relevant production line to be approximately 20.0% from December 2017 to December 2018. The target customers of such product are (i) PRC railway corporations; and (ii) corporations which participate in the construction of national railway bridges.

With the net proceeds from the Placing, we would be able to foster the development of such product by purchasing the relevant quality control and testing facilities and tailored production facilities.

Business model with mismatch payment and credit terms create working capital needs

As described in the section headed “Business” in this prospectus, we have maintained credible business relationships with a number of customers domestically and globally. As also mentioned in the section headed “Risk Factors” in this prospectus, since many of our customers are major international or PRC-based distributors and corporate customers who are bigger and

FUTURE PLANS AND USE OF PROCEEDS

have stronger market positions, we may have limited bargaining power when negotiating terms with them. As a result, during the Track Record Period, we offered longer credit periods to or conceded to less favourable terms from certain customers in order to maintain good relations with them.

Our net trade and bill receivable as at 31 December 2014 and 2015, and 30 June 2016 amounted to approximately RMB26.2 million, RMB31.4 million and RMB29.3 million respectively, and the average trade and bills receivable turnover days for these periods were approximately 158 days, 187 days and 187 days respectively. However, we have to pay raw material costs and our suppliers generally grant us credit terms of 30 days to 120 days from the date of billing invoices. Under such business model, we often have to incur and pay our raw material costs in advance of receiving our customers' payments to us.

While we have been able to maintain a positive cash flows from operating activities for the two years ended 31 December 2015, and the six months ended 30 June 2016 (excluding payment of the Listing expenses), our Directors foresee an increasing need for additional working capital to support the further growth in business from the FRP products and in particular the FRP Subway Evacuation Platform products and Epoxy Wedge Strip products segments and to deploy our new FRP crosstie products. In addition, the Directors consider that the Group having a listing status will provide a better corporate profile, visibility in the market, and reassurance among the Group's customers and suppliers and in turn gives the Group more bargaining powers with its customers and suppliers.

Better financing terms

During the Track Record Period, we were able to draw down several commercial loans amounting to approximately RMB40.0 million and RMB20.0 million for the year ended 31 December 2014 and 2015 respectively, and approximately RMB20.0 million for the six months ended 30 June 2016. The interest expenses arose from these loans amounted to approximately RMB2.8 million, RMB2.4 million and RMB0.3 million correspondingly, accounting for 44.4%, 30.3% and 29.2% of the profit before taxation (excluding the listing expenses for the six months ended 30 June 2016) of the respective periods, which is considered a material expense and cash outflow from our business operations. Moreover, given our relatively small operations, the banks required us to pledge our land and premises, along with personal guarantees from our Controlling Shareholders. In view of the above, the Directors consider that the Group having a listing status will increase corporate transparency, which in turn will lead to more competitive terms on loans from the banks.

Benefits of the Listing

Our Directors believe that the Listing will not only (i) boost existing and potential customers' confidence on our products, thereby allowing us to seek more competitive terms (for example, shorter account receivables collection period and higher average selling prices), survive competition and maintain profit margins; (ii) enhance our internal control and corporate governance; (iii) allow us to acquire any target company, business or asset through

FUTURE PLANS AND USE OF PROCEEDS

equity considerations instead of cash considerations so as to lower the impact on our liquidity; (iv) improve our ability to recruit, motivate and retain key research and development and management personnel; (v) serve as an endorsement and recognition of our established market position in the FRP industry in the PRC; and (vi) better reflect the valuation potential of the Shares through a public listing, but also provide us with broader shareholder base for better liquidity in the Company's shares and access to additional capital for growth from the Placing and after Listing to implement our future plans as set out in the sections headed "Business - Our Business Strategies" and this section of this prospectus.

USE OF PROCEEDS

The net proceeds from the Placing to our Company (after deduction of underwriting fees and estimated expenses payable by us in relation to the Placing, and assuming a Placing Price of HK\$0.32 per Share, being the mid-point of the proposed Placing Price range of HK\$0.30 to HK\$0.35, and the Offer Size Adjustment Option is not exercised) are estimated to be approximately HK\$13.6 million.

Our Directors presently intend to apply such net proceeds as follows:

- approximately 47.7% of the net proceeds, or approximately HK\$6.5 million will be used for the enhancement of the existing production processes, and acquisition of new production equipment, in particular, (i) the optimisation of our existing pultrusion process to improve the quality of pultrusion products and lower the cost of production, (ii) the acquisition of the hydraulic presses to produce a product to be sold with our FRP Subway Evacuation Platform products in order to diversify our product portfolio and capture potential customers in the railway construction industry, and (iii) the purchase of additional equipment to increase the efficiency of the moulding process of our FRP products;
- approximately 40.0% of the net proceeds, or approximately HK\$5.4 million will be used for the further development of our products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives", in particular, (i) the development of our new FRP crosstie products; (ii) the procurement of relevant testing equipment; and (iii) the purchase and production of production lines for the mass production of our new FRP crosstie products;
- approximately 4.0% of the net proceeds, or approximately HK\$0.6 million will be used for the expansion of our research and development capabilities, in particular, (i) the continuous enhancement of our existing product features and improvement of product quality; (ii) the procurement of testing equipment and raw materials to develop and examine both our new products and enhanced existing products; and (iii) the recruitment of additional qualified and experienced research and development staff; and
- approximately 8.3% of the net proceeds, or approximately HK\$1.1 million will be used for working capital and other general corporate purpose.

FUTURE PLANS AND USE OF PROCEEDS

The allocation of the proceeds above will be adjusted in the event that the Placing Price is fixed at a higher or lower level compared to the mid-point of the proposed Placing Price range. In the event that the Offer Size Adjustment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$4.8 million, assuming a Placing Price of HK\$0.32 per Share, being the mid-point of the Placing Price range stated in this prospectus. We intend to apply the additional net proceeds to the above uses on a pro-rata basis.

If the Placing Price is fixed at the high end or low end of the stated Placing Price range, and assuming that the Offer Size Adjustment Option is not exercised, our net proceeds will be increased by approximately HK\$2.9 million or decreased by approximately HK\$1.9 million, respectively. In this event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds from the Placing are not immediately required for the above purposes, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

The possible use of proceeds outlined above may change in light of our evolving business needs and conditions and management requirements. 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 by the Stock Exchange.

IMPLEMENTATION PLAN

Our Directors have drawn up a detailed implementation plan for the period up to 31 December 2017 with a view to achieve our business objectives. Investors should note that our implementation plan are formulated on the bases and assumptions referred to in the paragraph headed “Bases and Key Assumptions” in this section. These bases and assumptions are inherently subject to uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk Factors” in this prospectus. Our actual course of business may vary from the business objectives set out in this prospectus. There is no assurance that our plans will materialise in accordance with our expected time frame or that our objective will be accomplished. Whilst the actual course of events may invariably encounter unforeseeable changes and fluctuations, we shall use our best endeavours to anticipate changes, yet allowing for flexibility to implement the following plans.

1) The enhancement of the existing production processes, and acquisition of new production facilities	Six months ending		Total	Approximate percentage of net proceeds
	30 June 2017	31 December 2017		
	<i>HK\$ Million</i>			
Enhancement of our existing pultrusion equipment and associated resin basins and pre-form machine to improve our product quality and optimise production costs	0.7	–	0.7	5.0%
Purchase hydraulic presses to produce the parts for our FRP Subway Evacuation Platform products	2.4	–	2.4	17.7%
Automation of the cutting process of our pultrusion production process to improve the cutting precision level and reduce labour costs	0.6	–	0.6	4.2%

FUTURE PLANS AND USE OF PROCEEDS

1) The enhancement of the existing production processes, and acquisition of new production facilities	Six months ending		Total	Approximate percentage of net proceeds
	30 June 2017	31 December 2017		
	<i>HK\$ Million</i>			
Purchase of automated FRP moulding production facilities to further enhance the product quality and lower the labour costs	–	2.8	2.8	20.8%
	3.7	2.8	6.5	47.7%

To implement our plan to enhance our existing production facilities, we will invest in the renovation and procurement of components for our existing production facilities in the second quarter of 2017, in order to improve the quality of our pultrusion products and further optimise the unit production cost. As at the Latest Practicable Date, we have identified potential suppliers to provide us with the relevant components and to carry out the installation in our existing workshops.

We plan to purchase four sets of additional hydraulic press in the first half of 2017 to produce a product to be sold with our FRP Subway Evacuation Platform products in order to diversify our product portfolio and to capture potential customers in the railway construction industry.

As the first part of our production automation initiative, we plan to automate our current manual cutting process for our pultrusion production facilities in the first half of 2017, with the aim to improve the dimensional precision level for our pultrusion products, and to further reduce our reliance on labour force and reduce the labour costs.

Upon successfully completing the first part of our automation initiative, we will upgrade our major production procedures in the second half of 2017 by purchasing and installing automated FRP moulding production equipment. This investment is estimated based on the prevailing purchase price of the relevant basic production equipment plus certain designated remodelling expenditures required to fine-tune these equipment, which represents the minimum investments we expect to incur for this automation initiative. It is possible that the final capital expenditure would exceed our current estimation. In such case, we plan to first utilise our internal generated operating cash flows, or use a combination of other available financing alternatives to ensure the successful upgrade of our FRP moulding production equipment.

We expect that upon the completion of the above upgrade, the production process of our major moulding FRP products would be substantially automated, our labour cost would be lowered, and our production efficiency and product quality would be significantly improved.

FUTURE PLANS AND USE OF PROCEEDS

2) The further development of our products according to the expected growth trend as a result of the PRC's macroeconomic policies in promoting "Belt and Road Initiatives"	Six months ending		Total	Approximate percentage of net proceeds
	30 June 2017	31 December 2017		
	<i>HK\$ Million</i>			
Refine the features and characteristics of our new FRP crosstie products via communication with our existing and potential customers and conduct trial production	0.9	–	0.9	6.7%
Development of the relevant quality control and testing equipment of our new FRP crosstie products	0.2	–	0.2	1.7%
Development and purchase of new production equipment for our new FRP crosstie products once the products are recognised by, and mass production orders are expected from, our potential customers	–	3.7	3.7	27.5%
Procurement of testing equipment for our continuous research and development in order to further optimise the production process of our new FRP crosstie products	–	0.6	0.6	4.2%
	<u>1.1</u>	<u>4.3</u>	<u>5.4</u>	<u>40.0%*</u>

* *Difference due to rounding.*

To further develop our new FRP crosstie products, we have planned a two-stage approach. The first stage is to finalise the chemical formulae and physical properties of our FRP crosstie product and conduct trial production in the first half of 2017. To achieve this target, we need to refine the prototype of this product by carrying out direct dialogues with our potential customers and revising the product parameters to meet their requirements. At the same time, we plan to design and develop relevant product quality control and testing equipment to ensure any change in our product design will meet the quality standards.

Once the final design of our FRP crosstie products are approved by our potential customers and the production facilities are substantially developed, we will kick off the second stage by procuring the tailored FRP crosstie production equipment which we plan to co-develop with our suppliers and install such equipment in a preserved area within one of our existing workshops. Given the current product development status and to the best knowledge and experience of our Directors and our research and development team, we expect such procurement of production equipment and installation to commence in the second half of 2017.

FUTURE PLANS AND USE OF PROCEEDS

Along with the installation of our new FRP crosstie production equipment, we plan to divert part of our research and development resources to continuously monitor and further improve the efficiency of our production process.

3) Enhancement of our research and development capabilities by	Six months ending		Total	Approximate percentage of net proceeds
	30 June 2017	31 December 2017		
	<i>HK\$ Million</i>			
(i) procurement of testing equipment and raw materials for the existing product portfolio	0.3	–	0.3	2.4%
(ii) recruitment of additional research and development staff	0.3	–	0.3	1.7%
	<u>0.6</u>	<u>–</u>	<u>0.6</u>	<u>4.0%*</u>

* *Difference due to rounding.*

In addition to the major research and development initiatives for the automation and new FRP crosstie products, we also intend to continuously conduct research and development for other existing production process. We target to constantly fine-tune our production process by regularly performing tests on our equipment and raw materials. We also plan to hire more experienced research and development staff with experience in the FRP industry and relevant knowledge to further assist in improving our product quality and functions.

4) General working capital	Six months ending		Total	Approximate percentage of net proceeds
	30 June 2017	31 December 2017		
	<i>HK\$ Million</i>			
Deployment of funds to accommodate our working capital needs, in particular relating to the upcoming production of our new FRP crosstie products	1.1	–	1.1	8.3%
	<u>1.1</u>	<u>–</u>	<u>1.1</u>	<u>8.3%</u>

We plan to deploy additional working capital within the first half of 2017 in anticipation of the increase in (i) number of purchase orders from the FRP Subway Evacuation Platform business and (ii) the raw material required for production of our new FRP crosstie products. It is possible that the final working capital requirements would exceed our current estimation. In such case, we plan to first utilise our internal generated operating cash flows, or use a combination of other available financing alternatives to ensure the successful upgrade of our FRP moulding production facilities.

FUTURE PLANS AND USE OF PROCEEDS

BASES AND KEY ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of the above future plans:

- there will be no material adverse change in the existing political, legal, fiscal, market or economic conditions in the PRC, Hong Kong and the key overseas market in which we operate;
- there will be no material change in the bases or rates of taxation and duties in the PRC and Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated;
- we will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;
- the Placing will be completed in accordance with and as described in the section headed “Structure and Conditions of the Placing” in this prospectus;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- we will be able to recruit additional key management personnel and staff when required;
- there will be no change in the effectiveness of the certifications, licenses, permits or approvals obtained by our Group;
- there will be no change in the funding requirement for the business strategies described in this prospectus from the amount as estimated by our Directors;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business strategies relate;
- our Group will obtain equity and/or debt capital for our future growth when we become necessary;
- we will not be materially and adversely affected by the risk factors as set out in the section headed “Risk Factors” in this prospectus;
- there be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damage or destruction to its properties or facilities;
- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruptions.

