WEILI HOLDINGS LIMITED
偉立控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 2372

SHARE OFFER

Sponsor

Grande Capital Limited
均富融資有限公司

Joint Bookrunners and Joint Lead Managers

第一上海 First Shanghai Group

克而瑞證券 CRIC SECURITIES CO. LTD

中泰國際 ZHONGTAI INTERNATIONAL

Joint Lead Managers

華盛証券 Valuable Capital Limited

信達國際 CINDA INTERNATIONAL

利弗莫尔证券 LIVERMORE HOLDINGS LIMITED

中國銀河國際 CHINA GALAXY INTERNATIONAL

SUNWAH KINGSWAY 新華滙富

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

WEIli Holdings Limited
偉立控股有限公司

(incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Total number of Offer Shares	**:**	**200,000,000 Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	**:**	**20,000,000 Shares (subject to re-allocation)**
Number of Placing Shares	**:**	**180,000,000 Shares (subject to re-allocation and the Over-allotment Option)**
Offer Price	**:**	**Not more than HK$0.67 per Offer Share and expected to be not less than HK$0.63 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**2372**

Sponsor

Grande Capital Limited 均富融資有限公司

Joint Bookrunners and Joint Lead Managers

第一上海 FIRST SHANGHAI GROUP　　CRIC 克而瑞證券 CRIC SECURITIES CO. LTD　　中泰國際 ZHONGTAI INTERNATIONAL

Joint Lead Managers

華盛証券 Valuable Capital Limited　　信達國際 CINDA INTERNATIONAL　　利弗莫尔证券 LIVERMORE HOLDINGS LIMITED　　中國銀河國際 CHINA GALAXY INTERNATIONAL　　SUNWAH KINGSWAY 新華滙富

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

The Offer Price is expected to be determined by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) but in any event no later than Monday, 27 June 2022. The Offer Price will be not more than HK$0.67 per Offer Share and is expected to be not less than HK$0.63 per Offer Share, unless otherwise announced.

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

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or before Monday, 27 June 2022, the Share Offer will not become unconditional and will lapse immediately.

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

ATTENTION

We have adopted a fully electronic application process for the Share Offer. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Share Offer.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk and our website www.weiliholdings.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

17 June 2022

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Share Offer. We will not provide printed copies of this prospectus or any application forms to the public in relation to the Share Offer.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at www.weiliholdings.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Public Offer Shares, you may:

(1) apply online through the **eWhite Form** service at **www.ewhiteform.com.hk**;

(2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

    (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf; or

    (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System **(https://ip.ccass.com)** or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at +852 2153 1688 on the following dates and times:

Friday, 17 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Monday, 20 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Tuesday, 21 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Wednesday, 22 June 2022	**—**	**9:00 a.m. to 12:00 noon**

We will not provide any physical channels to accept any application for the Public Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong).

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed "How to Apply for Public Offer Shares" in this prospectus for further details of the procedures through which you can apply for the Public Offer Shares electronically.

Your application must be for a minimum of 4,000 Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

Number of Public Offer Shares applied for	Amount payable on application *(HK$)*	Number of Public Offer Shares applied for	Amount payable on application *(HK$)*	Number of Public Offer Shares applied for	Amount payable on application *(HK$)*
4,000	2,707.00	80,000	54,140.21	1,000,000	676,752.60
8,000	5,414.02	100,000	67,675.26	1,200,000	812,103.12
12,000	8,121.03	120,000	81,210.31	1,400,000	947,453.64
16,000	10,828.05	140,000	94,745.36	1,600,000	1,082,804.15
20,000	13,535.05	160,000	108,280.41	1,800,000	1,218,154.67
24,000	16,242.05	180,000	121,815.47	2,000,000	1,353,505.19
28,000	18,949.08	200,000	135,350.52	3,000,000	2,030,257.79
32,000	21,656.08	300,000	203,025.78	4,000,000	2,707,010.38
36,000	24,363.10	400,000	270,701.04	6,000,000	4,060,515.57
40,000	27,070.10	600,000	406,051.55	8,000,000	5,414,020.76
60,000	40,605.16	800,000	541,402.07	10,000,000[Note]	6,767,525.95

Note: Maximum number of Public Offer Shares you may apply for.

No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the websites of the Stock Exchange (www.hkexnews.hk) and of our Company (www.weiliholdings.com).

	2022[1]
Public Offer commences	9:00 a.m. on Friday, 17 June
Latest time for completing electronic applications under **eWhite Form** service through the designated website **www.ewhiteform.com.hk**[12]	11:30 a.m. on Wednesday, 22 June
Application lists open[2]	11:45 a.m. on Wednesday, 22 June
Latest time for (a) completing payment for **eWhite Form** applications by effecting PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC[3]	12:00 noon on Wednesday, 22 June

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close[2]	12:00 noon on Wednesday, 22 June
Expected Price Determination Date on or before[4]	Friday, 24 June
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications of the Public Offer, the basis of allotment and the results of the Public Offer to be published on the website of the Stock Exchange at **www.hkexnews.hk**[5] and our Company's website at **www.weiliholdings.com**[5] on or before[7]	Wednesday, 29 June
Announcement of results of allocation in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.weiliholdings.com**[5] (for further details, please refer to the section headed "How to Apply for Public Offer Shares — 11. Publication of results" in this prospectus) on or before[11]	Wednesday, 29 June

Results of allocations in the Public Offer will be available at **www.ewhiteform.com.hk/results** with a "search by ID" function on[11] .... Wednesday, 29 June

e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications and wholly or partially successful applications in case the final Offer Price is less than the maximum Offer Price paid for the applications pursuant to the Public Offer on or before[7]-[10] .... Wednesday, 29 June

Despatch/collection of share certificates of the Offer Shares or deposit of share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before[6], [8] & [9] .... Wednesday, 29 June

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on[11] .... Thursday, 30 June

Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated.

2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above and/or an announcement of "Extreme Conditions" in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2022, the application lists will not open and close on that day. Please refer to the section headed "How to Apply for Public Offer Shares — 10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this prospectus. If the application lists do not open and close on Wednesday, 22 June 2022, the dates mentioned in this section may be affected. Announcement will be made by us in such event.

3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

4. The Price Determination Date is expected to be on or before Friday, 24 June 2022. If, for any reason, the Offer Price is not agreed on or before Monday, 27 June 2022 between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.

5. None of the information contained on any website forms part of this prospectus.

6. Share certificates for the Public Offer Shares are expected to be issued on or before Wednesday, 29 June 2022 but will only become valid evidence of title at 8:00 a.m. on Thursday, 30 June 2022 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their share certificates or prior to the share certificates becoming valid evidence of title do so entirely at their own risk.

7. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

8. Applicants who have applied on **eWhite Form** for 1,000,000 or more Public Offer Shares may collect any refund cheques (where applicable) and/or share certificates in person from our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2022 or such other date as notified by us as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

   Applicants who have applied for Public Offer Shares through CCASS should refer to the section headed ‘‘How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies’’ in this prospectus for details.

   Applicants who have applied through the **eWhite Form** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **eWhite Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

   Share certificates and/or refund cheques for applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

   Further information is set out in ‘‘How to Apply for Public Offer Shares — 13. Refund of Application Monies’’ and ‘‘How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies’’.

9. Uncollected share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant’s own risk to the address specified in the relevant application. For further information, applicants should refer to the section headed ‘‘How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies’’ in this prospectus.

10. e-Refund payment instructions/refund cheques will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK$0.67 per Offer Share.

11. In case a typhoon warning signal number 8 or above, a black rainstorm warning signal and/or extreme conditions is/are in force in any days between Friday, 17 June 2022 to Thursday, 30 June 2022, then the day of (i) announcement of results of allocations in the Public Offer; (ii) despatch of share certificates and refund cheques/ e-Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

12. You will not be permitted to submit your application through the designated website at **www.ewhiteform.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

In the event of any change to the above expected timetable after the date of this prospectus, an announcement will be made on the Stock Exchange’s website at **www.hkexnews.hk** and our Company’s website at **www.weiliholdings.com** accordingly. All share certificates will only become valid evidence of title of the Shares which they relate provided that the Share Offer has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms at or before 8:00 a.m. (Hong Kong time) on the Listing Date.

For further details of the structure and conditions of the Share Offer, you should refer to the section headed ‘‘Structure and conditions of the Share Offer’’ in this prospectus.