UNDERWRITING

UNDERWRITERS

Sole Global Coordinator

KGI Capital Asia Limited

Sole Bookrunner and Sole Lead Manager

KGI Capital Asia Limited

Underwriters

KGI Capital Asia Limited
Gransing Securities Co., Limited
VC Brokerage Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company will conditionally place the Placing Shares with institutional, professional and other investors at the Placing Price subject to the terms and conditions in the Underwriting Agreement and this prospectus. Subject to, among other conditions, the Listing Division of the Stock Exchange granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being fulfilled or waived, the Underwriters have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions under the Underwriting Agreement and in this prospectus.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Underwriters and the Sole Sponsor) shall have the absolute right upon giving a written notice to our Company (on behalf of the other parties thereto other than the Underwriters and the Sole Sponsor) to terminate the Underwriting Agreement if any of the following events occur at any time prior to 8:00 a.m. on the Listing Date (which is expected to be on Friday, 13 January 2017):

- (a) there comes to the notice of the Sole Sponsor, the Sole Global Coordinator or any of the Underwriters:
 - (i) that any statement contained in this prospectus, the formal notice in the agreed form to require to be published in connection with the Placing under Chapter 16 of the GEM Listing Rules (the “Formal Notice”) and any announcements issued by our Company in connection with the Placing (including any

UNDERWRITING

supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respects, or that any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Formal Notice and/or any announcements issued by our Company in connection with the Placing (including any supplement or amendment thereto) are not fair or honest, or based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus and having not been disclosed in this prospectus, constitute a material omission therefrom; or
 - (iii) any material breach of any of the obligations imposed upon any party to the Underwriting Agreement (in each case, other than on the Underwriters); or
 - (iv) any event, act or omission which gives rise to any liability of any of the indemnifying parties pursuant to the Underwriting Agreement; or
 - (v) any material adverse change or development involving a material prospective change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of our Group to the extent such changes or development is not disclosed in this prospectus; or
 - (vi) any breach of, or any event rendering untrue or incorrect in any material respect in any of the warranties set out in the Underwriting Agreement; or
 - (vii) approval by the Listing Division of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option and under the Placing) is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) the Company withdraws this prospectus or the Placing; and
- (b) there shall develop, occur, exist or come into effect:
- (i) any event or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency, calamity, crisis, epidemic, pandemic, outbreak of infectious disease (including but not limited to SARS, MERS, H1N1 flu, H7N9, H5N1 and such other related/mutated forms), accident or interruption or delay in

UNDERWRITING

transportation, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), outbreak or escalation of hostilities (whether or not war is declared) or acts of God in Hong Kong, the PRC, the BVI, the Cayman Island, or any other jurisdiction where the Group derived at least 5% its revenue during the Track Record Period) (the “Relevant Jurisdictions”, and each a “Relevant Jurisdiction”); or

- (ii) any change or development involving a prospective change or any event or series of events likely to result in change in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or any monetary or trading settlement system or matters and/or disaster (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, imposition or declaration of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or a devaluation of Hong Kong dollars, the Renminbi or the United States dollars against any foreign currencies, or any general moratorium on banking activities or disruption in commercial banking activities or foreign exchange or securities settlement or clearance services or procedures in or affecting the Relevant Jurisdictions); or
- (iii) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions which may affect the operation of our Group, or there is a disruption in commercial banking or securities settlement or clearance services in the Relevant Jurisdictions; or
- (iv) any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting the Relevant Jurisdictions; or
- (v) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by, or for the Relevant Jurisdictions; or
- (vi) a change or development occurs involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in the Relevant Jurisdictions and adversely affecting an investment in the Shares; or
- (vii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (viii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

UNDERWRITING

- (ix) a contravention by any member of our Group of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Company Law, the SFO, or any of the GEM Listing Rules; or
- (x) a prohibition on our Company for whatever reason from allotting or selling the Shares (including any Shares which may be allotted and issued upon exercise of the Offer Size Adjustment Option) pursuant to the terms of the Placing; or
- (xi) non-compliance of this prospectus or any aspect of the Placing with the GEM Listing Rules or any other applicable law or regulation; or
- (xii) other than with the approval of the Sole Global Coordinator (for itself and on behalf of the Underwriters), the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the Placing) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, or the GEM Listing Rules; or
- (xiii) a petition is presented or an order is made 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 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;

which, in any such case and in the reasonable opinion of the Sole Global Coordinator:

- (A) has or is likely to or will individually or in aggregate have a material adverse effect on the business, financial condition or trading position or prospects of our Group as a whole; or
- (B) has or is likely to or will have a material adverse effect on the success of the Placing or the level of interest under the Placing; or
- (C) makes or is likely to or will make it inadvisable or inexpedient or impracticable for the Placing to proceed or to market the Placing; or
- (D) has or would or will or is likely to have the effect of making any part of the Underwriting Agreement or the Placing (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting thereof.

UNDERWRITING

Undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, our Company undertakes to the Stock Exchange that save as pursuant to the Placing (including the exercise of the Offer Size Adjustment Option) no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by us, or form the subject of any agreement by us to such an issue, within six months from the date on which the Shares first commence dealing on GEM (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealings), except for the circumstances permitted pursuant to Rule 17.29(1) to (5) of the GEM Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders undertakes to our Company and the Stock Exchange that, except for the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, he/it shall not, and shall procure that the relevant registered holder(s) shall not,

- (a) within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; and
- (b) within the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a Controlling Shareholder.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of the Controlling Shareholder further undertakes to our Company and the Stock Exchange that he/it shall, and shall procure that the relevant registered holder(s) shall,

- (a) in the event that he/it pledges or charges any direct or indirect interest in the Shares pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the First Six-Month Period, inform our Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

UNDERWRITING

- (b) having pledged or charged any interest in the Shares under (c) above, inform our Company immediately in the event that he/it becomes aware that the pledgee or charge has disposed of or intends to dispose of such interest and of the number of Shares affected.

Our Company shall, upon being informed of any matter under (c) or (d) above, forthwith publish an announcement giving details of the same in accordance with the GEM Listing Rules.

Undertakings to the Underwriters

Undertakings by our Company

Except for the offer and sale of the Placing Shares pursuant to the Placing and the issue of Shares pursuant to the terms of the Capitalisation Issue and the exercise of (i) the Offer Size Adjustment Option; or (ii) any other share option scheme of our Company adopted from time to time, during the First Six-Month Period, our Company undertakes to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or

UNDERWRITING

- (d) offer or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above;

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of the Controlling Shareholders undertakes to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters to procure our Company to comply with the undertakings in paragraphs (a), (b), (c) and (d) above.

Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders undertakes to and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters that he/it shall not and shall procure that the relevant registered holders of the Shares and his/its associates and companies controlled by it/him and any nominee or trustee holding on trust for himself/itself from time to time shall not:

- (a) save as provided in Rule 13.18 of the GEM Listing Rules, without the prior written consent of the Sole Global Coordinator and unless as a result of any exercise of the Offer Size Adjustment Option or pursuant to the Placing or otherwise in compliance with the requirements of the GEM Listing Rules, at any time during the First Six-Month Period, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities (the “Relevant Securities”); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; or (iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in (i) or (ii) above; or (iv) agree to or announce any intention to enter into or effect any of the transactions referred to in (i) to (iii) above; and
- (b) save as provided in Rule 13.18 of the GEM Listing Rules, without the prior written consent of the Sole Global Coordinator, during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a controlling shareholder (within the meaning defined in the GEM Listing Rules) of the Company or the aggregate interest of all members of the Controlling Shareholders would be less than 30% of the Company’s issued share capital.

UNDERWRITING

Total commission, fee and expenses

In connection with the Placing, the Underwriters will receive an underwriting commission of 4.0% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions. If any of the Offer Size Adjustment Option is exercised, the underwriting commission will be calculated in the same manner with the Placing Shares initially available for subscription. In connection with the Listing, the Sole Sponsor will receive a sponsorship fee. Our Company may also in its sole and absolute discretion pay the Sole Global Coordinator an incentive fee of up to 1.0% of the Placing Price multiplied by the total number of Placing Shares if it is satisfied with the services provided by the Sole Global Coordinator.

The aggregate commissions and estimated expenses, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Placing are estimated to be approximately HK\$26.1 million to HK\$30.9 million (assuming the Offer Size Adjustment Option is not exercised and the Placing Price ranging from HK\$0.30 to HK\$0.35 per Share) and are payable by our Company.

Our Company has agreed to indemnify the Sole Sponsor, the Sole Global Coordinator and the Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreement, and any breach by our Company of the Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR AND THE UNDERWRITERS' INTERESTS IN OUR GROUP

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

Save as disclosed above and/or provided in the Underwriting Agreement, none of the Sole Sponsor, the Sole Global Coordinator and the Underwriters is interested legally or beneficially in any shares of any of our Group's members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Placing.

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 11.23 of the GEM Listing Rules after completion of the Placing.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING

Subject to the exercise of the Offer Size Adjustment Option, our Company is initially offering 100,000,000 Placing Shares for subscription by way of the Placing, in aggregate representing approximately 25.0% of the issued share capital of our Company upon completion of the Placing. The Placing Shares will be fully underwritten by the Underwriters pursuant to the Underwriting Agreement subject to the Placing Price being fixed by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date.

The Underwriters or agents nominated by them on behalf of our Company will conditionally place the Placing Shares at the Placing Price plus brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% with professional, institutional and other investors.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (a) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus;
- (b) the Price Determination Agreement being entered into on or before the Price Determination Date; and
- (c) the obligations of the Sole Global Coordinator and the Underwriters under the Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator and the Underwriters), and such obligations not having been terminated in accordance with the terms of the Underwriting Agreement,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If these conditions are not fulfilled or (where applicable) waived by the Sole Global Coordinator and the Underwriters on or before the day which is the 30th day after the date of this prospectus, the Placing shall lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Placing will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at nantongrate.com on the next business day after such lapse.

PLACING PRICE

The Placing Price will not be more than HK\$0.35 per Share and not less than HK\$0.30 per Share. Investors, when investing for the Shares, shall pay the Placing Price plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

STRUCTURE AND CONDITIONS OF THE PLACING

Assuming the Placing Price of HK\$0.35 or HK\$0.30 per Share (being the highest and lowest prices of the indicative Placing Price range respectively), investors shall pay HK\$3,535.27 and HK\$3,030.23 for every board lot of 10,000 Shares.

The Placing Price will be fixed by the Price Determination Agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date which is scheduled on or about Friday, 6 January 2017 (or such later date as may be agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters)). If our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Date or such later date as may be agreed, or the Price Determination Agreement is not signed, the Placing will not become unconditional and will lapse. Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Placing Price as stated in this prospectus.

If, the Sole Global Coordinator and the Underwriters with the consent of our Company consider it appropriate (for instance, if the level of interest is below the indicative Placing Price range), the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, our Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than 9:00 a.m. on the Price Determination Date publish an announcement on the reduction of the indicative Placing Price range on the Stock Exchange's website at www.hkexnews.hk and our Company's website at nantongrate.com. The level of indication of interests in the Placing and the basis of allocations of the Placing Shares will be announced on the Stock Exchange's website at www.hkexnews.hk and our Company's website at nantongrate.com at or before 9:00 a.m. Thursday, 12 January 2017.

BASIS OF ALLOCATION

Allocation of the 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 his/her/its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. In particular, the Placing Shares will be allocated in accordance with Rule 11.23(8) of the GEM Listing Rules such that not more than 50% of the Shares in public hands at the time of the Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

Subject to prior written consent of the Stock Exchange, no allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PLACING

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on Friday, 13 January 2017. The Shares will be traded in board lot of 10,000 Shares each and are freely transferrable. The stock code for our Shares is 8349.

No temporary documents or evidence of title will be issued.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

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

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

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, we are expected to grant the Underwriters the Offer Size Adjustment Option to require our Company to issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the number of the Placing Shares initially available under the Placing. The Offer Size Adjustment Option can only be exercised by the Sole Global Coordinator (for itself and on behalf of the Underwriters) prior to the Listing Date; otherwise it will lapse. These Shares will be issued at the Placing Price for the purpose of covering over-allocations in the Placing, if any. Any election in respect of the Offer Size Adjustment Option may be exercised in whole or in part and from time to time. If the Offer Size Adjustment Option is exercised in full, the additional Placing Shares will represent approximately 3.6% of the enlarged issued share capital of our Company in issue immediately following completion of the Capitalisation Issue, the Placing and the exercise of the Offer Size Adjustment Option. In the event that the Offer Size Adjustment Option is exercised, an announcement will be made on our Company's website at nantongrate.com and the website of the Stock Exchange at www.hkexnews.hk as soon as practicable in accordance with the requirements of the GEM Listing Rules.

The following is the text of a report received from the Company's reporting accountant, Crowe Horwath (HK) CPA Ltd, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

29 December 2016

The Board of Directors
MEIGU Technology Holding Group Limited

Dear Sirs,

We report on the financial information of MEIGU Technology Holding Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2014 and 2015, and 30 June 2016 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), and 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 2015 (the "Interim Comparative Information"). The Financial Information and the Interim Comparative Information have been prepared by the directors of the Company and are set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 29 December 2016 (the "Prospectus") in connection with the listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in note 2 of Section II headed "Reorganisation" below, since 16 March 2016, the Company has become the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

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. No audited financial statements was issued for Prosperous Composite Material Co., Ltd. (“Prosperous Composite”) as it is not required to issue audited financial statements under the statutory requirement of its place of incorporation. The statutory financial statements of Nantong Composite Materials Company Limited (“Nantong Meigu”) for the years ended 31 December 2014 and 2015 were audited by 南通金利信會計師事務所 (Nantong Jinlixin C.P.A. Partnership), being a firm of certified public accountants registered in the People’s Republic of China (the “PRC”). The statutory financial statements of Nantong Meigu were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods and the financial statements of the Company from the date of its incorporation to 30 June 2016, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in note 3 of Section II below.

Directors’ Responsibility

The directors of the Company are responsible for the preparation the Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

We have also performed a review of the Interim Comparative Information 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 principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2016.

Opinion in respect of the Financial Information

In our opinion, the Financial Information gives, for the purpose of this report and on the basis set out in note 3 of Section II below, a true and fair view of the consolidated financial position of the Group as at 31 December 2014 and 2015 and 30 June 2016 and of the financial position of the Company as at 30 June 2016 and of the Group’s consolidated financial performance and cash flows for each of the Relevant Periods then ended.