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

Page

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

BUSINESS OVERVIEW

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

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

OUR PRODUCTS AND SERVICES

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

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

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

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

Notes:

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

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

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

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

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

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

PRODUCTION FACILITY AND CAPACITY

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

We are committed to investing in our machinery to enhance our production efficiency and ensure our product quality. Our principal machinery includes laminating machine, crosscutting machine and winding machine. We also possess various testing equipment to conduct measurement on the colour shading, temperature resistance and chemical compositions of our products. Our machinery is well-equipped to be used for producing products with different specifications. For further details, please refer to the paragraph headed "Business — Production facility and capacity" in this prospectus.

OUR CUSTOMERS

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

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

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

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

Notes:

1. North-east China mainly include Liaoning Province, Jilin Province and Heilongjiang Province.

2. East China mainly include Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

3. Others mainly include Guangdong Province, Shaanxi Province and Chongqing Municipality.

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

OUR SUPPLIERS

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

RESEARCH AND DEVELOPMENT

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

MARKETING AND PRICING STRATEGY

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

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

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

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

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

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

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

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry. We intend to achieve our business objective mainly by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. For further details, please refer to the paragraph headed "Business — Business strategies" in this prospectus.

RISK FACTORS

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

CONTROL ON THE CIGARETTE INDUSTRY AND HEALTH PROMOTION INITIATIVES

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

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016 and 26 December 2017, prohibits smoking in indoor public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;

- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect on 1 January 2006, requires, amongst others, the warning statement of "Smoking is harmful (吸煙有害健康)" to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement "Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)" issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;

- The Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), which was last amended by the Standing Committee of the National People's Congress on 29 April 2021, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;

- The "Healthy China 2030" Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20% by 2030;

- The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People's Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

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

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Consolidated statements of comprehensive income

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

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

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

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

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

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

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

Highlights of our consolidated statements of financial position

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

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

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

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

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

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

Cash flows

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

Key financial ratios

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

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

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

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

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

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

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

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), our Company will be owned as to 42.38% by City Ease. City Ease is an investment holding company incorporated in the BVI and is wholly owned by Mr. Chen. As Mr. Chen through City Ease controls more than 30% of voting rights at general meetings of our Company, Mr. Chen and City Ease are regarded as our Controlling Shareholders within the meaning of the Listing Rules. For further details about our Controlling Shareholders, please refer to the section headed ''Relationship with our Controlling Shareholders'' in this prospectus.

PRE-IPO INVESTMENT

On 12 April 2021, as part of our Reorganisation, Mr. Hu and the Pre-IPO Investor, entered into an equity transfer agreement, pursuant to which, Mr. Hu agreed to sell and transfer to the Pre-IPO Investor, and the Pre-IPO Investor agreed to acquire from Mr. Hu, 3.00% of equity interest in Hubei Qiangda at a consideration of RMB3.927 million. The consideration was agreed by the parties after arm's length commercial negotiation. Immediately upon the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may granted under the Share Option Scheme), the Pre-IPO Investor will own 2.25% of the issued share capital of our Company. For further details, please refer to the paragraph headed ''History, development and Reorganisation — Pre-IPO Investment'' in this prospectus.

OFFERING STATISTICS

Number of the Offer Shares	:	200,000,000 Shares (subject to the Over-allotment Option)
Offer Price	:	Not more than HK$0.67 per Offer Share and expected to be not less than HK$0.63 per Offer Share (excluding brokerage, Stock Exchange trading fee, FRC transaction levy and SFC transaction levy)

	Based on an Offer Price of HK$0.63 per Share *HK$*	Based on an Offer Price of HK$0.67 per Share *HK$*
Market capitalisation *(Note 1)*	504,000,000	536,000,000
Unaudited pro forma adjusted consolidated net tangible assets per Share *(Note 2)*	0.28	0.29

Notes:

1. The calculation of the market capitalisation of the Shares is based on 800,000,000 Shares in issue and to be issued immediately after completion of the Share Offer and taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or Shares which may allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.

2. Please refer to Appendix II to this prospectus for the bases and assumptions in calculating the figures.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately RMB30.5 million (equivalent to approximately HK$35.9 million), comprising (i) underwriting-related expenses, including underwriting commission and other expenses, of approximately RMB5.5 million (equivalent to approximately HK$6.5 million); and (ii) non-underwriting-related expenses of approximately RMB25.0 million (equivalent to approximately HK$29.4 million), including (a) fees paid and payable to legal advisers and reporting accountant of approximately RMB13.4 million (equivalent to approximately HK$15.7 million; and (b) other fees and expenses, including sponsor fees, of approximately RMB11.6 million (equivalent to approximately HK$13.7 million). Out of the amount of approximately RMB30.5 million (equivalent to approximately HK$35.9 million), approximately RMB10.9 million (equivalent to approximately HK$12.8 million) is directly attributable to the issue of the Listing and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately RMB19.6 million (equivalent to approximately HK$23.1 million), which cannot be so deducted, shall be charged to profit or loss, among which, approximately RMB12.7 million (equivalent to approximately HK$15.0 million) has been charged during FY2021, while approximately RMB6.9 million (equivalent to approximately HK$8.1 million) is expected to be incurred during FY2022. The listing expenses are expected to represent approximately 27.6% of the gross proceeds of the Share Offer, assuming an Offer Price of HK$0.65 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2022 will be adversely affected by the estimated expenses in relation to the Listing.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR OPERATIONS

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

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

LEGAL COMPLIANCE

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

LITIGATION AND CLAIMS

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

DIVIDEND

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

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

FUTURE PLAN AND USE OF PROCEEDS

The net proceeds to be received by us from the Share Offer (assuming the Over-allotment Option is not exercised) based on the Offer Price of HK$0.65 per Offer Share, being the mid-point of the indicative Offer Price range of HK$0.63 per Offer Share to HK$0.67 per Offer Share, after deducting the related expenses in connection with the Share Offer, are estimated to be approximately HK$94.1 million. Our Directors presently intend that the net proceeds will be applied as follows: (i) approximately HK$33.3 million (equivalent to approximately RMB28.3 million), representing approximately 35.4% of the estimated net proceeds, will be used for constructing a two-storey factory building; (ii) approximately HK$24.4 million (equivalent to approximately RMB20.7 million), representing approximately 25.9% of the estimated net proceeds, will be used for acquiring four sets of advanced laminating machine and ten sets of automatic control system; (iii) approximately HK$18.4 million (equivalent to approximately RMB15.6 million), representing approximately 19.5% of the estimated net proceeds, will be used for enhancing our research and development capabilities by constructing a research and development centre, acquiring three types of advanced research and development equipment and four types of advanced testing equipment, and recruiting four additional research and development staff members; (iv) approximately HK$6.0 million (equivalent to approximately RMB5.1 million), representing approximately 6.4% of the estimated net proceeds, will be used for enhancing our enterprise resource planning system and infrastructure systems; (v) approximately HK$2.7 million (equivalent to approximately RMB2.3 million), representing approximately 2.9% of the estimated net proceeds, will be used for increasing our marketing efforts by establishing three sales centres in Shanghai Municipality, Yunnan Province and Henan Province; and (vi) approximately HK$9.3 million (equivalent to approximately RMB7.9 million), representing approximately 9.9% of the estimated net proceeds, will be reserved as our general working capital.