Review Conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company for each of the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, and as at 31 December 2014 and 2015 and 30 June 2016 (the “Financial Information”), and for the six months ended 30 June 2015 (the “Interim Comparative Information”), presented on the basis set out in note 3 of Section II:

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Section II Note</i>	Year ended 31 December		Six months ended 30 June	
		2014	2015	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	4	53,672	56,405	25,051	27,881
Cost of sales		<u>(34,565)</u>	<u>(35,141)</u>	<u>(17,540)</u>	<u>(18,352)</u>
Gross profit		19,107	21,264	7,511	9,529
Other revenue	5	1,208	1,096	372	22
Other net income	5	92	657	147	503
Distribution costs		(7,384)	(6,376)	(2,915)	(2,617)
Administrative expenses		<u>(4,023)</u>	<u>(6,107)</u>	<u>(1,844)</u>	<u>(6,434)</u>
Profit from operations		9,000	10,534	3,271	1,003
Finance costs	6(a)	<u>(2,767)</u>	<u>(2,447)</u>	<u>(1,112)</u>	<u>(588)</u>
Profit before taxation	6	6,233	8,087	2,159	415
Income tax	7(a)	<u>(2,001)</u>	<u>(2,762)</u>	<u>(698)</u>	<u>(1,524)</u>
Profit/(loss) and total comprehensive income/(loss) for the year/period		<u>4,232</u>	<u>5,325</u>	<u>1,461</u>	<u>(1,109)</u>
Attributable to:					
Owners of the Company		3,555	4,380	1,223	(1,182)
Non-controlling interest		<u>677</u>	<u>945</u>	<u>238</u>	<u>73</u>
		<u>4,232</u>	<u>5,325</u>	<u>1,461</u>	<u>(1,109)</u>
Earnings per share					
Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Section II Note</i>	As at 31 December		As at 30 June 2016
		2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	13	16,959	15,873	15,035
Leasehold land held for own use under operating lease	14	1,550	1,512	1,493
Pledged bank deposits	15	–	113	113
Deferred tax assets	22(b)	278	470	375
		<u>18,787</u>	<u>17,968</u>	<u>17,016</u>
Current assets				
Inventories	16	6,256	3,982	4,173
Trade and other receivables	17	28,464	32,522	32,033
Property held for sale	18	–	–	1,468
Amounts due from related companies	27(b)	13,269	–	–
Amounts due from related parties	27(b)	8,494	–	–
Pledged bank deposits	15	10,000	–	–
Cash and cash equivalents	19	578	14,716	9,361
		<u>67,061</u>	<u>51,220</u>	<u>47,035</u>
Current liabilities				
Trade and other payables	20	12,998	11,407	13,710
Bank borrowings	21	40,000	20,000	20,000
Distributions payable to a former non-controlling shareholder of a subsidiary	27(b)(i)	–	756	–
Income tax payable	22(a)	1,164	2,235	589
		<u>54,162</u>	<u>34,398</u>	<u>34,299</u>
Net current assets		<u>12,899</u>	<u>16,822</u>	<u>12,736</u>
Total assets less current liabilities		<u>31,686</u>	<u>34,790</u>	<u>29,752</u>
Non-current liabilities				
Deferred tax liabilities	22(c)	1,634	1,169	1,565
		<u>1,634</u>	<u>1,169</u>	<u>1,565</u>
NET ASSETS		<u>30,052</u>	<u>33,621</u>	<u>28,187</u>
CAPITAL AND RESERVES				
Share capital	24(a)	–	–	–
Reserves		<u>25,416</u>	<u>29,796</u>	<u>28,187</u>
Total equity attributable to owners of the Company		25,416	29,796	28,187
Non-controlling interest	25	<u>4,636</u>	<u>3,825</u>	<u>–</u>
TOTAL EQUITY		<u>30,052</u>	<u>33,621</u>	<u>28,187</u>

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Non-controlling interest RMB'000 (Note 25)	Total equity RMB'000
	Share capital RMB'000 (Note 24(a))	Capital reserve RMB'000 (Note 24(b))	Share-based payment reserve RMB'000 (Note 24(c))	Statutory reserve RMB'000 (Note 24(d))	Retained profits RMB'000	Total RMB'000		
At 1 January 2014	-	9,557	-	1,611	10,693	21,861	3,959	25,820
Profit and total comprehensive income for the year	-	-	-	-	3,555	3,555	677	4,232
Transfer to statutory reserve	-	-	-	517	(517)	-	-	-
At 31 December 2014	-	9,557	-	2,128	13,731	25,416	4,636	30,052
At 1 January 2015	-	9,557	-	2,128	13,731	25,416	4,636	30,052
Profit and total comprehensive income for the year	-	-	-	-	4,380	4,380	945	5,325
Distributions to a former non-controlling shareholder of a subsidiary	-	-	-	-	-	-	(1,756)	(1,756)
Transfer to statutory reserve	-	-	-	727	(727)	-	-	-
At 31 December 2015	-	9,557	-	2,855	17,384	29,796	3,825	33,621
At 1 January 2016	-	9,557	-	2,855	17,384	29,796	3,825	33,621
Loss and total comprehensive loss for the period	-	-	-	-	(1,182)	(1,182)	73	(1,109)
Issuance of shares	-	12,584	-	-	-	12,584	-	12,584
Repurchase of shares	-	(12,584)	-	-	-	(12,584)	-	(12,584)
Acquisition of non-controlling interest	-	-	-	-	(544)	(544)	(3,898)	(4,442)
Equity-settled share-based payments	-	-	117	-	-	117	-	117
Transfer to statutory reserve	-	-	-	222	(222)	-	-	-
At 30 June 2016	-	9,557	117	3,077	15,436	28,187	-	28,187
At 1 January 2015	-	9,557	-	2,128	13,731	25,416	4,636	30,052
Profit and total comprehensive income for the period	-	-	-	-	1,223	1,223	238	1,461
Transfer to statutory reserve	-	-	-	206	(206)	-	-	-
At 30 June 2015 (unaudited)	-	9,557	-	2,334	14,748	26,639	4,874	31,513

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Note	Year ended 31 December		Six months ended 30 June	
		2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
Operating activities					
Profit before taxation		6,233	8,087	2,159	415
Adjustments for:					
- Depreciation of property, plant and equipment		1,760	1,802	891	900
- Amortisation of interest in leasehold land held for own use under operating lease		38	38	19	19
- Impairment loss/(reversal of impairment loss) on trade and bills receivables		722	770	242	(380)
- Equity-settled share-based payments	24(c)	-	-	-	117
- Finance costs		2,767	2,447	1,112	588
- Interest income		(1,187)	(1,055)	(342)	(14)
Operating cash flows before changes in working capital		10,333	12,089	4,081	1,645
Changes in working capital					
(Increase)/decrease in inventories		(1,224)	2,274	(7)	(191)
(Increase)/decrease in trade and other receivables and property held for sale		(6,999)	(4,828)	2,619	(599)
Decrease in amounts due from related companies		6,090	13,269	2,664	-
Increase in pledged bank deposits (non-current)		-	(113)	-	-
Decrease/(increase) in amounts due from related parties		610	8,494	(2,741)	-
Increase/(decrease) in trade and other payables		2,002	(1,591)	(2,925)	2,303
Cash generated from operations		10,812	29,594	3,691	3,158
Income taxes paid		(951)	(2,348)	(1,231)	(2,679)
Net cash generated from operating activities		9,861	27,246	2,460	479
Investing activities					
Payment for the purchase of property, plant and equipment		(2,164)	(716)	(551)	(62)
Interest received		1,187	1,055	342	14
Net cash (used in)/generated from investing activities		(977)	339	(209)	(48)
Financing activities					
Proceeds from new bank loans		47,000	20,000	-	-
Repayment of bank loans		(50,500)	(40,000)	-	-
(Increase)/decrease in pledged bank deposits (current)		(3,488)	10,000	-	-
Interest paid		(2,767)	(2,447)	(1,112)	(588)
Acquisition of non-controlling interest		-	-	-	(4,442)
Proceeds from issuance of new shares by a subsidiary		-	-	-	12,584
Payment for repurchase of shares by the Company		-	-	-	(12,584)
Distributions paid to a former non-controlling shareholder of a subsidiary	10(b)	-	(1,000)	-	(756)
Net cash used in from financing activities		(9,755)	(13,447)	(1,112)	(5,786)
Net (decrease)/increase in cash and cash equivalents		(871)	14,138	1,139	(5,355)
Cash and cash equivalents at 1 January		1,449	578	578	14,716
Cash and cash equivalents at 31 December/30 June	19	578	14,716	1,717	9,361

(E) THE COMPANY'S STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 30 June 2016 RMB'000
Non-current assets		
Investment in subsidiaries	30(a)	29,903
		<u>29,903</u>
Current assets		
Prepayments		1,390
		<u>1,390</u>
Current liabilities		
Other payables		839
Amount due to a subsidiary	30(b)	2,267
		<u>3,106</u>
Net current liabilities		<u>(1,716)</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u><u>28,187</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	24(a)	–
Capital reserve	24(b)	29,903
Share-based payment reserve	24(c)	117
Accumulated losses		<u>(1,833)</u>
TOTAL EQUITY		<u><u>28,187</u></u>

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

MEIGU Technology Holding Group Limited (the "Company") was incorporated in the Cayman Islands on 13 January 2016 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 Grand Cayman KY1-1108, Cayman Islands and its principal place of business is 66 Oujiang Road, Haimen Economic Development Zone, Nantong City, Jiangsu Province, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the research and development, production and sales of fibreglass reinforced plastic products in the PRC. During the Relevant Periods, the principal business was carried out through Nantong Meigu, which is an indirect wholly-owned subsidiary of the Company incorporated in the PRC.

2 REORGANISATION

Pursuant to the reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange Hong Kong Limited, the Company has held all the subsidiaries now comprising the Group since 16 March 2016. The major steps undertaken to effect the Reorganisation were set out below.

Prosperous Composite was incorporated on 7 November 2006 in the British Virgin Islands (the "BVI") with limited liability. During the Relevant Periods, Prosperous Composite had 50,000 shares of USD1 each in issue which were held as to 51% and 49% by Mr. Shen Weixing ("Mr. Shen") and Mr. Jiang Guitang ("Mr. Jiang"), respectively. On 25 February 2016, pursuant to a subscription agreement dated 29 January 2016 (the "Subscription Agreement"), additional 12,750 and 12,250 new shares of Prosperous Composite at USD1 each, were issued to Mr. Shen and Mr. Jiang at par, respectively, by capitalisation of its reserves and simultaneously, additional 25,000 new shares of Prosperous Composite of USD1 each were issued to Frankly Smart Group Limited ("Frankly Smart"), a company incorporated in the BVI, at a consideration of HK\$15,000,000 (equivalent to approximately RMB12,584,000). Upon the completion of the subscription on 25 February 2016, Prosperous Composite was owned as to 38.25%, 36.75% and 25% by Mr. Shen, Mr. Jiang and Frankly Smart, respectively.

Prosperous Composite is an investment holding company which owned 85.37% equity interests of Nantong Meigu during the Relevant Periods up to 14 March 2016. On 14 March 2016, pursuant to an equity transfer agreement dated 24 January 2016, Prosperous Composite acquired the remaining 14.63% equity interests of Nantong Meigu from Nantong Jianke Engineering and Technology Service Centre ("Nantong Jianke"), the non-controlling shareholder of Nantong Meigu, at a consideration of USD681,075 (equivalent to approximately RMB4,442,000). Nantong Meigu has become a direct wholly-owned subsidiary of Prosperous Composite since 14 March 2016.

The Company was incorporated on 13 January 2016. The Company has no business activities and transactions prior to 16 March 2016. On 16 March 2016, the Company acquired the entire issued share capital of Prosperous Composite through a share swap arrangement under which the Company allotted and issued 341, 409 and 250 shares of HK\$0.01 each to Munsing Developments Limited ("Munsing"), a company incorporated in the BVI and wholly-owned by Mr. Shen, Singa Dragon International Ventures Limited ("Singa"), a company incorporated in the BVI and wholly-owned by Mr. Jiang, and Frankly Smart, respectively. Immediately before the share swap arrangement on 16 March 2016, Mr. Shen and Mr. Jiang entered into an undertaking agreement, as confirmed by a confirmatory deed dated 3 June 2016, pursuant to which, Mr. Shen agreed to transfer his then 4.15% equity interests in the Group, in the share swap arrangement, to Mr. Jiang who, as a key management personnel and founder of the Group, has provided an irrevocable undertaking to Mr. Shen that Mr. Jiang shall continue to engage as a key management personnel of the Group for the coming 5 years and shall not terminate the engagement with the Group before 16 March 2021. Upon the completion of share swap arrangement on 16 March 2016, Prosperous Composite and Nantong Meigu have become a directly and an indirectly wholly-owned subsidiary of the Company, respectively, and the Company has been held as to 34.1%, 40.9% and 25% by Munsing, Singa and Frankly Smart, respectively. On 20 April 2016, Frankly Smart (as vendor), the Company (as purchaser) and Mr. Huei (as warrantor who owns and controls Frankly Smart) entered into a sale and purchase agreement, pursuant to which, the Company repurchased its 250 shares from Frankly Smart at a consideration of HK\$15,000,000, which was same as the investment cost of Frankly Smart in the Group. On the same date, all these repurchased 250 shares were cancelled by the Company and of the cost of shares repurchased of HK\$15,000,000, HK\$2.50 (approximately RMB2.1) and HK\$14,999,997.50 (approximately RMB12,584,000) were debited to share capital and capital reserve of the Group, respectively. Since 20 April 2016, after the aforesaid share repurchase and cancellation, and up to the date of this report, the Company is owned as to approximately 45.47% and 54.53% by Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang), respectively.

As a result of the Reorganisation and since 16 March 2016, the Company has become the holding company of the subsidiaries now comprising the Group.

At 30 June 2016 and the date of approval of this report, the particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation	Principal activities and place of operation	Particulars of issued and paid up capital	Effective interest held by the Company
<i>Direct interests:</i>				
Prosperous Composite	The BVI / 7 November 2006 / Limited liability company	Investment holding	US\$50,000 up to 24 February 2016; US\$100,000 since 25 February 2016	100%
<i>Indirect interests:</i>				
Nantong Meigu	The PRC / 24 April 2003 / Wholly foreign-owned enterprise	Research and development, production and sales of fibreglass reinforced plastic products in the PRC	US\$1,500,000	100%

As all the entities of the Group, being the Company, Prosperous Composite and Nantong Meigu, are ultimately controlled by the same group of individuals, being Mr. Shen and Mr. Jiang, before and after the Reorganisation, the Financial Information during the Relevant Periods are prepared as if Prosperous Composite and Nantong Meigu had been subsidiaries of the Company, to the extent of their beneficial interests held by Mr. Shen and Mr. Jiang, throughout the Relevant Periods on the basis as set out in notes 3(c) and 3(d)(ii) to the Financial Information and in accordance with the principles of Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These Financial Information have 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 (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. These Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs. For the purposes of preparing the Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any amendments or new standards that are not yet effective for the accounting period beginning on 1 January 2016. The amendments and new standards issued but not yet effective for the accounting period beginning on 1 January 2016 are set out in note 31.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Financial Information are presented in Renminbi (“RMB”), rounded to the nearest thousand except for per share data. RMB is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

(d) (i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 Income Taxes;
- assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(d) (ii) Merger accounting for common control combinations

The Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

(e) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less any accumulated depreciation and any accumulated impairment losses (see note 3(g)(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:

- buildings situated on leasehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- plant and equipment (including moulds) 5 to 10 years
- furniture and fixtures 3 to 5 years
- motor vehicles 4 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.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(g) Impairment of assets**(i) Impairment of trade and other receivables**

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade receivables and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other 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:

- property, plant and equipment; and
- leasehold land held for own use under operating lease;

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount 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 favourable change in the estimates 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.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula 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 the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) 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.

(k) 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.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments 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.