RECENT DEVELOPMENT

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

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

"Accountant's Report"	the accountant's report of our Company, the text of which is set forth in Appendix I to this prospectus
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company adopted on 2 June 2022, a summary of which is set out in Appendix III to this prospectus, as supplemented, amended or otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors
"Business Day" or "business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compounded annual growth rate
"Capitalisation Issue"	the issue of 599,999,000 Shares upon capitalisation of the sum of HK$5,999,990 standing to the credit of the share premium account of our Company referred to in the paragraph headed "A. Further Information about our Group — 5. Written resolutions of our Shareholders passed on 2 June 2022" in Appendix IV 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 EIPO**"	the application for the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf; or (ii) if you are an existing CCASS Investor Participant, giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre by completing an input request
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participants"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Chairman"	the chairman of our Board, Mr. Chen
"Changge Dayang"	Changge City Dayang Paper Industry Co., Ltd (長葛市大陽紙業有限公司), a company established in the PRC on 16 October 2003, being one of our top customers during the Track Record Period
"City Ease"	City Ease Limited (城逸有限公司), a company incorporated in the BVI on 31 March 2021 with limited liability, which is wholly-owned by Mr. Chen and is one of our Controlling Shareholders
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Act"	the Companies Act (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, modified and supplemented from time to time

"Companies (WUMP) Ordinance" or "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, modified and supplemented from time to time
"Company"	WEIli Holdings Limited (偉立控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 21 April 2021
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, means Mr. Chen and City Ease
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"COVID-19"	the coronavirus pandemic, an ongoing global pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
"CSRC"	the 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 Chinese national securities markets
"Deed of Indemnity"	the deed of indemnity dated 16 June 2022 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of each of our subsidiaries) regarding certain indemnities, details of which are set out in the paragraph headed "E. Other information — 1. Tax and other indemnities" in Appendix IV to this prospectus
"Deed of Non-Competition"	the deed of non-competition dated 16 June 2022 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries) regarding certain non-competition undertakings, details of which are set out in the section headed "Relationship with our Controlling Shareholders — Non-competition undertakings" in this prospectus

"Director(s)"	the director(s) of our Company
"EIT Law"	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)
"Enlighten East"	Enlighten East Limited (啟東有限公司), a company incorporated in the BVI on 8 December 2020 with limited liability which is owned as to 32.66%, 28.57%, 22.44% and 16.33% by Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin, respectively, and is a Substantial Shareholder
"**eWhite Form**"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of the **eWhite Form** Service Provider at **www.ewhiteform.com.hk**
"**eWhite Form** Service Provider"	the **eWhite Form** Service Provider designated by our Company, as specified on the designated website at **www.ewhiteform.com.hk**
"Extreme Conditions"	the extreme conditions the government of Hong Kong may announce in the event of, for example, serious disruption of public transport services, extensive flooding, major landslides, or large-scale power outage caused by super typhoons according to the revised "Code of Practice in Times of Typhoons and Rainstorms" issued by the Labour Department
"FRC"	Financial Reporting Council
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"FY2020"	the financial year ended 31 December 2020
"FY2021"	the financial year ended 31 December 2021
"FY2022"	the financial year ending 31 December 2022
"FY2023"	the financial year ending 31 December 2023
"FY2024"	the financial year ending 31 December 2024
"Grande Capital" or "Sponsor"	Grande Capital Limited, the sponsor to our Company's application for the Listing and a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities

"**GREEN** Application Form(s)"	the application form(s) to be completed by the **eWhite Form** Service Provider
"Group", "we", "us" or "our Group"	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our present subsidiaries and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Harbin Shixiang"	Harbin Shixiang Trading Company Limited* (哈爾濱仕翔經貿有限公司), a company established in the PRC on 2 April 2007, being one of our top customers during the Track Record Period
"HKD" or "HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong", "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Boardroom Share Registrars (HK) Limited, the Hong Kong branch share registrar of our Company
"Hong Kong WEIli"	Hong Kong WEIli Holdings Limited (香港偉立控股有限公司), a company incorporated in Hong Kong on 30 April 2021 with limited liability and an indirect wholly-owned subsidiary of our Company
"Huanggang AMR" or "Huanggang AIC"	Huanggang Administration for Market and Regulation* (黃岡市市場監督管理局), formerly known as Huanggang Administration for Industry and Commerce of Hubei Province* (湖北省黃岡市工商行政管理局)

"Hubei Golden Three Gorges"	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a company established in the PRC on 15 August 1992 and a subsidiary of Jia Yao Holdings Limited (stock code: 1626), a company listed on the Main Board of the Stock Exchange, being one of our top customers during the Track Record Period
"Hubei Qiangda"	Hubei Qiangda Packaging Industry Company Limited* (湖北強大包裝實業有限公司), a company established in the PRC with limited liability on 8 June 2011 and an indirect wholly-owned subsidiary of our Company
"Hubei Xinjiarui"	Hubei Xinjiarui Packaging Company Limited* (湖北新嘉瑞包裝有限責任公司), a company established in the PRC on 13 February 2019, being one of our top customers during the Track Record Period
"independent third party(ies)"	an individual(s) or a company(ies) who or which is/are independent and not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive, substantial Shareholders of our Company or any of its subsidiaries, or any of their respective associates
"Industry Report"	a market research report commissioned by us and prepared by Ipsos on the overview of the industry in which our Group operates
"ISO"	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 14001"	an environmental management system standard that maps out a framework that a company or organisation can follow to set up an effective environmental management system, to provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved
"ISO 14001:2015"	the 2015 version of the ISO 14001 standard
"ISO 45001"	an international standard setting out requirements for an occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
"ISO 45001:2018"	the 2018 version of the ISO 45001 standard

"ISO 9001"	a quality management system standard that is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement
"ISO 9001:2015"	the 2015 version of the ISO 9001 standard
"Ipsos"	Ipsos Asia Limited, an independent market research agency, which is an independent third party
"Joint Bookrunners"	First Shanghai Securities Limited, CRIC Securities Company Limited and Zhongtai International Securities Limited
"Joint Lead Managers"	First Shanghai Securities Limited, CRIC Securities Company Limited, Zhongtai International Securities Limited, Valuable Capital Limited, Cinda International Capital Limited, Livermore Holdings Limited, China Galaxy International Securities (Hong Kong) Co., Limited and Kingsway Financial Services Group Limited
"Latest Practicable Date"	8 June 2022, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
"Listing"	listing of the Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Thursday, 30 June 2022, on which dealings in the Shares first commence on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, modified and supplemented from time to time
"low-end cigarettes"	tier 4 to tier 5 cigarettes
"Main Board"	the Main Board of the Stock Exchange
"M&A Rules"	the Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), jointly issued by the State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), MOFCOM, SAT, SAIC, CSRC and SAFE on 8 August 2006 and amended by MOFCOM on 22 June 2009

"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company approved and adopted on 2 June 2022, a summary of which is set out in Appendix III to this prospectus and as supplemented, amended or otherwise modified from time to time
"mid-to-high-end cigarettes"	tier 1 to tier 3 cigarettes
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation, as appropriate to the context
"Moral Fame"	Moral Fame Technology Limited (德名科技有限公司), a company incorporated in Samoa on 26 April 2005 wholly-owned by Mr. Lin and an equity holder of Hubei Qiangda at the time of its establishment
"Mr. Chen"	Mr. Chen Weizhuang (陳偉莊先生), our executive Director, Chairman and one of our Controlling Shareholders
"Mr. Hu"	Mr. Hu Haoran (胡浩然先生), our non-executive Director and a shareholder of Enlighten East holding 32.66% of its issued share capital
"Mr. Lin"	Mr. Lin Huan (林歡先生), a shareholder of Enlighten East holding 16.33% of its issued share capital
"Mr. Lu"	Mr. Lu Shunhe (盧順和先生), a shareholder of Enlighten East holding 22.44% of its issued share capital
"Mr. Wu"	Mr. Wu Bo (吳波先生), a shareholder of Enlighten East holding 28.57% of its issued share capital
"Mr. Yu"	Mr. Yu Tianbing (余天兵先生), our executive Director, chief executive officer and a Substantial Shareholder
"Newpage"	Newpage Financial Press Limited, a company incorporated in Hong Kong with limited liability on 24 October 2016 and a connected person of our Company
"Nomination Committee"	the nomination committee of the Board
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or issued pursuant to the Share Offer

"Offer Share(s)"	the Public Offer Shares and the Placing Shares
"Over-allotment Option"	the option expected to be granted by our Company under the Placing Underwriting Agreement to the Joint Bookrunners, which is exercisable in full or in part by the Joint Bookrunners (on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 30,000,000 Shares, representing 15% of the initial number of Offer Shares offered under the Share Offer, at the Offer Price to cover over-allocations in the Placing, if any
"Placing"	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price to selected professional, institutional and other investors as set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Shares"	the 180,000,000 Shares being initially offered by our Company for subscription at Offer Price pursuant to the Placing, subject to re-allocation as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing
"Placing Underwriting Agreement"	the conditional underwriting and placing agreement relating to the Placing expected to be entered into on an about the Price Determination Date by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sponsor the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"PRC" or "China"	the People's Republic of China, which for the purpose of this prospectus, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Government"	the government of the PRC, including all political subdivisions (including provincial, municipal, and other local or regional government entities) and organisations of such government or, as the context requires, any of them
"PRC Legal Advisers"	Guangdong Wannuo Law Office, the legal advisers of our Company as to PRC law