(m) Employee benefits**(i) Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiary in the PRC has joined defined contributions plans for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(iii) Share-based payments

The fair value of shares or share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the appropriate valuation techniques, taking into account the terms and conditions upon which the shares or share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares or share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the shares or share options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(n) 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. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that

those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

(i) *Contingent liabilities assumed in business combinations*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(o)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 3(o)(ii).

(ii) *Provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate 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.

(q) Translation of foreign currencies

Foreign currency transactions during the Relevant Periods 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.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) 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 the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (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 employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group'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.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to Nantong Meigu's directors (i.e. the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business 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.

(u) 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.

4 REVENUE

The principal activities of the Group are research and development, production and sale of fibreglass reinforced plastic products in the PRC.

Revenue represents net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the Relevant Periods.

	Year ended 31 December		Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Sales of fibreglass reinforced plastic products				
– fibreglass reinforced plastic grating	47,092	43,978	20,239	21,531
– USCG approved phenolic grating	2,550	6,531	2,747	4,886
– composite subway evacuation platform	3,889	3,471	839	67
– epoxy wedge strip	141	2,425	1,226	1,397
	<u>53,672</u>	<u>56,405</u>	<u>25,051</u>	<u>27,881</u>

5 OTHER REVENUE AND OTHER NET INCOME

	Year ended 31 December		Six months ended 30 June	
	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Other revenue				
Interest income on bank deposits	241	460	1	14
Interest income on amounts due from related companies	946	595	341	–
	<u>1,187</u>	<u>1,055</u>	<u>342</u>	<u>14</u>
Total interest income on financial assets not at fair value through profit or loss	21	41	30	8
Government grants				
	<u>1,208</u>	<u>1,096</u>	<u>372</u>	<u>22</u>
Other net income				
Net foreign exchange gain	92	657	147	123
Reversal of impairment loss on trade and bills receivables	–	–	–	380
	<u>92</u>	<u>657</u>	<u>147</u>	<u>503</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

	Year ended 31 December		Six months ended	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Finance costs				
Interest on bank borrowings	2,767	2,447	1,112	588
(b) Staff costs (including directors' emoluments)				
Salaries, wages and other benefits	8,577	8,512	4,658	4,177
Contributions to defined contribution retirement plans	401	461	227	666
Equity-settled share-based payments	–	–	–	117
	<u>8,978</u>	<u>8,973</u>	<u>4,885</u>	<u>4,960</u>
(c) Other items				
Amortisation for prepaid lease payments	38	38	19	19
Impairment loss/(reversal of impairment loss) on trade and bills receivables	722	770	242	(380)
Depreciation of property, plant and equipment	1,760	1,802	891	900
Cost of inventories recognised as expense [#]	34,565	35,141	17,540	18,352
Research and development costs	1,076	2,377	475	538
Auditor's remuneration*	54	20	–	–
Listing expenses				
– reporting accountant	–	415	–	1,045
– other professional parties	–	162	–	2,699
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

[#] Cost of inventories recognised as expenses include RMB5,247,000, RMB5,437,000, RMB2,994,000 and RMB2,753,000 relating to staff costs, and RMB1,237,000, RMB1,087,000, RMB570,000 and RMB500,000 relating to depreciation of property, plant and equipment, for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

* The amounts represent remunerations paid to other auditors of Nantong Meigu for statutory audit service.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax recognised in profit or loss:

	Year ended 31 December		Six months ended	
	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Current tax				
PRC Enterprise Income Tax ("EIT") on profits of the Group's PRC subsidiary	1,784	2,395	600	1,033
	<u>1,784</u>	<u>2,395</u>	<u>600</u>	<u>1,033</u>
Deferred tax				
Origination and reversal of temporary differences in respect of				
– provision for impairment loss on trade and bills receivables (<i>note</i> <i>22(b)</i>)	(180)	(192)	(60)	95
– withholding tax on distributable profits of the Group's PRC subsidiary (<i>note 22(c)</i>)	397	559	158	396
	<u>217</u>	<u>367</u>	<u>98</u>	<u>491</u>
	<u>2,001</u>	<u>2,762</u>	<u>698</u>	<u>1,524</u>

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Nantong Meigu, a PRC subsidiary, is subject to PRC EIT at 25%. Dividends declared to Prosperous Composite, as a non-resident shareholder, in respect of profits earned by Nantong Meigu, is subject to PRC withholding tax at 10%.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		Six months ended	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	6,233	8,087	2,159	415
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	1,558	2,166	540	1,075
Tax effect of non-deductible expenses	46	37	–	(224)
Under-provision in prior year	–	–	–	277
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiary	397	559	158	396
Actual tax expense	2,001	2,762	698	1,524

8 DIRECTORS' EMOLUMENTS

Directors' emoluments of the Group during the Relevant Periods, which were included in staff costs as disclosed in note 6(b), are as follows:

	Fees	Basic salaries, allowances and other benefits	Bonus	Employer's contributions to defined contribution scheme	Share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014						
Shen Qixian*#	–	101	–	–	–	101
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	60	–	3	–	63
Shi Hongmei*	–	48	–	–	–	48
	–	209	–	3	–	212
Year ended 31 December 2015						
Shen Qixian*#	–	102	–	–	–	102
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	62	–	3	–	65
Shi Hongmei*	–	48	–	–	–	48
	–	212	–	3	–	215

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Bonus RMB'000	Employer's contributions to defined contribution scheme RMB'000	Share- based payments RMB'000	Total RMB'000
Six months ended						
30 June 2015						
(unaudited)						
Shen Qixian*#	–	51	–	–	–	51
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	31	–	4	–	35
Shi Hongmei*	–	24	–	–	–	24
	–	106	–	4	–	110
Six months ended						
30 June 2016						
Shen Qixian*#	–	72	–	–	–	72
Lin Guangquan*	–	–	–	–	–	–
Jiang Guitang*#	–	97	–	32	117	246
Cheng Dong#	–	172	–	18	–	190
Shi Hongmei* (resigned on 24 January 2016)	–	–	–	–	–	–
Shi Dongying#	–	51	–	17	–	68
	–	392	–	67	117	576

* These are the directors of Nantong Meigu, the key operating entity of the Group during the Relevant Periods.

Jiang Guitang and Cheng Dong were appointed as executive directors of the Company on 16 March 2016. Shen Qixian was appointed as non-executive director of the Company on 16 March 2016 and resigned on 23 June 2016.

Shi Dongying, who joined the Group in October 2015, was appointed as an executive director of the Company on 6 May 2016. Huang Xin, Tam Tak Kei Raymond and Ng Sai Leung were appointed as independent non-executive directors of the Company on 16 December 2016 and none of them received any emolument from the Group during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (note 9 below) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the top five highest paid individuals (note 9 below) waived any emoluments during the Relevant Periods.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one is the director, Mr. Cheng Dong, whose emoluments, after the appointment date of 16 March 2016, are disclosed in note 8. The aggregate of the emoluments in respect of the director, Mr. Cheng Dong, before 15 March 2016 and other four individuals were as follows:

	Year ended 31 December		Six months ended	
	2014 RMB'000	2015 RMB'000	2015 RMB'000 (unaudited)	2016 RMB'000
Basic salaries, allowances and other benefits	1,468	1,295	668	646
Employer's contributions to defined contribution retirement schemes	41	46	22	71
	1,509	1,341	690	717

The emoluments of the five individuals with the highest emoluments are within nil to HK\$1,000,000 band.

10 DISTRIBUTIONS

- (a)
- Distributions payable to a former non-controlling shareholder of Nantong Meigu, attributable to the year/period**

	Year ended 31 December		Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Final dividend proposed by the subsidiary after end of the reporting period	1,756	–	–	–

- (b)
- Distributions declared and approved, paid or payable to a former non-controlling shareholder of Nantong Meigu, during the year/period**

	Year ended 31 December		Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Final dividend declared and approved in respect of the previous financial year:				
– paid during the year	–	1,000	–	–
– payable at end of the year/period	–	756	–	–
	–	1,756	–	–

11 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results for the each of the years ended 31 December 2014 and 2015 and for each of the six months ended 30 June 2015 and 2016 on a combined basis as disclosed in notes 2 and 3(d)(ii) above.

12 SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally to Nantong Meigu's directors for the purposes of resource allocation and performance assessment, no segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the research and development, production and sales of fibreglass reinforced plastic products in the PRC.

(a) Geographic information

The following is an analysis of geographical location of the Group's revenue from external customers. The geographical location of customers refers to the location at which the goods were delivered.

	Year ended 31 December		Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Local customers				
The PRC (excluding Hong Kong) (place of domicile)	22,280	29,273	11,040	14,693
Foreign customers				
USA	23,146	17,315	8,928	7,330
U.K.	5,137	6,953	3,656	4,553
France	408	301	144	527
Canada	273	473	257	92
Germany	273	226	166	128
Indonesia	608	–	–	–
Others	1,547	1,864	860	558
	<u>31,392</u>	<u>27,132</u>	<u>14,011</u>	<u>13,188</u>
	<u>53,672</u>	<u>56,405</u>	<u>25,051</u>	<u>27,881</u>

The geographical locations of property, plant and equipment, and leasehold land are based on the physical location of the asset under consideration. During the Relevant Periods, all property, plant and equipment, and leasehold land were located in the PRC.

(b) Information about major customers

Information about revenue from the Group's major customers individually contributing 10% or more of total revenue of the Group is as follows:

	Year ended 31 December		Six months ended 30 June	
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i> (unaudited)	2016 <i>RMB'000</i>
Customer A	11,297	6,086	3,132	N/A [#]
Customer B	5,505	6,230	3,593	2,999
Customer C	N/A*	N/A*	N/A*	2,849

[#] The transactions with this customer did not contribute over 10% of total revenue of the Group during the six months ended 30 June 2016.

* The transactions with this customer did not contribute over 10% of total revenue of the Group during the year ended 31 December 2014 and 2015, and the six months ended 30 June 2015.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Plant and equipment (including moulds) <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:					
At 1 January 2014	14,065	436	10,119	329	24,949
Additions	79	11	2,074	–	2,164
At 31 December 2014	<u>14,144</u>	<u>447</u>	<u>12,193</u>	<u>329</u>	<u>27,113</u>
At 1 January 2015	14,144	447	12,193	329	27,113
Additions	–	3	264	449	716
At 31 December 2015	<u>14,144</u>	<u>450</u>	<u>12,457</u>	<u>778</u>	<u>27,829</u>
At 1 January 2016	14,144	450	12,457	778	27,829
Additions	–	–	62	–	62
At 30 June 2016	<u>14,144</u>	<u>450</u>	<u>12,519</u>	<u>778</u>	<u>27,891</u>
Accumulated depreciation:					
At 1 January 2014	2,865	384	5,093	52	8,394
Charge for the year	635	4	1,047	74	1,760
At 31 December 2014	<u>3,500</u>	<u>388</u>	<u>6,140</u>	<u>126</u>	<u>10,154</u>
At 1 January 2015	3,500	388	6,140	126	10,154
Charge for the year	636	4	1,013	149	1,802
At 31 December 2015	<u>4,136</u>	<u>392</u>	<u>7,153</u>	<u>275</u>	<u>11,956</u>
At 1 January 2016	4,136	392	7,153	275	11,956
Charge for the period	318	2	488	92	900
At 30 June 2016	<u>4,454</u>	<u>394</u>	<u>7,641</u>	<u>367</u>	<u>12,856</u>
Carrying amounts:					
At 31 December 2014	<u>10,644</u>	<u>59</u>	<u>6,053</u>	<u>203</u>	<u>16,959</u>
At 31 December 2015	<u>10,008</u>	<u>58</u>	<u>5,304</u>	<u>503</u>	<u>15,873</u>
At 30 June 2016	<u>9,690</u>	<u>56</u>	<u>4,878</u>	<u>411</u>	<u>15,035</u>

As at 31 December 2014 and 2015 and 30 June 2016, the carrying amounts of buildings pledged for a bank borrowing (note 21(b)) of the Group were RMB9,439,000 and RMB8,860,000 and RMB9,690,000, respectively.

14 LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost			
At 1 January and 31 December/30 June	1,890	1,890	1,890
Accumulated amortisation			
At 1 January	264	302	340
Amortisation charged for the year	38	38	19
At 31 December/30 June	302	340	359
Carrying amount	1,588	1,550	1,531
Analysed for reporting purposes as:			
Current assets	38	38	38
Non-current assets	1,550	1,512	1,493
	1,588	1,550	1,531

As at 31 December 2014 and 2015 and 30 June 2016, the carrying amounts of leasehold land pledged for a bank borrowing (note 21(b)) of the Group were RMB1,588,000 and RMB1,550,000 and RMB1,531,000, respectively.

15 PLEDGED BANK DEPOSITS

As at 31 December 2014, a deposit of RMB10,000,000 was pledged to a bank as security for a bank borrowing amounting to RMB20,000,000 (note 21). The pledge on the deposit was released when the borrowing was repaid on 11 August 2015.

As at 31 December 2015 and 30 June 2016, an amount of RMB113,000 was placed in a bank account pledged in favour of a customer in relation to a sales transaction. According to an agreement signed between the Group and the customer, the pledge will be released on 7 January 2018 and accordingly, the amount was classified as a non-current asset as at 31 December 2015 and 30 June 2016.

16 INVENTORIES

	As at 31 December		As at
	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	3,218	2,133	2,500
Work in progress	1,908	1,152	1,414
Finished goods	1,130	697	259
	6,256	3,982	4,173

17 TRADE AND OTHER RECEIVABLES

	As at 31 December		As at
	2014	2015	30 June
	RMB'000	RMB'000	2016
			RMB'000
Trade receivables	26,538	31,331	30,786
Less: allowance for doubtful debts	(1,111)	(1,881)	(1,501)
	<u>25,427</u>	<u>29,450</u>	<u>29,285</u>
Bills receivables	806	1,985	–
	<u>26,233</u>	<u>31,435</u>	<u>29,285</u>
Trade and bills receivables, net	26,233	31,435	29,285
Other receivables	1,311	747	1,190
Prepayments and deposits	920	340	1,558
	<u>28,464</u>	<u>32,522</u>	<u>32,033</u>

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year or repayable on demand. Included in the prepayments and deposits are prepaid listing expenses of Nil, RMB192,000 and RMB1,390,000 as at 31 December 2014 and 2015, and 30 June 2016, respectively, which are to be charged to equity and deducted against the proceeds to be raised from the listing.

(a) Ageing analysis

An ageing analysis of trade and bills receivables (net of allowance for doubtful debts) based on the invoice date, is as follows:

	As at 31 December		As at
	2014	2015	30 June
	RMB'000	RMB'000	2016
			RMB'000
0 – 30 days	12,120	6,498	6,835
31 – 90 days	4,908	11,530	8,454
91 – 180 days	4,180	4,099	5,337
Over 180 days	5,025	9,308	8,659
	<u>26,233</u>	<u>31,435</u>	<u>29,285</u>

The Group generally granted credit terms to its customers ranging from cash on delivery to 1 year after invoice date. Further details on the Group's credit policy are set out in note 26(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of 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 and bills receivables directly (see note 3(g)(i)).