"Pre-IPO Investment"	the transfer of 3.00% of the equity interest in Hubei Qiangda from Mr. Hu to the Pre-IPO Investor as described in the paragraph headed "History, development and reorganisation — Pre-IPO investment" in this prospectus
"Pre-IPO Investor"	Mr. Lam Wing Chak Victor (林永澤先生), notwithstanding the Pre-IPO Investment, the Pre-IPO Investor is an independent third party
"Predecessor Companies Ordinance"	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
"Price Determination Agreement"	the agreement to be entered into by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around Friday, 24 June 2022, on which the Price Determination Agreement is entered into but in any event no later than Monday, 27 June 2022
"Public Offer"	the offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1.0%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the **GREEN** Application Form
"Public Offer Shares"	the 20,000,000 Shares initially being offered for subscription under the Public Offer, subject to re-allocation as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Public Offer Underwriters"	the underwriters of the Public Offer whose names are set out in the section headed "Underwriting — Public Offer Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 16 June 2022 relating to the Public Offer entered into among our Company, our executive Directors, our Controlling Shareholders, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"Regulation S"	Regulation S under the U.S. Securities Act

"Remuneration Committee"	the remuneration committee of the Board
"Reorganisation"	the reorganisation of our Group for the purpose of the Listing as described in the section headed "History, development and Reorganisation — Reorganisation" in this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), which is the PRC government agency responsible for matters relating to foreign exchange administration
"SAFE Circular No. 13"	the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) promulgated by SAFE on 13 February 2015
"SAFE Circular No. 37"	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外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》) promulgated by SAFE on 4 July 2014
"SAIC"	State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SFC"	the Securities and Futures Commission
"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 par value of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Offer"	the Public Offer and the Placing

"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 2 June 2022, the principal terms of which are summarised in the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus
"Shengxi Global"	Shengxi Global Limited (盛喜環球有限公司), a company incorporated in BVI with limited liability on 29 March 2021 and a direct wholly-owned subsidiary of our Company
"sq.m."	square metre
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between City Ease and the Stabilising Manager, pursuant to which the Stabilising Manager may borrow up to 30,000,000 Shares to cover any over-allocations in the Share Offer
"Stabilising Manager"	First Shanghai Securities Limited
"State Council"	the State Council of the PRC
"STMA"	the State Tobacco Monopoly Administration (中國國家煙草專賣局)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and details of our Substantial Shareholders are set out in the section headed "Substantial Shareholders" in this prospectus
"Takeovers Code"	The Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
"tier 1 cigarettes"	cigarettes with retail price above RMB18 per box
"tier 2 cigarettes"	cigarettes with retail price ranging from RMB13 to RMB18 per box
"tier 3 cigarettes"	cigarettes with retail price ranging from RMB6 to below RMB13 per box
"tier 4 cigarettes"	cigarettes with retail price ranging from RMB3 to below RMB6 per box
"tier 5 cigarettes"	cigarettes with retail price below RMB3 per box

"Track Record Period"	FY2019, FY2020 and FY2021
"Underwriters"	the Public Offer Underwriters and the Placing Underwriters, details of which are set out in the section headed "Underwriting" in this prospectus
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"United States" or "U.S."	the United States of America
"U.S. Securities Act"	United States Securities Act of 1933, as amended, modified and supplemented from time to time
"US$"	United States dollars, the lawful currency of the United States of America
"VAT"	value-added tax
"Yong Ning"	Yong Ning Limited (永寧有限公司), a company incorporated in the BVI on 4 January 2021 with limited liability, which is wholly-owned by Mr. Yu and is a Substantial Shareholder
"%"	per cent

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

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

- our Group's business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of our Group's business;
- our Company's dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which our Group operates;
- future developments in the industry in which our Group operates; and
- the trend of the economy of the PRC and the world in general.

These statements are based on various assumptions, including those regarding our Group's present and future business strategy and the environment in which our Group will operate in the future.

Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our Group's future performance may be affected by various factors including, without limitation, those discussed in the sections headed ‘‘Risk Factors’’ and ‘‘Financial Information’’ in this prospectus.

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

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

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the Offer Shares. If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investments.

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this prospectus. Factors that could contribute to such differences are set out below as well as in other parts in this prospectus.

RISKS RELATING TO OUR BUSINESS

Increasing PRC regulatory or industry requirements for cigarette packaging could materially and adversely affect our business

In 2014, the STMA published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce PRC cigarette manufacturers' spending on cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers and drive down the selling prices of our products. If we are unable to adapt to such changes, our business and results of operations may be materially and adversely affected.

Concerns and awareness on public health will affect the cigarette industry, which will in turn affect our business

Smoking cigarette causes many types of cancer, including but not limited to lung, esophagus, etc. It is considered that quitting smoking reduces the health risks caused by exposure to cigarette. The global trend of increasing awareness of health-related issues associated with smoking may adversely affect the demand and sales of cigarettes, which will in turn affect our business. Given that cigarettes are generally considered to be hazardous to health, there is no assurance that the public will not, in the future, change their habits and reduce consumption of cigarettes. In the event that the public reduces their consumption of cigarettes or any substitute in replacement of cigarettes appears in the future, the cigarette industry will shrink significantly, which will in turn adversely affect our business.

Our sales of cigarette packaging paper are dependent on the PRC legislative and regulatory control on cigarette consumption and awareness of health concerns

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

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016 and 26 December 2017, prohibits smoking in indoor public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;

- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect on 1 January 2006, requires, amongst others, the warning statement of "Smoking is harmful (吸煙有害健康)" to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement "Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)" issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;

- The Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), which was last amended by the Standing Committee of the National People's Congress on 29 April 2021, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;

- The "Healthy China 2030" Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20% by 2030;

- The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People's Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC

> Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

There is no assurance that the PRC Government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, cigarette consumption and the size of the overall PRC cigarette market may further shrink, as a result of which the demand for cigarette packaging paper may also be negatively affected. If cigarette consumption and demand for cigarette packaging paper decrease, our business and results of operations could be materially and adversely affected.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in the PRC and our sales of cigarette packaging paper. As our revenue was derived from business relating to the sales of cigarette packaging paper during the Track Record Period, in the event that the demand for cigarette in the PRC shrinks significantly and we are unable to promptly shift our product mix and customer base to other end markets, our business, results of operations, financial condition and future prospects could be adversely affected.

Emerging substitutes for traditional cigarettes such as electronic cigarettes could result in lower demand for traditional cigarettes, which may in turn hamper the growth in the cigarette packaging paper manufacturing industry and adversely affect our business, results of operations and financial condition

According to the Industry Report, there is an increasing number of smokers who turn to substitutes of traditional cigarettes, such as electronic cigarettes. Along with the development and growth in the electronic cigarette market, tobacco companies around the globe have successively entered into the electronic cigarette market. As compared to traditional cigarettes, electronic cigarettes are generally perceived to be trendier, more environmentally friendly, less addictive and inflict less harm on smoker and on third parties.

Smokers, especially younger generations, would generally consider electronic cigarettes as an alternative to traditional cigarettes, taking into consideration the aforementioned perceived advantages of electronic cigarettes over traditional cigarettes. According to the Industry Report, the electronic cigarette smoking population is concentrated within the age group below 45 years old mainly because electronic cigarette is perceived to be trendier by the younger generation. In the age group below 45 years old, there were approximately 139.6 million traditional cigarette smokers, accounting for approximately 46.4% of the total traditional cigarette smoking population of all age in the PRC; and there were approximately 9.6 million electronic cigarette smokers, accounting for approximately 57.0% of the total electronic cigarette smoking population of all age in the PRC. In the age group below 45 years old, the traditional cigarette smoking population was approximately 14.5 times of electronic cigarette smoking population in the PRC. Given no cigarette packaging paper is involved in the production of electronic cigarettes packaging, the rise of electronic cigarettes in the PRC is a potential threat to the cigarette packaging paper manufacturing industry.

The increasing popularity of electronic cigarettes may capture the market share and lower the demand for traditional cigarettes. Since our Group is a cigarette packaging paper manufacturer and our products are generally used in the manufacture of cigarette packages for cigarette brands in the PRC, a decrease in demand for traditional cigarettes may hamper the growth in the cigarette packaging paper manufacturing industry in the PRC, resulting in a lower demand for our cigarette packaging paper and materially and adversely affect our business, results of operations and financial conditions.

We derive a substantial portion of our revenue from a limited number of major customers

We derive a substantial portion of our revenue from a limited number of major customers. For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top customer amounted to approximately 27.1%, 28.8% and 25.4%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively. In particular, a significant portion of our revenue during the Track Record Period was derived from Hubei Golden Three Gorges, Customer Group C, Changge Dayang and Customer E, which have been our top five customers throughout the Track Record Period.

Our Group seeks new business opportunities mainly through (i) incoming enquiries from new and existing customers; (ii) referrals from existing customers; (iii) identification of tender opportunities by regularly monitoring tender notices published by cigarette package manufacturers on various tendering platforms; and (iv) marketing and promotion activities carried out by our marketing department. Our customer typically confirm our engagement by entering into a framework sales agreement with us. The contract term of our framework sales agreements normally ranges from one year to two years. During the contract term, the customers are entitled to place purchase orders with us. Upon expiry of the term of the framework sales agreements, the customers may enter into negotiation with us for renewing the framework sales agreement under a new unit price for the products with similar terms and conditions, or, if applicable, repeat its supplier selection process again.

There is no assurance that any of our major customers will continue to place purchase orders with our Group in the future or we can successfully renew the framework sales agreements with these customers upon the same terms and conditions or at all. In the event that any of these major customers ceases to place purchase orders with our Group, reduces the amount of their purchase orders with us, declines to renew the framework sales agreements with us or requests for more favourable terms and conditions, our business, results of operations, financial condition and future prospects may be adversely affected.

There is no minimum purchase amount under the sales arrangements with our customers

Under the framework sales agreements with our customers, our customers are not bound by any minimum purchase commitment. The amount of purchase from our customers is set out in the relevant purchase orders issued to us from time to time during the term of the framework sales agreement. Our sales are typically made on the basis of individual purchase orders. As a result, our customers could reduce their order levels or cease placing orders altogether with little or no prior notice to us. We cannot assure you that we will be able to obtain orders from other customers to cover such unpredictable reduction in orders, and failure to do so could adversely affect our business, results of operations and financial condition.

The amount of purchase from our cigarette package manufacturer customers is largely dependent on their success in obtaining tender and their ranking as a supplier in the tender for the supply of cigarette packages for different cigarette brands

During the Track Record Period, we supplied our products primarily to cigarette package manufacturers in the PRC. For FY2019, FY2020 and FY2021, our direct sales to cigarette package manufacturers contributed approximately 87.1%, 89.6% and 85.6% of our total revenue, respectively. Our products are generally used by the cigarette package manufacturers in the manufacture of cigarette packages for different cigarette brands in the PRC. The amount of purchase from our cigarette package manufacturer customers is largely dependent on their success in obtaining tender and their ranking as a supplier in the tender for the supply of cigarette packages for different cigarette brands. In general, the ranking of a cigarette package supplier in a tender determines the percentage it accounts for in the total procurement of a product by a cigarette brand.

In the event the number of tenders for the supply of cigarette packages awarded to our cigarette package manufacturer customers substantially reduces and/or the ranking of our cigarette package manufacturer customers in a tender declines substantially, our customers may experience decrease in their sales to cigarette brands, and they would in turn reduce their order levels or ceasing placing orders with us. We cannot assure you that we will be able to obtain orders from other customers to mitigate or offset such reduction in orders, and failure to do so could adversely affect our business, results of operations and financial condition.

Occurrence of natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations

Our business could be materially and adversely affected by natural disasters or the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome (SARS) or COVID-19. The occurrence of natural disaster or a prolonged outbreak of epidemic illness or other adverse public health developments in the PRC could materially disrupt our business and operations.

There was an outbreak of COVID-19 in the PRC since early 2020. The PRC Government imposed a lockdown in Huanggang, Hubei Province from 23 January 2020 to 25 March 2020 (the "**Lockdown Period**"). Transport was severely restricted, public transits, airports and major highways were closed and all non-essential companies, including manufacturing companies like our Group, were ordered to close during the Lockdown Period. In response to the requirements of the local government authorities, our business operations were suspended during the Lockdown Period. Our Group has resumed business operation in full scale since late-March 2020.

Based on publicly available information, there has been an increase in the number of COVID-19 cases in various areas of the PRC during the period from March to early-May 2022, including in particular the Shanghai Municipality (the "**Recent PRC Outbreak**"). The Recent PRC Outbreak has been largely contained by late-May 2022 and Shanghai has lifted COVID-19 lockdown restrictions since 1 June 2022. During the Recent PRC Outbreak, a customer based in Shanghai has temporarily suspended placing purchase orders with us. For further details, please refer to the paragraph headed "Business — Impact of the outbreak of COVID-19 on our operations" in this prospectus.

A prolonged outbreak of COVID-19 in the PRC could have a material adverse impact on our business operations, including further suspension of our production and restriction on delivery of our products to our customers and raw materials from our suppliers due to travel restrictions. Our customers' business and operation may similarly be affected by the outbreak of COVID-19, resulting in reduction, suspension, delay or even cancellation of purchase orders placed with our Group. Further, our operations may be disrupted if any of our employees are suspected of being infected by COVID-19 since this could require us to quarantine some or all of our employees or disinfect our premises. This may affect our ability to fulfil the orders of our customers. Furthermore, if any of our suppliers are affected by COVID-19, and the supply of raw materials is disrupted, we may not have sufficient materials to support our orders and which may affect our Group's ability to meet the demands of our customers.

The duration and scale of such epidemic cannot be predicted or controlled by our Group. It remains uncertain as to when, or whether, the outbreak will be contained. If the outbreak of COVID-19 is not effectively controlled, it may have significant and adverse impact on our business, results of operations and financial position.

We are subject to credit risk in relation to the collectability of our trade receivables from customers

Our financial condition and profitability are dependent on the creditworthiness of our customers. We determine the credit term granted to our customers based on analysis of their credit profiles. However, our customers are subject to market conditions and their own business risks. We cannot assure you that the creditworthiness of our customers will not change should there be unanticipated adverse changes in the economy or extraordinary events adversely affecting specific customers, industries or markets. If the credit quality of our customer base decreases as a result of economic conditions or if our reserves for credit losses are not adequate, our business, results of operations and financial condition could be adversely affected.

As at 31 December 2019, 2020 and 2021, our trade receivables (net of allowance for impairment) amounted to approximately RMB148.5 million, RMB142.4 million and RMB145.1 million, respectively. Our sales are generally made on credit and we generally grant our customer a credit term ranging from 60 to 180 days. For FY2019, FY2020 and FY2021, our trade receivables turnover days were approximately 158.7 days, 166.8 days and 141.7 days, respectively. As at 31 December 2019, 2020 and 2021, our Group had allowance for impairment of trade receivables of approximately RMB3.6 million, RMB5.3 million and RMB4.9 million, respectively. In the event that our customers fail to settle our trade receivables, our cashflow may be adversely affected, and we may have to make loss allowance for impairment, write-off the receivables and/or incur legal costs to recover the outstanding amount from our customers, which may in turn result in material and adverse impact on our business, financial conditions and results of operations.

We may be exposed to credit risk in relation to the collectability of our bills receivables

During the Track Record Period, we generally grant our customers a credit term of 60 to 180 days from the date of billing. Our customers generally settle their payments by bank transfer or bank acceptance bills. As at 31 December 2019, 2020 and 2021, our bills receivables (net of allowance for impairment) amounted to approximately RMB32.6 million, RMB9.2 million and nil, respectively. As at 31 December 2019, 2020 and 2021, our provision for impairment of bills receivables amounted to nil, approximately RMB72,000 and nil, respectively. Our Group's management determines the expected credit losses by taking into account the credit rating for issuing financial institutions and the bills receivables are adjusted for forward-looking estimates. We cannot assure you that the issuing financial institutions will not default on their obligations to settle the bank acceptance bills to us in the future. In the event that the issuing financial institutions fail to settle our bills receivables, our cashflow may be adversely affected, and we may have to make loss allowance for impairment, write-off the receivables and/or incur legal costs to recover the outstanding amount from the issuing financial institutions, which may in turn result in material and adverse impact on our business, financial conditions and results of operations.

We may not be able to sustain our growth by taking advantage of the expected growth in sales value of cigarette packaging paper in the PRC due to the high utilisation rate of our production facility

Our future growth and success depends significantly on our ability to adapt quickly to the developments in the cigarette packaging paper manufacturing industry, in particular, our ability to adapt to changes in the demand for our products from customers, which may require us to upgrade our production capabilities. The utilisation rates of our production facility were approximately 83.3%, 97.4% and 95.4% for FY2019, FY2020 and FY2021, respectively. Our future growth may be adversely affected if we are not able to expand our production capacity in time to meet the growing or changes in demand for our products. As such, there is no assurance that we will be able to achieve or maintain similar level of growth in our revenue and profit and total comprehensive income in the future.