Movements in the allowance for doubtful debts

	Year ended 31 December		Six months
	2014	2015	ended
	RMB'000	RMB'000	30 June
			2016
			RMB'000
At 1 January	389	1,111	1,881
Impairment loss recognised/ (reversal of impairment loss)	<u>722</u>	<u>770</u>	<u>(380)</u>
At 31 December/30 June	<u>1,111</u>	<u>1,881</u>	<u>1,501</u>

As at 31 December 2014 and 2015 and 30 June 2016, trade receivables of the Group amounting to RMB1,111,000 and RMB1,881,000 and RMB1,501,000 were determined to be impaired, respectively. The impaired receivables were outstanding for over 90 days at the end of the reporting period or were due from customers with financial difficulties. In considering the subsequent settlements received from the customers as well as their financial capabilities, specific allowances for doubtful debts of RMB722,000 and RMB770,000 were recognised for the years ended 31 December 2014 and 2015, respectively, and reversal of provision for doubtful debts of RMB380,000 were recognised for the six months ended 30 June 2016.

(c) **Trade and bills receivables that are not impaired**

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		As at
	2014	2015	30 June
	RMB'000	RMB'000	2016
			RMB'000
Neither past due nor impaired	24,593	28,534	26,881
Past due but not impaired			
Less than 1 month past due	120	291	–
1 to 3 months past due	41	30	139
Over 3 months and less than 1 year past due	950	821	1,583
More than 1 year past due	529	1,759	682
	1,640	2,901	2,404
	26,233	31,435	29,285

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, financial capabilities of the customers and the subsequent settlements received from the customers, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality or possible default in payment, and the balances are still considered fully recoverable.

On 14 January 2016, in settlement of an overdue trade receivable amounting to RMB1,337,000, a residential property located in Chengdu, the Sichuan Province, the PRC was assigned by the relevant customer to the Group in lieu of payment. According to a valuation report issued by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers with recognised qualifications and experiences, using the Direct Comparison Approach, the fair value of the property assigned to the Group was RMB1,500,000 as at 31 March 2016, which is greater than the balance of overdue trade receivable of RMB1,337,000 due from the relevant customer at the time of settlement, and thus no impairment is considered necessary.

18 PROPERTY HELD FOR SALE

	As at 31 December		As at
	2014	2015	30 June
	RMB'000	RMB'000	2016
			RMB'000
Property held for sale at cost, in the PRC			
– amount of trade receivable settled in lieu of payment	–	–	1,337
– other incidental transaction costs	–	–	131
	–	–	1,468

As further detailed in note 17(c), on 14 January 2016, a residential property located in Chengdu, the Sichuan Province, the PRC was assigned by a customer to the Group in lieu of payment of an overdue trade receivable amounting to RMB1,337,000. According to a valuation report issued by APAC Asset Valuation and Consulting Limited, an independent firm of professional valuers with recognised qualifications and experiences, using the direct comparison approach, the fair value of the property assigned to the Group was RMB1,600,000 as at 30 September 2016. No impairment was considered necessary.

Particulars of the property held for sale are set out below:

Location	Existing use	Term of lease
Unit 05, L14, Xingshun Huayuan, No. 2 Xinghui East Road, Jinniu District, Chengdu, Sichuan Province, The PRC	Residential	Till 2069

19 CASH AND CASH EQUIVALENTS

	As at 31 December 2014 RMB'000	2015 RMB'000	As at 30 June 2016 RMB'000
Cash at bank	575	14,713	9,338
Cash on hand	3	3	23
	<u>578</u>	<u>14,716</u>	<u>9,361</u>
Cash and cash equivalents in the consolidated statements of financial position and the consolidated statements of cash flows	<u>578</u>	<u>14,716</u>	<u>9,361</u>

20 TRADE AND OTHER PAYABLES

	As at 31 December 2014 RMB'000	2015 RMB'000	As at 30 June 2016 RMB'000
Trade payables	10,175	8,701	11,028
Other payables	2,823	2,706	2,682
	<u>12,998</u>	<u>11,407</u>	<u>13,710</u>

The following is an analysis of trade payables by age based on the invoice date:

	As at 31 December 2014 RMB'000	2015 RMB'000	As at 30 June 2016 RMB'000
0 – 30 days	3,907	1,406	4,068
31 – 90 days	4,573	3,450	4,237
91 – 180 days	1,571	2,834	1,565
Over 180 days	124	1,011	1,158
	<u>10,175</u>	<u>8,701</u>	<u>11,028</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or repayable on demand.

21 BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	As at 31 December		As at
	2014	2015	30 June
	RMB'000	RMB'000	2016
			RMB'000
Fixed rate term loans from banks due for repayment within 1 year or repayable on demand (note (a))			
Secured (note (b))	20,000	10,000	10,000
Unsecured (note (c))	20,000	10,000	10,000
	<u>40,000</u>	<u>20,000</u>	<u>20,000</u>

Notes:

- (a) All the bank borrowings at 31 December 2014 and 2015 and 30 June 2016 were guaranteed by Mr. Shen Qixian, being the father of Mr. Shen and a director of Nantong Meigu, and Mr. Jiang, a director of the Company, Prosperous Composite and Nantong Meigu, and their respective spouses, as referred to in note 27(b)(i)(5).
- (b) As at 31 December 2014, the bank borrowings were secured by buildings (note 13), a leasehold land (note 14) and a bank deposit (note 15) of the Group. As at 31 December 2015 and 30 June 2016, the bank borrowings were secured by buildings (note 13) and a leasehold land (note 14) of the Group.
- (c) The unsecured bank borrowings were further guaranteed by an independent third party guarantee company in the PRC.

22 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

- (a) Current taxation in the consolidated statements of financial position represents:

	Year ended 31 December		Six months ended	
	2014	2015	30 June	2016
	RMB'000	RMB'000	2015	2016
			RMB'000	RMB'000
			(unaudited)	
Current year				
PRC EIT	1,164	1,211	534	589
PRC EIT on distributed profits from the Group's PRC subsidiary (note 22(c))	–	1,024	–	–
	<u>1,164</u>	<u>2,235</u>	<u>534</u>	<u>589</u>

(b) Deferred tax assets

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Temporary differences in respect of provisions for impairment loss on trade receivables RMB'000
At 1 January 2014	98
Credited to consolidated profit or loss (<i>note 7(a)</i>)	180
	<hr/>
At 31 December 2014 and 1 January 2015	278
Credited to consolidated profit or loss (<i>note 7(a)</i>)	192
	<hr/>
At 31 December 2015 and 1 January 2016	470
Charged to consolidated profit or loss (<i>note 7(a)</i>)	(95)
	<hr/>
At 30 June 2016	375
	<hr/> <hr/>

(c) Deferred tax liabilities

The components of deferred tax liabilities recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Temporary differences in respect of distributable profits from the PRC subsidiary RMB'000
At 1 January 2014	1,237
Charged to consolidated profit or loss (<i>note 7(a)</i>)	397
	<hr/>
31 December 2014 and 1 January 2015	1,634
Charged to consolidated profit or loss (<i>note 7(a)</i>)	559
Transferred to current tax payable (<i>note 22(a)</i>)	(1,024)
	<hr/>
At 31 December 2015 and 1 January 2016	1,169
Charged to consolidated profit or loss (<i>note 7(a)</i>)	396
	<hr/>
At 30 June 2016	1,565
	<hr/> <hr/>

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared to non-resident shareholders in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards.

Deferred tax charges of RMB397,000 and RMB559,000 and RMB396,000, have been recognised for the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, respectively, representing 10% withholding tax on profits distributable to Prosperous Composite, a non-resident shareholder of Nantong Meigu. Upon the declaration of dividends on 10 September 2015, deferred tax liabilities of RMB1,024,000 were transferred to current tax payable for the year ended 31 December 2015.

(d) Deferred tax assets and liabilities not recognised

There were no significant unrecognised deferred tax assets or liabilities of the Group as at 31 December 2014 and 2015 and 30 June 2016.

23 EMPLOYEE RETIREMENT BENEFITS

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in profit or loss of RMB401,000 and RMB461,000, RMB227,000 and RMB666,000 for years ended 31 December 2014 and 2015, and the six months ended 30 June 2015 and 2016, respectively, represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

24 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 13 January 2016 as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the same date, 1 nil-paid share of HK\$0.01 was issued by the Company to its then subscriber which was immediately transferred to Munsing, wholly-owned by Mr. Shen. Upon the completion of the share swap arrangement on 16 March 2016 as further detailed in note 2, the Company was owned as to 34.1%, 40.9% and 25% by Munsing, Singa and Frankly Smart, respectively. On 20 April 2016, Frankly Smart (as vendor), the Company (as purchaser) and Mr. Huei (as warrantor who owns and controls Frankly Smart) entered into a sale and purchase agreement, pursuant to which, the Company repurchased all the 250 shares held by Frankly Smart at a consideration of HK\$15,000,000. On the same date, all these repurchased 250 shares were cancelled by the Company. Since 20 April 2016, following the aforesaid share repurchase and cancellation, and at the date of approval of this report, the Company is owned as to approximately 45.47% and 54.53% by Munsing (wholly-owned by Mr. Shen) and Singa (wholly-owned by Mr. Jiang) respectively.

The owners of shares 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.

(b) Capital reserve

At 31 December 2014 and 2015, the Group's capital reserve represented the Company's beneficial owners' contributions for 85.37% of the registered capital of Nantong Meigu which has become, pursuant to the Reorganisation, an indirect and wholly-owned subsidiary of the Company since 16 March 2016. On the basis as set out in notes 2 and 3(d)(ii) to the Financial Information, Prosperous Composite has been regarded as a direct and wholly-owned subsidiary of the Company throughout the Relevant Periods, and Nantong Meigu has regarded as an indirect and 85.37% owned subsidiary of the Company during the Relevant Periods up to 14 March 2016, and a wholly-owned subsidiary of the Company since 14 March 2016. The remaining 14.63% equity interest of Nantong Meigu, which was held by a non-controlling shareholder of Nantong Meigu, has been classified as and included under non-controlling interests during the Relevant Periods up to 14 March 2016.

At 30 June 2016, the Company's capital reserve represented contributed surplus by the Company's beneficial owners' under the share swap arrangement as disclosed in note 2, being the difference between the par value of the 1,000 shares issued by the Company of HK\$0.01 each, totaling HK\$10, and the net asset value of Prosperous Composite and Nantong Meigu attributable to the owners of Prosperous Composite at the completion of share swap arrangement on 16 March 2016.

(c) Share-based payment reserve

As disclosed in Note 2, on 16 March 2016 and immediately after share swap arrangement made between the Company and the then shareholders of Prosperous Composite, Mr. Shen's equity interest in the Group (now comprising the Company, Prosperous Composite and Nantong Meigu) was decreased by 4.15% (which was subsequently enlarged to 5.53% after the share cancellation of 250 repurchased shares on 20 April 2016 as disclosed in note 2), which was effectively transferred to Mr. Jiang ("Share Award"), based on an undertaking agreement made between Mr. Shen and Mr. Jiang ("Share Award Agreement") as confirmed in writing by a confirmatory deed dated 3 June 2016, in which, Mr. Jiang, as a key management personnel and a founder of the Group, has provided an irrevocable promise to Mr. Shen that Mr. Jiang shall continue to engage in the management of the Group for coming 5 years and shall not terminate the engagement with the Group before 16 March 2021. The fair value of the Share Award at 31 March 2016 was RMB2,000,000 based on a professional valuation report issued by APAC Asset Valuation and Consulting Limited on 2 June 2016, under the market approach, using the price to earnings ("P/E") and enterprise value to EBITDA ("EV/EBITDA") multiples of comparable listed companies and after making adjustments for the discount of 20% for lack of marketability and size discount of 15% to reflect the specific risks of the Company. The directors of the Company considered that there would be no material difference for the fair value of the Share Award between the grant date on 16 March 2016 and valuation date on 31 March 2016. The fair value of the Share Award at the grant date shall be amortised, recognised and charged as expense to the consolidated profit or loss, on a straight-line basis, over a period of 5 years, which will be regarded as a contribution by a shareholder of the Company.

During the years ended 31 December 2014 and 2015 and the six months ended 30 June 2015 and 2016, the share-based payments amortised, recognised and charged as expense to the consolidated profit or loss of the Group amounted to Nil, Nil, Nil and RMB17,000, respectively, for which the same amounts were credited as a contribution from a shareholder of the Company in the consolidated and Company statement of changes in equity for each of the respective year/period.

(d) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiary in the Group is required to appropriate 10% of its profit after tax to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(e) Distributability of reserves

At 31 December 2014 and 2015 and 30 June 2016, the aggregate amount of reserves available for distribution to owners of the Group, as calculated under the provisions of the Companies Law of the Cayman Islands, was RMB23,288,000, RMB26,941,000 and RMB25,110,000 respectively.

(f) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less relevant pledged bank deposits, and cash and cash equivalents. Total capital is calculated as total equity attributable to owners of the Company as shown in the consolidated statements of financial position plus net debt.

The Group is not subject to any externally imposed capital requirements.

The gearing ratios at 31 December 2014 and 2015 and 30 June 2016 were as follows:

	As at 31 December 2014	2015	As at 30 June 2016
	RMB'000	RMB'000	RMB'000
Total borrowings (note 21)	40,000	20,000	20,000
Less: Relevant pledged bank deposits (note 15)	(10,000)	–	–
Less: Cash and cash equivalents (note 19)	(578)	(14,716)	(9,361)
Net debt	29,422	5,284	10,639
Total equity attributable to owners of the Company	25,416	29,796	28,187
Total capital	54,838	35,080	38,826
Gearing ratio	54%	15%	27%

25 NON-CONTROLLING INTEREST

The following table lists out the information of Nantong Meigu, the subsidiary of the Group which has material non-controlling interest (“NCI”). The summarised financial information presented below represents the amounts before any inter-company elimination. All the interests, being 14.63% equity in Nantong Meigu, held by NCI were acquired by the Group on 14 March 2016, and since then, Nantong Meigu has become a wholly-owned subsidiary of the Group and accordingly, no financial information for non-controlling interest was presented for the six months ended 30 June 2016.