Disruptions, damages or destructions to our production facility and machinery may materially and adversely affect our business, results of operations and financial condition

Our sales are dependent on the continued operation of our production facility. Our production facility is subject to inspection, maintenance and replacement of our machinery during which production capacity may be affected. Our production facility is also subject to operation risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents. A power surge or outage could disrupt or even result in the halt of our production process. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, fire, adverse weather conditions, theft or robbery. We may also need to incur additional cost to repair or replace any damaged machinery or equipment. Machinery may also break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or replaced, or if any lost machinery cannot be replaced in a timely manner, our operations and financial performance could be adversely affected.

In addition, our production process may be disrupted due to (i) natural disasters such as typhoons, earthquakes and floods; (ii) political instability, riots, civil unrest and terrorist attacks; (iii) epidemics such as the Severe Acute Respiratory Syndrome (SARS), the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or, most recently, COVID-19, since it could require our employees to be quarantined and/or our office premises and production facility to be disinfected; and (iv) other events that are beyond our control in the regions where we operate.

We may not be able to adjust the selling price of our products at our own discretion

Our customer typically confirm our engagement by entering into a framework sales agreement with us. The framework sales agreements set out the unit price for each of our products to be supplied, which is typically agreed at a fixed price per tonne. The contract term of our framework sales agreements normally ranges from one year to two years. Under the framework sales agreement, we shall be obliged to supply our products at the price specified therein and bear the risks associated with the fluctuations in our operations costs and the price of the raw materials. During the contract term, we are generally not entitled to adjust the selling price of our products, even though our operation costs may have increased due to any reason whatsoever. In the event that our operation costs increase and we are not able to adjust the selling price of our products, our operating results and profitability may be adversely affected.

Any price fluctuations of raw materials used in our production process may increase our production costs

The principal types of raw materials for our production process include white cardboard, film and other accessory materials such as glue and ink. Key factors affecting the purchase price of raw materials include supply and demand in the market, the policies of the PRC Government and market competition, many of which are beyond our control. For further details on the historical price trend of our raw materials, please refer to the paragraph headed "Industry overview — Price trend of major cost components" in this prospectus.

Depending on the volume of our purchase, once a supplier is selected, we typically enter into a framework supply agreement with the supplier. The contract term of framework supply agreements is one year in general. During the contract term of the framework supply agreement, we are entitled to place purchase orders with the supplier for procurement of raw materials at the pre-agreed unit price as stated in the framework supply agreement.

We are generally required to renegotiate the terms of our framework supply agreements with the suppliers upon the expiry of the contract terms and we do not have any hedging activities to minimise the risk of price fluctuation of raw materials. Price fluctuations of our principal types of raw materials will affect our production costs, which may in turn affect our gross profit margin. We cannot assure you that we will be able to transfer the increase in cost of raw materials to our customers in a timely manner or at all. There is no guarantee that the cost of raw materials will remain stable in the future, or that any increase in price of raw materials will not lead to unexpected and potentially significant increase in our production costs. There is no assurance that we will be able to increase the price of our products without affecting our sales in the future. If we are unable to increase the prices of our products to set off any increase in cost of raw materials, our profitability and profit margins may be adversely affected.

Our products may not meet the evolving requirements and specifications of our customers if we fail to enhance our research and development capabilities

Our Directors believe that research and development is crucial to maintaining our competitiveness in offering products that match with the evolving requirements and specifications of our customers. During the Track Record Period, we made significant investments in research and development and incurred approximately RMB10.7 million, RMB10.4 million and RMB13.1 million for FY2019, FY2020 and FY2021, respectively. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture.

There is no assurance that we will successfully develop or implement any of the research and development projects or be able to complete such projects within their respective time and cost estimates. If we do not develop new technical know-how and introduce new product features which adequately satisfy the market demand and comply with the relevant government regulations or industry standards in a timely manner, our competitive position, sales and gross profit margins could be materially and adversely affected. In the event that we fail to enhance our research and development capabilities to meet the evolving demand of customers, our capabilities may be surpassed by our competitors, which may adversely impact our results of operations and future prospects.

Any infringement of our intellectual property rights or any infringement by us of third party intellectual property rights may adversely affect our reputation and profitability

Our research and development is crucial to maintaining our competitiveness in offering products that match with the evolving requirements and specifications of our customers. As at the Latest Practicable Date, our Group had registered 24 patents in the PRC which are, in the opinion of our Directors, material to our business with respect to our products and production process. For further details on our intellectual property rights, please refer to the paragraph headed "Statutory and general information — B. Further information about the business of our Group — 2. Intellectual property rights" set out in Appendix IV to this prospectus.

If the technical know-how in our production is infringed by way of unauthorised copying, use or imitation, our business and reputation may be seriously affected and we may need to expend substantial resources on litigation and other legal processes to protect our intellectual property, which may in turn adversely affect our operations and profitability.

Conversely, there is also a risk that third parties may bring a claim against us for infringing their intellectual property rights, thereby requiring us to defend or settle any related intellectual property infringement allegations or disputes. We may be required to incur substantial costs to develop non-infringing alternatives or to obtain the required licence. There is no assurance that we will succeed in developing such alternatives or in obtaining such licence on reasonable terms, or at all, and any failure to do so may disrupt our manufacturing processes, damage our reputation and adversely affect our results of operations.

We have limited insurance coverage for potential liabilities in connection with our operations and products

Our business operations, particularly our production activities, involve inherent risks and occupational hazards, many of which are beyond our control. Industrial accidents, whether due to the malfunction of machinery or other reasons, may occur at our production facility from time to time. In such event, we may be fully or partially liable for loss of life and property, medical expenses, medical leave payments as well as fines and penalties for violation of applicable PRC laws and regulations. In addition, we may also experience interruptions in our operations and may be required to change the manner in which we operate our business as a result of government investigations or the implementation of safety measures as a result of such industrial accidents.

Our existing insurance may not be sufficient to cover all our potential damages and liabilities and any uninsured loss or damage to property, litigation or business disruption may cause us to incur substantial costs, which could materially and adversely affect our financial condition and operation results. The occurrence of certain events, including earthquake, fire, severe weather conditions, war, floods, power shortages and the consequent damages and disruptions resulting from them may not be adequately covered, or at all, by our existing insurance policies. If we incur substantial liabilities not covered by our existing insurance policies, or if our business operations are interrupted for a prolonged period of time, we may incur costs and losses that may materially and adversely affect our business, results of operations, financial conditions and business prospects.

The products we manufacture may contain defects that are detected only when the products are in use. We and our customers may experience defects which could require significant product recalls that could consume a substantial amount of time, effort and expense to resolve. Such defects could have a serious impact on our customers, which could harm our customer relationship and expose us to liability. There is no assurance that there will not be any material product liability claims against us in relation to our products in the future. We may expend significant resources and time to defend ourselves if legal proceedings are brought against us. The successful assertion of product liability claims against us could require us to pay significant monetary damages and/or subject us to product recall. If any such claims are made, our reputation may also be adversely affected, which may lead to loss of future business and may adversely affect our business, results of operations and financial conditions. If any of such claims were to be decided against us, we may be required to pay substantial damages. The occurrence of any such incidents and their consequential losses may not be adequately covered, or at all, by our insurance policies currently in place. Any such losses not covered by insurance will be charged directly against our profits. Losses incurred, or payments we may be required to make, could adversely affect our business, results of operations and financial conditions.

We are exposed to risk of inventory obsolescence

Our inventory mainly comprises raw materials, finished goods and packaging materials and others. We believe that maintaining appropriate levels of inventory helps us deliver our products in a timely manner and meet our customers' demands. As at 31 December 2019, 2020 and 2021, we had inventory of approximately RMB40.7 million, RMB37.4 million and RMB50.1 million, respectively. Our inventory turnover days were approximately 62.2 days, 57.4 days and 55.4 days, for FY2019, FY2020 and FY2021, respectively.

We generally maintain certain inventory level of raw materials to ensure stable operations, and we cannot assure you that we can accurately predict sales and avoid over-stocking or under-stocking of raw materials in our inventory. Inventory levels in excess of customer demand could result in inventory write-downs or increase in inventory holding costs. On the contrary, if we underestimate demand or if our suppliers fail to provide products in a timely manner, we may experience inventory shortages, which could in turn result in unfulfilled customer orders, loss of sales and a negative impact on customer relationship. Further, any sudden and material changes in our customers' product requirements may result in decline in inventory values, significant write-downs or write-offs and overstocking of raw materials. Any of the abovementioned factors may have an adverse effect on our business, results of operations and financial conditions.

If we are unable to continue to be qualified for preferential income tax rate and/or eligible for tax deduction for research and development expenses, our profitability and results of operation may be materially and adversely affected

Hubei Qiangda, our principal operating subsidiary, was recognised as a "High and New Technology Enterprise (高新技術企業)" by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and Hubei Provincial Taxation Bureau (湖北省國家稅務局) and Hubei Provincial Local Taxation Bureau (湖北省地方稅務局). We have received certificates for such recognition since November 2017, and the current certificate was recognised by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Tax Service, State Taxation Administration (國家稅務總局湖北省稅務局) and is due to expire in December 2023. As a result of holding of such certificate, Hubei Qiangda was entitled to a preferential income tax rate of 15% during the Track Record Period. For FY2019, FY2020 and FY2021, our income tax expense amounted to approximately RMB4.7 million, RMB6.2 million and RMB6.4 million, respectively.

The relevant PRC Government authorities will take into account various factors in determining whether to award or renew any "High and New Technology Enterprise" certificate, and there is no assurance that Hubei Qiangda will be successful in renewing the aforesaid certificate. For further details, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to taxation — Enterprise income tax". Should the relevant PRC Government authorities refuse to renew Hubei Qiangda's status as a "High and New Technology Enterprise" for any reason, Hubei Qiangda will cease to be entitled to such preferential tax treatment and will be required to pay income tax at the normal rate of 25%. Under such circumstances, our profitability and results of operation may be adversely affected.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (the "**Super Deduction**"). The additional tax deducting amount of the qualified research and development expenses has been increased from 175% to 200% for manufacturing enterprises, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. Our Group has considered the Super Deduction to be claimed for our Group entities in ascertaining our assessable profits during the Track Record Period. For FY2019, FY2020 and FY2021, our Group claimed tax deductible expenses under the Super Deduction in the amount of approximately RMB1.2 million, RMB1.1 million and RMB2.0 million, respectively. There is no assurance that the policies regarding the Super Deduction will be continued, or that our Group will continue to be eligible for the Super Deduction at similar level or at all. In the event that there is a reduction in the amount of tax deductible expenses which our Group is eligible for under the Super Deduction, our profitability and results of operation may be adversely affected.

Our historical revenue, gross profit and gross profit margin may not be indicative of our future performance

For FY2019, FY2020 and FY2021, our revenue amounted to approximately RMB312.8 million, RMB318.3 million and RMB370.3 million; our gross profit amounted to approximately RMB65.8 million, RMB70.1 million and RMB81.8 million, respectively. During the corresponding periods, our gross profit margin was 21.0%, 22.0% and 22.1%, respectively.

However, the historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

There is an inherent risk in using our historical financial information to project our future financial performance, as they do not have any positive implication or may only reflect on our past performance under certain conditions. Our future performance will depend on, among others, our ability to secure new contracts, control our costs, market conditions in the PRC, and competition among our fellow industry players. All these may reduce the volume of orders awarded to us and/or limit profit margin of our orders.

We have certain non-compliance with the PRC laws and regulations. Any enforcement action against us may adversely affect our business and reputation

Our Group failed to apply for relevant construction permits before construction and obtain real estate certificates for five properties in our production facility and failed to make adequate social insurance and housing provident fund contributions for all our employees in accordance with certain legal and statutory requirements in the PRC during the Track Record Period. In respect of our failure to apply for the construction permits and to obtain the real estate certificates for our properties, pursuant to the relevant laws and regulations, the possible legal consequences include demolishing the relevant properties within a prescribed time limit, confiscating the income from the properties and payment of fine. In respect of our failure to make adequate social insurance and housing provident fund contributions for all our employees, pursuant to the relevant laws and regulations, the possible legal consequences include payment of all outstanding contributions and fines and compulsory enforcement by the PRC court. For further details of the non-compliance incidents, please refer to the paragraph headed "Business — Legal compliance" in this prospectus. If any of the government authorities takes enforcement action against us in relation to the non-compliance incidents, we may be ordered to pay fines and/or other penalties, which could adversely affect our business and reputation.

Any delay or cessation in the supply of raw materials from our major suppliers without timely replacement may interrupt our operations

Our production of cigarette packaging paper requires an adequate supply of white cardboard, film and other accessory materials such as glue and ink. We relied on our major suppliers for a stable supply of raw materials during the Track Record Period. For FY2019, FY2020 and FY2021, the percentage of our total purchases attributable from our top supplier amounted to approximately 15.4%, 21.9% and 22.6%, respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 52.3%, 59.0% and 54.0%, respectively. We anticipate that we will continue to rely on our major suppliers for a significant portion of our purchases. Should any of our major suppliers delay or cease to supply raw materials to us and we are not able to procure necessary raw materials from alternative suppliers in a timely manner, our production may be interrupted. Any interruption in the supply of raw materials of the required quantities or quality may affect our production schedule, which may adversely affect our reputation and business relationship with our customers and consequently affect our results of operations and financial conditions.

Our sales may be subject to seasonal fluctuations

Our business is in the upstream sector within the cigarette industry value chain where cigarette sales to consumers are at the end of the value chain. Our sales largely correspond to the fluctuations in the sales of the cigarette industry in the PRC. Demand for cigarettes in the PRC is generally higher during Chinese New Year as the practice of gifting cigarettes is common in Chinese culture. Some of our customers may place more purchase orders with us prior to the Chinese New Year to cope with their production schedule. We may therefore record higher sales before Chinese New Year. For further information, please refer to the paragraph headed "Business — Marketing — Seasonality and potential market development of cigarette packaging in the PRC" in this prospectus. During such period with higher sales, we may not have sufficient production capacity to meet all of our customers' purchase orders and demands, which in turn may limit our revenue or even adversely affect our business relationship with our customers. As a result, our business and results of operations may be adversely affected.

The demand for our cigarette packaging paper is affected by the demand for cigarettes in the PRC, which in turn is subject to the prices of cigarettes and economic conditions in the PRC

We supply our products mainly to cigarette package manufacturers which operate in different provinces of the PRC. To a much lesser extent, some of our customers are trading companies which on-sell our products to cigarette package manufacturers. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. Therefore, demand for our cigarette packaging paper is highly associated with the demand for cigarettes in the PRC.

Demand for cigarettes is dependent on, amongst other factors, prices of cigarettes and economic conditions in the PRC. For instance, increase in tobacco tax imposed by the PRC Government may result in an increase in retail prices of cigarettes and adversely affect the demand for cigarettes. Likewise, the demand for cigarettes is influenced by the purchasing power and preferences of consumers which is dependent on the PRC economic conditions. Any downturn in the PRC economic conditions or outlook may adversely affect the demand for cigarettes.

We cannot assure you that the demand for cigarettes will continue to grow, or will grow at all. Any potential decline in the demand for cigarettes due to increase in cigarette prices or downturn in the PRC economic conditions may have a material adverse impact on our business, results of operations, financial conditions and growth prospects.

If we lose any of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted

Our success depends on the continued service of our executive Directors, including Mr. Chen and Mr. Yu. These key personnel manage our Group, develop and execute our business strategies and manage our relationship with key customers and suppliers. If we lose the services of any of our executive Directors, it could be very difficult to find, allocate and integrate adequate replacement personnel into our operations, which could adversely affect our operations and the growth of our business.

Moreover, we rely on the collective experience of our technically skilled employees, primarily the experienced engineers, production personnel, technical personnel and other skilled employees, in our manufacturing process to implement our growth plans and to ensure that we continuously evaluate and adopt new technologies to meet our customers' needs. There is intense competition for the services of these personnel in the cigarette packaging paper manufacturing industry. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could be disrupted and the growth of our business could be delayed or restricted.

We rely on logistics service providers to deliver our products to customers

In general, we are responsible for the transportation of products to the destination specified by our customers on or before the date as stipulated in the purchase orders. The transportation costs and other related expenses are borne by us. We engage third party logistics service providers for the delivery of our finished goods to the destination specified by our customers. For further details, please refer to the paragraph headed "Business — Logistics" in this prospectus. For FY2019, FY2020 and FY2021, we incurred freight charges of approximately RMB4.6 million, RMB4.1 million and RMB5.3 million to third party logistics service providers, respectively.