	Year ended 31 December	
	2014	2015
	RMB'000	RMB'000
NCI percentage	14.63%	14.63%
Current assets	67,061	51,242
Non-current assets	18,787	17,968
Current liabilities	(54,162)	(43,064)
Net assets	31,686	26,146
Carrying amount of NCI	4,636	3,825
Revenue	53,672	56,405
Profit for the year	4,629	6,460
Profit allocated to NCI	677	945
Total comprehensive income	4,629	6,460
Dividend paid to NCI	–	1,756
Cash flows generated from operating activities	9,861	27,359
Cash flows (used in)/generated from investing activities	(977)	339
Cash flows used in financing activities	(9,755)	(13,560)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The financial instruments of the Group include (i) trade and other receivables (excluding prepayments and deposits) (Note 17), amounts due from related companies and related parties (Note 27(b)(i)), pledged bank deposits (Note 15), cash and cash equivalents (Note 19), trade and other payables (Note 20), bank borrowings (Note 21) and distributions payable to a former non-controlling shareholder of a subsidiary (Note 27(b)(i)).

The Group have exposure to credit risk, liquidity risk, interest rate risk and currency risk arising from financial instruments. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

The Group's credit risk is primarily attributable to trade and bills receivables, cash and cash equivalents and pledged bank deposits. In order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every 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. Trade and bills receivables are usually due within one year from the date of billing. For debtors with balances past due, further credit would not be granted until all outstanding balances are settled. Normally, the Group does not obtain collateral from its customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2014 and 2015 and 30 June 2016, 17.42%, 11.84% and 14.68%, and, 51.27%, 43.45%, and 41.06%, of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

As at 31 December 2014, the Group's credit risk was also attributable to amounts due from related companies and related parties. The Group's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the amounts have been fully settled during the year ended 31 December 2015.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 17.

The Group's cash and cash equivalents and pledged bank deposits are placed with creditworthy banks with high credit ratings and the Group has limited exposure to any of these banks.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to each entity's board approval. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient amount of cash to meet its liquidity requirements in the short and longer term.

The following tables set out the remaining contractual maturities at the end of each reporting period during the Relevant Periods of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flows within 1 year RMB'000	Carrying amounts RMB'000
As at 31 December 2014		
Trade and other payables	12,998	12,998
Bank borrowings	41,083	40,000
	<u>54,081</u>	<u>52,998</u>
As at 31 December 2015		
Trade and other payables	11,407	11,407
Bank borrowings	20,718	20,000
Distributions payable to a former non-controlling shareholder of a subsidiary	756	756
	<u>32,881</u>	<u>32,163</u>
As at 30 June 2016		
Trade and other payables	11,028	11,028
Bank borrowings	20,128	20,000
Distributions payable to a former non-controlling shareholder of a subsidiary	–	–
	<u>31,156</u>	<u>31,028</u>

(c) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and amounts due from related companies.

Interest rate risks are managed by the Group by maintaining an appropriate mix between fixed and variable rate borrowings and amounts due from related companies.

Interest rate profile

The following table details the interest rate profile of the Group's material interest bearing financial instruments at the end of each reporting period during the Relevant Periods:

	As at 31 December				As at 30 June	
	2014		2015		2016	
	Effective interest rates %	RMB'000	Effective interest rates %	RMB'000	Effective interest rates %	RMB'000
Fixed rate borrowings						
Bank borrowings	5.28 – 7.50	40,000	5.82	20,000	5.82	20,000
Fixed rate receivables						
Amounts due from related companies	6.43 – 7.60	9,000	–	–	–	–

All of the bank borrowings and amounts due from related companies which are fixed rate financial instruments are insensitive to any change in interest rates. A change in interest rate at the end of each reporting period during the Relevant Periods would not affect profit or loss. Accordingly, no sensitivity analysis is presented by the Group.

(d) **Currency risk**

Exposure to currency risk

The Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances 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, which were attributable to sales transactions entered into by the Group with foreign customers.

The following table details the Group's exposure at the end of each reporting period during the Relevant Periods 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 RMB, translated using the spot rate at the end of each reporting period during the Relevant Periods.

	Exposure to foreign currency		
	As at 31 December		As at
	2014	2015	30 June
	United States Dollars RMB'000	United States Dollars RMB'000	United States Dollars RMB'000
Trade receivables	3,568	6,573	5,682
Cash and cash equivalents	131	21	848
Gross exposure arising from recognised assets and liabilities	3,699	6,594	6,530

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period during the Relevant Periods had changed at that date, assuming all other risk variables remained constant.

	Year ended 31 December		Year ended 31 December		Six months ended	
	2014	2015	2014	2015	30 June	2016
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States	5%	139	5%	247	5%	245
Dollars	(5%)	(139)	(5%)	(247)	(5%)	(245)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period during the Relevant Periods for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each reporting period during the Relevant Periods.

27 MATERIAL RELATED PARTY TRANSACTIONS

Mr. Shen and Mr. Jiang, who are the beneficial owners of the Group acting in concert in the management of the Group, are regarded as the ultimate controlling parties of the Group during the Relevant Periods.

The Group has entered into the following material related party transactions in the ordinary course of its business during the Relevant Periods:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 December		Six months ended	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Short-term employee benefits	1,677	1,507	774	1,038
Post-employment benefits	44	49	26	138
Equity-settled share-based payments	—	—	—	117
	<u>1,721</u>	<u>1,556</u>	<u>800</u>	<u>1,293</u>

(b) Other related party balances and transactions

Saved as disclosed elsewhere in the Financial Information, the Group has the following related party transactions:

(i) Balances with other related parties

	Note	As at 31 December		As at 30 June 2016 RMB'000	Year ended 31 December		Maximum amount outstanding Six months ended 30 June 2016 RMB'000	
		2014 RMB'000	2015 RMB'000		2014 RMB'000	2015 RMB'000	2016 RMB'000	
Amounts due from related companies								
- Nantong Sancon Electronics Technology Co., Ltd. ("Nantong Sancon")	(1)	2,535	-	-	23,371	3,735	-	-
- Sichuan Rike Electronics Co., Ltd. ("Sichuan Rike")	(1)	9,734	-	-	16,000	10,258	-	-
- Nantong Jianke	(2)	1,000	-	-	1,000	1,000	-	-
		<u>13,269</u>	<u>-</u>	<u>-</u>				
Amounts due from related parties								
- Ms. Xu Yulan	(3)	3,172	-	-	3,452	3,478	-	-
- Ms. Cao Xiaohong	(3)	5,322	-	-	5,652	5,322	-	-
		<u>8,494</u>	<u>-</u>	<u>-</u>				
Distributions payable to a former non-controlling shareholder of a subsidiary								
- Nantong Jianke	(4)	-	756	-	N/A	N/A	N/A	N/A
Off-balance sheet items								
Guarantees from Mr. Shen Qixian and Mr. Jiang Guitang, the directors of the Company, and their close family members	(5)	40,000	20,000	20,000	N/A	N/A	N/A	N/A

Notes:

- (1) Mr. Shen, a beneficial owner of the Company, has controlling beneficial interests in these two companies. As at 31 December 2014, except for an amount of RMB9,000,000 due from Sichuan Rike, which was interest bearing at 6.43% to 7.60% per annum, remaining balances due from these two related companies were interest-free. These balances were unsecured and repayable within one year. The amounts due from these related parties were fully settled in 2015 and there were no balances due from these related parties as at 31 December 2015 and 30 June 2016.
- (2) Nantong Jianke held 14.63% equity interests in Nantong Meigu, a subsidiary of the Company, during the Relevant Periods up to 14 March 2016. The amount due from the related company was unsecured, interest-free and repayable within one year. The amount due from this related party was fully settled in 2015 and there was no balance due from this related party as at 31 December 2015 and 30 June 2016.
- (3) Ms. Xu Yulan is the mother of Mr. Shen, a beneficial owner of the Company, while Ms. Cao Xiaohong is the mother of Mr. Jiang, a beneficial owner of the Company. The amounts due from the related parties were unsecured, interest-free and repayable within one year. The amounts due from these related parties were fully settled in 2015 and there were no balances due from these related parties as at 31 December 2015 and 30 June 2016.

- (4) Nantong Jianke had ceased to be a non-controlling shareholder of Nantong Meigu since 14 March 2016, and the outstanding distributions declared by Nantong Meigu in 2015 and payable to Nantong Jianke of RMB756,000 as at 31 December 2015 were unsecured, interest-free and repayable within one year. There was no distribution payable to Nantong Jianke as at 31 December 2014.
- (5) During the Relevant Periods, guarantees have been given by Mr. Shen Qixian, who is the father of Mr. Shen and a director of Nantong Meigu, and Mr. Jiang, who is a director of the Company and Nantong Meigu, and their close family members, to certain financial institutions in connection with bank borrowings granted to Nantong Meigu (note 21). The directors of the Company considered the fair value of guarantees received to be insignificant because the probability of default in repayment by Nantong Meigu is low.

On 15 June 2016, the bank issued a confirmation letter pursuant to which the bank has conditionally agreed that it will release the above guarantees from all these related parties of RMB20,000,000 at 30 June 2016 and at the date of this report, which shall be replaced by corporate guarantees to be provided by the Company, commencing from the date of successful listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(ii) *Transactions with other related parties*

	Year ended 31 December		Six months ended	
	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
			(unaudited)	
Interest received from related companies				
– Nantong Sancon	212	–	–	–
– Sichuan Rike	734	595	341	–
	<u>946</u>	<u>595</u>	<u>341</u>	<u>–</u>

28 CAPITAL AND LEASE COMMITMENTS

At the end of each reporting period during the Relevant Periods, the Group had no material outstanding capital and lease commitments.

29 ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) *Income tax*

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

(ii) *Recognition of deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences 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 assets to be recovered.

(iii) Deferred tax liabilities for withholding taxes

Deferred tax liabilities have been established for withholding tax payable on undistributed earnings of the subsidiary in the PRC based on that the directors considered that the undistributed earnings are to be repatriated and distributed by way of dividends. The directors' assessment is constantly reviewed and deferred tax liabilities are adjusted when the results of assessment change.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period during the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

(ii) Estimated useful lives of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Valuation of inventories

Inventories are carried at the lower of cost and net realisable value at the end of each reporting period. Net realisable value is determined on the basis of 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. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, current market conditions, historical experience on selling similar inventories and physical conditions of the inventories. It could change significantly as a result of changes in market conditions. In addition, the management performs an inventory review at the end of each reporting period and assess the need for write down of inventories.

(iv) Estimated net realisable value of property held for sale

The fair value of the Group's property held for sale is determined at the end of each reporting period on the open market value basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement on whether such valuation and assumptions made by the valuers are reasonable, the Group considers information from comparable current prices in an active market for similar properties, capitalisation rates, terminal yield, rental income from current leases and assumptions about rental from future leases and the reversionary income potential and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The net realisable value of the property held for sale is estimated based on the fair value of the property less cost of disposal. No provision for the property held for sale is considered necessary as at 30 June 2016.

30. INTERESTS IN SUBSIDIARIES**(a) Investment in a subsidiary**

At 30 June 2016
HK\$'000

Investment in Prosperous Composite, at cost	29,903
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The particulars of subsidiaries of the Company are disclosed in note 2.

(b) Amount due to a subsidiary

At 30 June 2016
HK\$'000

Amount due to Prosperous Composite	2,267
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The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

31 POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the Financial Information, the HKICPA has issued the following amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" 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 FVTOCI. All other debt investments and equity investments 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.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented 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.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

HKFRS 16 Leases

This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As the Group does not engage in any lease arrangements, it is not expected to be impacted by the new standard.

Amendments to HKFRS 2

The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction.

Amendments to HKFRS 15

The amendments specifically clarified certain topics on implementation of HKFRS 15, as follows:

- (i) Identification of performance obligations;
- (ii) Principal versus agent considerations;
- (iii) Licensing;
- (iv) Scope of the exception for sales-based and usage-based royalties; and
- (v) Practical expedients to the transition requirements of HKFRS 15.

Amendments to HKAS 7

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12

The amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's financial performance and positions.

32 SUBSEQUENT EVENTS

The Group had no material events for disclosure, subsequent to 30 June 2016 and up to the date of the Accountants' Report.

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 2016 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 2016.

Yours faithfully,

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

The information set forth in this appendix does not form part of the Accountants' Report on the financial information of the Group for the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 prepared by Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I of this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I of this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of MEIGU Technology Holding Group Limited (the "Company") and its subsidiaries (collectively the "Group") which has been prepared in accordance with Rule 7.31 of The GEM Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the proposed offering by the Company of its shares (the "Placing"), as if the Placing had taken place on 30 June 2016.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to equity holders of the Company had the Placing been completed as at 30 June 2016 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2016 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited Consolidated Net Assets of the Group Attributable to equity holders of the Company as at 30 June 2016 <i>Note 1</i> RMB'000	Estimated Net Proceeds from the Placing <i>Note 2</i> RMB'000	Unaudited Proforma Adjusted Combined Net Tangible Assets of the Group attributable to equity holders of the Company RMB'000	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company per Share	
				<i>Note 3</i> RMB	<i>Note 5</i> HK\$
Based on the Placing Price of HK\$0.30 per share	28,187	9,872	38,059	0.095	0.112
Based on the Placing Price of HK\$0.35 per share	28,187	13,934	42,121	0.105	0.124

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as of 30 June 2016 is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as of 30 June 2016 of about RMB28,187,000, as shown in the Accountants' Report.

- (2) The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.30 and HK\$0.35 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 about RMB4.3 million which have been accounted for prior to 30 June 2016) paid or payable by the Company and takes no account of any shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (3) The unaudited pro forma adjusted combined net tangible assets per share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 400,000,000 Shares are in issue assuming that the Capitalisation Issue and the Placing have been completed on 30 June 2016.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016.
- (5) For the purpose of this unaudited pro forma adjusted combined net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1 = RMB0.8462. 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.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of the assurance report received from, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared 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 Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

29 December 2016

TO THE DIRECTORS OF MEIGU TECHNOLOGY HOLDING GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of MEIGU Technology Holding Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 30 June 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 29 December 2016 (the “Prospectus”). The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors to illustrate the impact of the Placing (as defined in the Prospectus) on the Group's financial position as at 30 June 2016 as if the Placing had taken place at 30 June 2016. 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 two years ended 31 December 2014 and 2015 and the six months ended 30 June 2016, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM 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 unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) The unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully,

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong

Leung Chun Wa

Practising Certificate No.: P04963

The following is the text of a letter, summary of values and valuation certificates prepared for inclusion in this document, received from APAC Asset Valuation and Consulting Limited, an independent property valuer, in connection with their valuations as of 30 September 2016 of the properties held by the Group.

**APAC Asset Valuation and Consulting Limited**

Units 07-08, 17/F, Loon Kee Building, 267-275 Des Voeux Road Central, Central, Hong Kong

Tel: (852) 2357 0059

Fax: (852) 2951 0799

The Directors
MEIGU Technology Holding Group Limited
No. 66 South Oujiang Road,
Haimen,
Jiangsu Province,
The People's Republic of China

29 December 2016

Dear Sirs,

In accordance with the instructions from MEIGU Technology Holding Group Limited (the "Company") for us to value the properties held by the Company and/or its subsidiaries (hereinafter together referred to as the "Group") in The People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 September 2016 (the "valuation date") for incorporation into a Public Offering Document.

VALUATION BASIS

Our valuation of each of the properties is our opinion of its Market Value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

We are independent of the Group and our valuation is complied with "The HKIS Valuation Standards (2012 Edition)" published by The Hong Kong Institute of Surveyors and the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the properties on the market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the properties.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free of encumbrances, restrictions, outgoing of an onerous nature and public information which could affect their values.

VALUATION METHODOLOGY

We have valued the properties by the Direct Comparison Approach on the assumption that the properties can be sold in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions and asking prices as available in the relevant markets. The Direct Comparison Approach (also known as Market Approach) is based on comparing the properties directly with other comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. Physical condition, location and economic characteristics are important criteria to be analysed when comparing to the properties. In valuing Property No. 1, we have also considered its market value by the Depreciated Replacement Cost Approach so as to crosschecking the reasonableness of the valuation result generated by the aforesaid Direct Comparison Approach.

TITLE AND ASSUMPTIONS

We have been provided with copies of extracts of title documents relating to the properties. However, we have not caused title searches to be made for the properties at the relevant government bureaus in the PRC and have not inspected the original documents to verify the ownership and encumbrances or to ascertain the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the properties in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Beijing Dentons Law Offices, LLP, regarding the titles and other legal matters to the properties.

SOURCE OF INFORMATION

We have relied to a very considerable extent on information given by the Group, in particular, but not limited to, planning approvals and statutory notices, easements, tenure, particulars of occupancy, site and floor areas and other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are approximations only. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to our valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

SITE INSPECTIONS

Site inspections of the properties were carried out by Mr. Ben Lee and Mr. Yang Yi, who have about 10 and 1 year's property valuation experience respectively, in April and May 2016. We have inspected the exterior and, where possible, the interior of the properties. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

In the course of our inspections, we did not notice any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free of rot, infestation or any other structural defects. No tests have been carried out on any of the services.

LIMITATION OF LIABILITIES

This valuation report is issued on the understanding that you have drawn our attention to all matters of which they are aware concerning the properties which may have an impact on our valuation report up to the valuation date. We have no responsibility to update this valuation report for events and circumstances occurring after the date of completion of our assessment but will be pleased to discuss further instructions as may be required.

MANAGEMENT CONFIRMATION OF FACTS

A draft of this valuation report and our calculation has been sent to the management of the Group. They have reviewed and orally confirmed to us that facts as stated in this valuation report and calculation are accurate in all material respects and that they are not aware of any material matters relevant to our engagement which have been excluded.

CURRENCY AND EXCHANGE RATE

Unless otherwise stated, all monetary amounts are stated in Renminbi (“RMB”).

Our summary of values and valuation certificates are attached.

Yours faithfully,

For and on behalf of
APAC Asset Valuation and Consulting Limited
Ken Wong
MHKIS, MCIREA, RPS (GP)
Director

Note: Mr. Ken Wong is a Registered Professional Surveyor in General Practice Division with over 16 years’ valuation experience on properties in Asian Pacific region, including Hong Kong, Taiwan, the PRC, etc.

SUMMARY OF VALUES

Group I – Property held and occupied by the Group in the PRC

No. Property	Market value in existing state as at 30 September 2016	Interest attributable to the Group	Market value attributable to the Group as at 30 September 2016
1. An industrial complex located at No. 66 South Oujiang Road, Haimen, Jiangsu Province, The PRC	RMB17,100,000	100%	RMB17,100,000

Group II – Property to be disposed by the Group in the PRC

No. Property	Market value in existing state as at 30 September 2016	Interest attributable to the Group	Market value attributable to the Group as at 30 September 2016
2. Unit 05, L14, Xingshun Huayuan, No. 2 Xinghui East Road, Jinniu District, Chengdu, Sichuan Province, The PRC	RMB1,600,000	100%	RMB1,600,000
Grand Total:	<u>RMB18,700,000</u>		<u>RMB18,700,000</u>

VALUATION CERTIFICATE

Group I – Property held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016										
1.	An industrial complex located at No. 66 South Oujiang Road, Haimen, Jiangsu Province, The PRC	<p>The property comprises a parcel of land with a site area of approximately 20,000.00 sq.m. with an industrial complex erected thereon. The industrial complex was completed in phases between 2008 and 2013.</p> <p>The property is located at the east of South Oujiang Road and the south of Zhuhai Road in Haimen. The immediate locality is an industrial area and predominated by industrial buildings of various ages and heights.</p> <p>The property comprises seven 1 to 3-storey buildings with a total gross floor area of approximately 12,675.75 sq.m. Detail of the uses and approximate gross floor areas are as follow:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>Approximate Gross Floor Area sq.m.</th> </tr> </thead> <tbody> <tr> <td>Industrial Buildings</td> <td>8,702.88</td> </tr> <tr> <td>Office and Dormitory</td> <td>3,937.81</td> </tr> <tr> <td>Ancillary Facilities</td> <td>35.06</td> </tr> <tr> <td>Total:</td> <td>12,675.75</td> </tr> </tbody> </table> <p>The land use rights of the property have been granted for a term expiring on 31 August 2056 for industrial use.</p>	Use	Approximate Gross Floor Area sq.m.	Industrial Buildings	8,702.88	Office and Dormitory	3,937.81	Ancillary Facilities	35.06	Total:	12,675.75	The property is occupied by the Group for industrial use.	RMB17,100,000 (100% interest attributable to the Group: RMB17,100,000)
Use	Approximate Gross Floor Area sq.m.													
Industrial Buildings	8,702.88													
Office and Dormitory	3,937.81													
Ancillary Facilities	35.06													
Total:	12,675.75													

Notes:

- Pursuant to a Real Estate Title Certificate – Su (2016) Hai Men Shi Bu Dong Chan Quan No. 0001156, the land use rights of the property with a site area of 20,000.00 sq.m. and various buildings with a total gross floor area of 12,675.75 sq.m. were granted to Nantong Meigu Composite Materials Company Limited (“Nantong Meigu”), an indirect wholly-owned subsidiary of the Company, for a term expiring on 31 August 2056 for industrial use.
- Pursuant to a Mortgage Contract – No. JK052916000686, the property is subject to a mortgage in favour of Bank of Jiangsu Co., Ltd. Haimen Branch to an extent of RMB12,000,000.

3. We have been provided with a legal opinion on the title to the property prepared by the Group's PRC legal adviser, which contains, inter alia, the followings:
 - (i) Nantong Meigu is the legal owner of the property and is entitled to occupy and use the property within the aforesaid land use term. Nantong Meigu is entitled to transfer, lease, remortgage or by other legal means dispose of the property after obtaining the consent from the mortgagee;
 - (ii) Industrial Building No. 4 was constructed without obtaining any Construction Works Commencement Permit. Pursuant to the certification letter issued by the Urban-Rural Planning Bureau of Haimen City on 21 September 2016, the fine for the unauthorised commencement of construction works was RMB11,400 and has been settled;
 - (iii) Nantong Meigu has occupied Industrial Building No. 4 without completing the property examination procedures. The potential fine is ranged from RMB22,800 to RMB45,600. Pursuant to the certification letter issued by the Urban-Rural Planning Bureau of Haimen City on 21 September 2016, they have not punished Nantong Meigu for the aforesaid illegal occupation;
 - (iv) up to the date of issuing the legal opinion, as Nantong Meigu has already obtained the Construction Commencement Permits and Real Estate Title Certificate and completed the property examination procedures for Industrial Building No. 4, the risk of being ordered to cease production or to demolish the building is low; and
 - (v) apart from the aforesaid situations, the property is not subject to any sales, transfers, mortgages, third party rights or any kinds of limitations.

4. Our valuation has been made on the following basis and analysis:
 - (i) In our valuation, we have identified and analysed various relevant comparable properties in the locality which have similar characteristic with the property. The unit rates of those comparable properties range from RMB1,300/sq.m. to RMB1,600/sq.m. on gross floor area basis. Appropriate adjustments and analysis have been made to reflect the differences in location, size and other factors between those comparable properties and the property to arrive at our adopted unit rate of about RMB1,350/sq.m. on gross floor area basis for the property; and
 - (ii) the adopted unit rate of the property is in line with the price level of those comparable properties.

VALUATION CERTIFICATE

Group II – Property to be disposed by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
2.	Unit 05, L14, Xingshun Huayuan, No. 2 Xinghui East Road, Jinniu District, Chengdu, Sichuan Province, The PRC	<p>The property comprises a residential unit of an 18-storey residential building named Xingshun Huayuan. Xingshun Huayuan was completed in 2002.</p> <p>The property is located at the south of Xinghui East Road and the west of Fuqing Road in Jinniu District of Chengdu. The immediate locality is a residential area and predominated by domestic buildings of various ages and heights.</p> <p>The gross floor area of the property is approximately 229.18 sq.m.</p> <p>The land use rights of the property have been granted for a term expiring on 15 March 2069 for residential use.</p>	The property is vacant.	RMB1,600,000 (100% interest attributable to the Group: RMB1,600,000)

Notes:

1. Pursuant to a Building Ownership Certificate – Cheng Fang Quan Zheng Jian Zheng Zi Di No. 4697651, the building ownership of the property with a gross floor area of 229.18 sq.m. is vested in Nantong Meigu for residential use.
2. We have been provided with a legal opinion on the title to the property prepared by the Group's PRC legal adviser, which contains, inter alia, the followings:
 - (i) Nantong Meigu is the legal owner of the property and is entitled to occupy, use, lease, transfer or by other legal means dispose of the property; and
 - (ii) the property is not subject to any sales, transfers, mortgages, third party rights or any kinds of limitations.
3. Our valuation has been made on the following basis and analysis:
 - (i) In our valuation, we have identified and analysed various relevant comparable properties in the locality which have similar characteristic with the property. The unit rates of those comparable properties range from RMB6,600/sq.m. to RMB8,800/sq.m. on gross floor area basis. Appropriate adjustments and analysis have been made to reflect the differences in location, size, floor level and other factors between those comparable properties and the property to arrive at our adopted unit rate of about RMB7,000/sq.m. on gross floor area basis for the property; and
 - (ii) the adopted unit rate of the property is in line with the price level of these comparable properties.

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 13 January 2016 under the Company 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 16 December 2016. 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 Company 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 shareholder being a corporation, by its duly authorised 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; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(iv) Transfer of shares

Subject to the Company Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

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 GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (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 Company Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Company 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 Company 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 Company Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Company Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM 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 GEM 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) 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 Company Law and the GEM 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.

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 authorised 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 Company 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 Company Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders 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 shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The 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
- (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.

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 and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up 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 Company Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Company 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 13 January 2016 subject to the Company 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 Company 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 Company Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Company 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 Company Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Company Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Company 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.

(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

(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 2 February 2016.

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.

(o) Register of Directors and officers

Pursuant to the Company 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 60 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.

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 authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(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.

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 Company Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Company Law as an exempted company with limited liability on 13 January 2016. Our Company has established a principal place of business in Hong Kong at Room 1603, 16/F, 29 Queen's Road Central, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 8 November 2016. Loong & Yeung of Room 1603, 16/F, 29 Queen's Road Central, Central, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands law and to our constitution, which comprises the Memorandum and the Articles. A summary of various provisions of our constitution and relevant aspects of the Company Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company has an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. One Share was allotted and issued nil-paid to the subscriber on 13 January 2016, and was subsequently transferred to Munsing on the same day.
- (b) On 16 December 2016, our Company resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$20,000,000 by the creation of an additional of 1,962,000,000 Shares, each ranking pari passu with the Shares then in issue in all respects.
- (c) Pursuant to the Reorganisation and as consideration for the acquisition by our Company of the entire issued share capital of Prosperous Composite, on 16 March 2016, the one nil-paid Share held by Munsing was credited as fully paid and 340 Shares, 409 Shares and 250 Shares were allotted and issued to Munsing, Singa and Frankly Smart respectively, all credited as fully paid.
- (d) On 20 April 2016, our Company repurchased and cancelled 250 Shares held by Frankly Smart.
- (e) Immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), 400,000,000 Shares will be issued fully paid or credited as fully paid, and 1,600,000,000 Shares will remain unissued.
- (f) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 16 December 2016" in this appendix, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

- (g) Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 16 December 2016

On 16 December 2016, resolutions in writing were passed by our Shareholders pursuant to which, among other things:

- (a) our Company approved and adopted the Memorandum and the Articles, the terms of which are summarised in Appendix IV to this prospectus;
- (b) conditional on the Listing Division granting listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus and on the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
- (i) the Placing and the Offer Size Adjustment Option were approved and the Directors were authorised to allot and issue the Placing Shares pursuant to the Placing and any Shares which may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option to rank *pari passu* with the then existing Shares in all respects;
- (ii) conditional further on the share premium account of our Company being credited as a result of the Placing, the Directors were authorised to capitalise an amount of HK\$2,999,992.5 standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par 299,999,250 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 19 December 2016 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, and the Directors were authorised to give effect to such capitalisation and distributions and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option) was approved;
- (c) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under any share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting or pursuant to the Placing, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with such number of

Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Company Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting;
- (d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Company Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (e) the general unconditional mandate mentioned in sub-paragraph (c) above was extended by the addition to such number of Shares which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option).

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing pursuant to which our Company became the holding company of our Group. For detailed steps of the Reorganisation, please refer to the section headed “History, Reorganisation and Development – Reorganisation” in this prospectus.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report of our Company, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, Reorganisation and Development – Reorganisation" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of the Shares by our Company.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our Shareholders on 16 December 2016, a general unconditional mandate (the "**Repurchase Mandate**") was granted to the Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option) and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Company Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

(ii) Source of Funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own Shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Company Law, out of capital and, in the

case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, if authorised by the Articles and subject to the Company Law, out of capital.

(iii) Connected parties

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on GEM from a "core connected person" (as defined in the GEM Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company on GEM.

(b) Exercise of the Repurchase Mandate

On the basis of 400,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option) the Directors would be authorised under the Repurchase Mandate to repurchase up to 40,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(c) Reasons for repurchases

The Directors believe that it is in the best interests of our Company and its Shareholders for the Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

The Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(e) General

None of the Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

The 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 GEM Listing Rules, the Articles and the applicable law and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, the directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the listing of the Shares pursuant to the Repurchase Mandate. At present, so far as is known to the Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that the Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules). No core connected person (as defined in the GEM Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

- (a) a sale and purchase agreement dated 24 January 2016 entered into between Prosperous Composite (as purchaser) and Nantong Jianke (as vendor), pursuant to which Prosperous Composite acquired approximately 14.63% equity interest in Nantong Meigu from Nantong Jianke at a consideration of RMB4,435,842;
- (b) a subscription agreement dated 29 January 2016 entered into among Prosperous Composite (as issuer), Frankly Smart (as subscriber), Mr. Shen, Mr. Jiang and Mr. Hui (as warrantors), pursuant to which Frankly Smart subscribed for 25,000 newly issued shares in Prosperous Composite at a consideration of HK\$15,000,000;

- (c) a sale and purchase agreement dated 16 March 2016 entered into among our Company (as purchaser), Mr. Shen, Mr. Jiang, Frankly Smart (as vendors), Munsing (as nominee of Mr. Shen), Singa (as nominee of Mr. Jiang) and Mr. Huei (as warrantor), pursuant to which our Company acquired the entire issued share capital of Prosperous Composite from Mr. Shen, Mr. Jiang and Frankly Smart, and as consideration for which, one nil-paid Share held by Munsing was credited as fully paid and 340 Shares, 409 Shares and 250 Shares were allotted and issued to Munsing, Singa and Frankly Smart respectively, all credited as fully paid;
- (d) an instrument of transfer dated 16 March 2016 entered into between our Company and Mr. Shen in respect of the transfer of 38,250 shares in Prosperous Composite from Mr. Shen to our Company;
- (e) an instrument of transfer dated 16 March 2016 entered into between our Company and Mr. Jiang in respect of the transfer of 36,750 shares in Prosperous Composite from Mr. Jiang to our Company;
- (f) an instrument of transfer dated 16 March 2016 entered into between our Company and Frankly Smart in respect of the transfer of 25,000 shares in Prosperous Composite from Frankly Smart to our Company;
- (g) a sale and purchase agreement dated 20 April 2016 entered into among our Company (as purchaser), Frankly Smart (as vendor) and Mr. Huei (as warrantor), pursuant to which our Company repurchased 250 Shares held by Frankly Smart for cancellation at a consideration of HK\$15,000,000;
- (h) an instrument of transfer dated 20 April 2016 entered into between our Company and Frankly Smart in respect of the transfer of 250 Shares from Frankly Smart to our Company;
- (i) the Deed of Non-competition dated 16 December 2016 executed by Mr. Shen, Mr. Jiang, Munsing and Singa in favour of our Company, details of which are set out in the section headed “Relationship with Controlling Shareholders – Non-competition Undertakings” in this prospectus;
- (j) the Deed of Indemnity dated 16 December 2016 executed by Mr. Shen, Mr. Jiang, Munsing and Singa in favour of our Company (for our Company and as trustee for its subsidiaries) containing the indemnities referred to in the paragraph headed “D. Other information – Tax and other indemnities” in this appendix; and
- (k) the Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademark in the PRC and Hong Kong:

Trademark	Class	Registration Number	Term	Place of Registration	Registered Owner
NANTONGRATE	19	5292841	21 September 2009 to 20 September 2019	PRC	Nantong Meigu
	19, 40	303702960	4 March 2016 to 3 March 2026	Hong Kong	Nantong Meigu

(b) Domain name(s)

As at the Latest Practicable Date, our Group had registered the following domain names in the PRC:

Applicant	Domain Name	Registration Date	Expiry Date
Nantong Meigu	nantongrate.com	21 March 2006	21 March 2018
Nantong Meigu	meigurate.com	2 February 2007	2 February 2017
Nantong Meigu	nantongrate.com.cn	18 April 2009	18 April 2017

(c) Patent(s)

As at the Latest Practicable Date, our Group had registered the following patents in the PRC which are considered by our Directors to be material to our operation:

Patent	Registered Owner	Type	Patent Number	Date of Application	Expiry Date
High-strength high-fatigue-resistance composite sleeper* (一種高強度高抗疲勞合成軌枕)	Nantong Meigu	Utility model patent	ZL201420262174.0	22 May 2014	21 May 2024
Corrosion-resistant composite wood plate* (一種耐腐蝕複合材料木質板材)	Nantong Meigu	Utility model patent	ZL201420262836.4	22 May 2014	21 May 2024
Connecting piece of evacuation platform* (一種疏散平台的連接件)	Nantong Meigu	Utility model patent	ZL201420044236.0	24 January 2014	23 January 2024
Guiding head of supporting point of evacuation platform* (一種疏散平台支撐點的導向頭)	Nantong Meigu	Utility model patent	ZL201420042663.5	23 January 2014	22 January 2024
Glass reinforced plastic grid* (一種玻璃鋼格柵)	Nantong Meigu	Utility model patent	ZL201420042353.3	23 January 2014	22 January 2024
Cable support* (一種電纜支架)	Nantong Meigu	Utility model patent	ZL201420042664.X	23 January 2014	22 January 2024
Connect piece of handrail of evacuation platform and tunnel wall* (一種疏散平台的扶手與隧道壁的連接件)	Nantong Meigu	Utility model patent	ZL201420042518.7	23 January 2014	22 January 2024
High-strength high-elasticity composite material step plate* (一種高強高彈性複合材料踏步板)	Nantong Meigu	Utility model patent	ZL201320850114.6	23 December 2013	22 December 2023
Composite evacuation platform* (一種複合材料疏散平台)	Nantong Meigu	Utility model patent	ZL201320412270.4	11 July 2013	10 July 2023

3. Information about the PRC subsidiary of our Group**Nantong Meigu**

Date of establishment:	24 April 2003
Corporate nature:	Limited liability company (wholly foreign-owned enterprise)
Total registered capital:	USD8,000,000
Paid-up registered capital:	USD1,500,000
Attributable effective interest of our Company:	100%
Term:	24 April 2003 to 23 April 2023
Scope of business:	Engaged in a business of manufacture and sales of new high-end environmentally friendly building materials – glass steel grating and other fibreglass products, pultruded FRP composites
Legal representative:	Mr. Shen Qixian

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of Interests

(a) *Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations*

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), the interests and short positions of the Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the GEM, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Long position in the Shares*

Name	Capacity/ Nature of interest	Number of Shares held/ interested in	Percentage of interest in our Company
Mr. Jiang <i>(Notes 1 and 2)</i>	Interests held jointly with other persons; Interest in a controlled corporation	300,000,000	75%

Notes:

- Mr. Jiang beneficially owns 100% of the entire issued share capital of Singa. Therefore, Mr. Jiang is deemed, or taken to be, interested in all the Shares held by Singa for the purposes of the SFO.
- Pursuant to the Concert Party Deed entered into among Mr. Shen, Mr. Jiang, Munsing and Singa dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Takeovers Code) since 1 January 2014, and that Mr. Shen, Mr. Jiang, Munsing and Singa are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, details of which are set out in the section headed “History, Reorganisation and Development – Concert Party Deed” in this prospectus. As such, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), Mr. Jiang, together with Mr. Shen, Munsing and Singa will together control 75% of the entire share capital of our Company.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Position in the associated corporations	Percentage of interest in the associated corporation
Mr. Jiang	Director of Singa	100% in Singa

(b) Interests of substantial and other Shareholders in the Shares and Underlying Shares

So far as the Directors are aware and without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option, the following persons (not being a Director or chief executive of the Company) will, immediately following the completion of the Capitalisation Issue and the Placing, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the 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	Capacity/ Nature of interest	Number of Shares held/ interested in	Percentage of interest in our Company
Mr. Shen <i>(Notes 1 and 2)</i>	Interests held jointly with other persons; Interest in a controlled corporation	300,000,000	75%
Munsing <i>(Notes 1 and 2)</i>	Interests held jointly with other persons; Beneficial owner	300,000,000	75%
Singa <i>(Note 2)</i>	Interests held jointly with other persons; Beneficial owner	300,000,000	75%
Ms. Gong <i>(Note 3)</i>	Interest of spouse	300,000,000	75%
Ms. Chen Lijuan <i>(Note 4)</i>	Interest of spouse	300,000,000	75%

Notes:

1. Mr. Shen beneficially owns 100% of the entire issued share capital of Munsing. Therefore, Mr. Shen is deemed, or taken to be, interested in all the Shares held by Munsing for the purposes of the SFO.
2. Pursuant to the Concert Party Deed entered into among Mr. Shen, Munsing, Singa and Mr. Jiang dated 16 December 2016, Mr. Shen and Mr. Jiang are parties acting in concert (having the meaning ascribed to it under the Takeovers Code) since 1 January 2014, and that Mr. Shen, Munsing, Singa and Mr. Jiang are parties acting in concert in the course of the Reorganisation and until the date of any written termination by them, details of which are set out in the section headed "History, Reorganisation and Development – Concert Party Deed" in this prospectus. As such, immediately following completion of the Capitalisation Issue and the Placing (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), Mr. Shen, Munsing, Singa and Mr. Jiang will together control 75% of the entire share capital of our Company.
3. Ms. Gong is the spouse of Mr. Shen and is deemed or taken to be interested in all the Shares in which Mr. Shen has, or is deemed to have, an interest for the purpose of the SFO.
4. Ms. Chen Lijuan is the spouse of Mr. Jiang and is deemed or taken to be interested in all the Shares in which Mr. Jiang has, or is deemed to have, an interest for the purpose of the SFO.

2. Particulars of service contracts

None of the Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

- (a) The aggregate remuneration paid by our Group to the Directors in the capacity of directors for each of the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB212,000, RMB215,000 and RMB504,000 respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to the Directors for the year ending 31 December 2016 will be approximately RMB984,000.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

Executive Directors	<i>HK\$</i>
Mr. Jiang Guitang	350,000
Mr. Cheng Dong	280,000
Ms. Shi Dongying	150,000
Independent non-executive Directors	<i>HK\$</i>
Mr. Huang Xin	120,000
Mr. Tam Tak Kei Raymond	120,000
Mr. Ng Sai Leung	120,000

4. Agency fees or commissions received

Save as disclosed in the section headed “Underwriting – Underwriting arrangements and expenses – Total commission, fee and expenses” in this prospectus, none of the Directors or the experts named in the paragraph headed “Consents of experts” in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under note 27 to the Accountants’ Report set forth in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option), have an interest or short position in the Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to 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 or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the GEM;
- (c) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

- (e) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the GEM Listing Rules) or Shareholders 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;
- (g) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. OTHER INFORMATION

1. Tax and other indemnities

Mr. Shen, Mr. Jiang, Munsing and Singa (collectively, the “Indemnifiers”) have, under a Deed of Indemnity, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things:

- (a) any liability for Hong Kong estate duty which is or hereafter become payable by any member of our Group under or by virtue of the provisions of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Placing becomes unconditional;
- (b) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the Placing becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which the Placing becomes unconditional, but the Indemnifiers will not be liable under paragraph (a) above and this paragraph (b) to the extent that:
 - (i) specific provision, reserve or allowance has been made for such taxation liability in the audited combined accounts of our Company or any member of our Group for the Track Record Period;

- (ii) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Placing becomes unconditional; or
 - (iii) the taxation liability arises in the ordinary course of business of our Company and/or any members of our Group after 30 June 2016 up to and including the date on which the Placing becomes unconditional;
- (c) any penalties, claims, actions, demands, proceedings, judgments, losses, payments, liabilities, damages, settlement payments, costs, administrative or other charges, fees, expenses and fines of whatever nature (which shall include legal fees and costs) which may be imposed on, suffered or incurred by any member of our Group as a result of directly or indirectly or in connection with:
- (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise, instituted by or against any member of our Group in relation to any act, non-performance, omission, events or otherwise occurred on or before the date on which the Placing becomes unconditional;
 - (ii) the implementation of the Reorganisation undergone by our Group in preparation for the Listing and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Placing becomes unconditional; and
 - (iii) any non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the date on which the Placing becomes unconditional,

except that provision, reserve or allowance has been made for such liabilities in the audited combined financial statements of our Company for the Track Record Period (if any).

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

Our Directors confirmed that as at the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (including any Shares which may fall to be issued pursuant to the exercise of the Offer Size Adjustment Option).

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 6A.07 of the GEM Listing Rules.

We agreed to pay the Sole Sponsor a fee of HK\$4.5 million, which relates solely to services provided by the Sole Sponsor in the capacity of sponsor.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are estimated to be approximately HK\$38,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
KGI Capital Asia Limited	A licensed corporation under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Crowe Horwath (HK) CPA Limited	Certified Public Accountants
Beijing Dentons Law Offices, LLP	Legal advisers as to PRC law
Appleby	Legal advisers as to Cayman Islands law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry research consultant
APAC Asset Valuation and Consulting Limited	Property valuer
DLA Piper Hong Kong	Legal advisers as to International Sanctions

7. Consents of experts

Each of KGI Capital Asia Limited, Crowe Horwath (HK) CPA Limited, Beijing Dentons Law Offices, LLP, Appleby, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., APAC Asset Valuation and Consulting Limited, and DLA Piper Hong Kong has given and has not withdrawn

its written consents to the issue of this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

10. No material adverse change

Save for the expenses expected to be incurred in connection with the Listing, the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 30 June 2016 (being the date to which the latest audited financial statements of our Group were made up) and there is no event since 30 June 2016 which would materially affect the information shown in our combined financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

11. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none

of our Company, our Directors or parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

12. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
 - (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
 - (ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus;
 - (iii) none of KGI Capital Asia Limited, Crowe Horwath (HK) CPA Limited, Beijing Dentons Law Offices, LLP, Appleby, Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., APAC Asset Valuation and Consulting Limited and DLA Piper Hong Kong:
 - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including our Shares; or
 - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;

- (iv) our Company and its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
 - (v) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
 - (vi) our Group has no outstanding convertible debt securities.
- (b) the English text of this prospectus shall prevail over the Chinese text.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in sections 4 and 5 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

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 (a) the written consents referred to in the section headed “Statutory and General Information – D. Other information – 7. Consents of experts” in Appendix V to this prospectus; and (b) copies of the material contracts referred to in the section headed “Statutory and General Information – B. Further information about the business – 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Loong & Yeung at Room 1603, 16/F, China Building, 29 Queen’s Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report of our Group dated the date of this prospectus prepared by Crowe Horwath (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for the two years ended 31 December 2015 and the six months ended 30 June 2016;
- (d) the report on unaudited pro forma financial information prepared by Crowe Horwath (HK) CPA Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the material contracts referred to in the section headed “Statutory and General Information – B. Further information about the business – 1. Summary of material contracts” in Appendix V to this prospectus;
- (f) the written consents referred to in the section headed “Statutory and General Information – D. Other information – 7. Consents of experts” in Appendix V to this prospectus;
- (g) the PRC legal opinions prepared by Beijing Dentons Law Offices, LLP, our legal advisers as to PRC law, in respect of certain aspects of our Group and our property interests;
- (h) the memorandum prepared by DLA Piper Hong Kong in respect of certain aspects of International Sanctions law and regulations relating to our business;
- (i) the letter, the summary of values and the valuation certificates issued by APAC Asset Valuation and Consulting Limited, the text of which is set out in Appendix III to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (j) the Sullivan Report prepared by Sullivan.;
- (k) the Company Law; and
- (l) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus.

MEIGU Technology Holding Group Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code : 8349