There is no assurance that our products will be delivered smoothly and without delay to our customers. Disruptions to delivery may be caused by reasons beyond our control, including but not limited to natural disasters, unfavourable weather conditions and labour strikes. If our products are not delivered to our customers on time, or are damaged during the course of delivery, our reputation could be adversely affected. Further, in the event that the third party logistics services providers refuse to provide transportation services to us, or only agree to provide transportation services at a higher price, our business, profit margins and results of operations may be adversely affected.

Our borrowing levels and uncertainty in obtaining external financing could limit funds available to us for business purposes and increases in interest rates could materially affect our business, results of operations and financial conditions

We have relied on cash generated from operations and bank borrowings to carry on our business, and we expect to continue to do so in the future. As at 31 December 2019, 2020 and 2021, we had bank borrowings of approximately RMB24.5 million, RMB21.5 million and RMB10.0 million, respectively. We may not be able to obtain bank loans or renew existing credit facilities in the future on favourable terms.

Our indebtedness could materially and adversely affect our liquidity. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will mainly depend on our ability to maintain adequate cash generated from operating activities and sufficient external financing. We cannot assure you that we will always be able to raise necessary funding to finance our current liabilities and other debt obligations. Our ability to arrange financing and the cost of such financing are dependent on the global and the PRC economic conditions, capital and debt market conditions, lending policies of the PRC Government and banks, and other factors. In the event we are unable to obtain adequate financing to meet our working capital requirements, we may be forced to delay, adjust, reduce or abandon our planned strategies. Our business, prospects and financial condition may be materially and adversely affected if our cash flow and capital resources are insufficient to finance our debt obligations.

Furthermore, any fluctuation in interest rates will affect the amount of debt payments. If adequate funding is not available to us on favourable terms, we may not be able to fund our existing operations and develop or expand our business and therefore our business, results of operations and financial conditions may be materially and adversely affected.

The determination of fair value changes of financial assets at fair value through profit or loss ("FVPL") is based on significant unobservable inputs, and therefore inherently involves a certain degree of uncertainty. Fair value changes of such assets could adversely affect our financial condition and results of operation

For FY2019, FY2020 and FY2021, we have purchased and disposed financial assets at FVPL with amount of approximately RMB8.0 million, RMB169.1 million and RMB215.0 million, respectively. We use unobservable inputs, such as expected rate of return, in valuing our financial assets at fair value through profit or loss. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. In addition, fair value changes of financial assets at fair value through profit or loss could adversely affect our financial condition and results of operation. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of the relevant financial assets. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our financial condition and results of operation. For further information, please refer to note 3.3 of the Accountant's Report as set out in Appendix I to this prospectus.

We may incur additional costs for compliance with environmental protection laws

Our operations are subject to environmental protection laws and regulations in the PRC because our production involves the generation of emissions and discharge of waste water and solid waste which could cause potential pollution to the environment. We are committed to conducting our business operations in compliance with all applicable environmental laws and regulations. For details of our measures taken, please refer to the paragraph headed ''Business — Environmental, social and corporate governance matters'' in this prospectus. In the event of any changes in the PRC laws and/or regulations and/or government policies on environmental protection and more stringent requirements are imposed on our Group, we may have to incur extra costs and expenses to comply with such requirements and our business and results of operations may be adversely affected.

If we fail to comply, or are alleged to fail to comply, with the relevant PRC laws, regulations or government policies on environmental protection, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities.

Our business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget

We intend to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. However, our plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans could materially and adversely affect our business, financial conditions and results of operations.

Our profitability may be affected by the potential increase in fixed costs upon our planned acquisition of additional machinery and equipment and our planned construction of additional properties

It is part of our business strategies to acquire additional machinery and equipment and construct additional properties to cope with our business development by utilising the net proceeds from the Share Offer. For further details on our expansion plan, please refer to the section headed ''Future plans and use of proceeds'' in this prospectus.

As a result of the acquisition of additional machinery and equipment and construction of additional properties, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and operating results. Based on the accounting policies adopted by our Group, it is estimated that additional depreciation expenses on property, plant and equipment of approximately RMB7.0 million will be incurred per annum after we have acquired all the machinery and equipment that we intend to purchase and upon completion of the construction of the additional properties under our business expansion plan. In addition to depreciation expenses, it is also expected that we will incur other fixed cost upon our planned expansion in production capacity which include (i) renovation costs incurred from the construction of new properties; and (ii) administrative expenses for the operation of the expanded production facilities.

Our planned investments in property, plant and equipment will increase our fixed costs but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. In the event our operational and financial performance does not improve proportionately following our expansion in production capacity, our business, financial position and prospects may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Our business is subject to intense competition and may be negatively affected by further consolidation of cigarette manufacturers and brands and any upstream expansion by cigarette package manufacturers

According to the Industry Report, the cigarette packaging paper manufacturing industry in the PRC is fragmented with over 200 cigarette packaging paper manufacturers competing in the market and the top five manufacturers accounted for a total market share of approximately 12.6% in 2020 in terms of sales value. On the other hand, the overall cigarette packaging paper manufacturing industry in Hubei is concentrated with the top five manufacturers accounted for a total market share of approximately 46.8% in Hubei Province in 2020 in terms of sales value. We were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of approximately 14.9%, in Hubei Province, according to the Industry Report. For details of the competitive landscape, please refer to the section headed "Industry overview" in this prospectus. Should our competitors equip themselves with, among other things, industry knowledge, technical know-how, machinery or product features that are comparable to or better than ours, we might not be able to maintain our market position and our business, results of operations, financial conditions and future prospects might be adversely affected.

In addition, if any of our customers diversify their business and engage in upstream expansion to manufacture cigarette packaging paper, this may intensify competition in our industry. If, for any reason, any or all of our customers decide to expand upstream and produce all or a substantial portion of their required packaging materials in the future, such customers may cease to place orders with us or may substantially reduce the amount of orders placed with us, and our financial conditions, results of operations and future prospects could be materially and adversely affected.

We are operating in an industry which is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties

Our products are required to comply with extensive PRC laws, regulations, industrial technical standards and specifications required by our customers, which may change from time to time beyond our control. If any of such laws, regulations or industrial standards are modified or become more stringent beyond our existing technical capacities, we will be required to change our business plan, incur additional costs and resources to enhance our production facilities, to add or change our product features, and to provide training and recruit more technical personnel to comply with these new requirements and standards, which will increase our cost of production and may adversely affect our profitability. We cannot assure you that we will be able to comply fully with the current and future PRC laws, regulations, industrial technical standards and specifications required by our customers. Failing to meet these prescribed standards might subject ourselves to various penalties, including fines or suspension of our operations. Our business, financial position and prospects may be materially and adversely affected.

We are exposed to risks of general economic downturn and deteriorating market conditions in the PRC

As our business and operations are based in the PRC, our business growth is primarily dependent upon the economy and market conditions in the PRC. The market conditions are directly affected by, among other things, the global and local political and economic environments, such as uncertainties about the outbreak of COVID-19 and the Sino-U.S. trade conflicts.

Any sudden downturn in the general economic environment or change in political environment in the PRC beyond our control may adversely affect the financial market sentiment in general. Severe fluctuations in market and economic sentiments may also lead to a prolonged period of sluggish consumption activities. As such, our revenue and profitability may fluctuate and we cannot assure you that we will be able to maintain our historical financial performance in times of difficult or unstable economic conditions.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could adversely affect our business, results of operations and financial condition

All of our revenue was generated from the PRC, and substantially all of our assets are located in the PRC. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in the PRC.

The economy of the PRC differs from the economies of most other developed countries in many respects, including the extent of government involvement, level of development, growth rate and governmental control over foreign exchange. The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC

Government. The PRC Government continues to play a significant role in regulating and supporting industrial development. It also exercises influence over PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC and, in turn, our business. While the PRC economy has experienced significant growth in the past 30 years, such growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall PRC economy but may have a negative effect on us. For example, our results of operations and financial condition could be adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the development of the cigarette and related industry.

Uncertainties with respect to the PRC legal system could adversely affect our business, results of operations and financial conditions

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Our PRC subsidiary is subject to laws and regulations applicable to foreign investment in the PRC in general and laws and regulations applicable to foreign-invested enterprises in particular.

However, these laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties in different locations. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. In addition, such uncertainties, including the inability to enforce our contracts, could adversely affect our business and operations. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published in a timely manner or at all, that may have retroactive effects. As a result, we may not be aware of our violation of these policies and rules until some time after the violation, or we may have to go through further approval, registration or filing procedures as required by the relevant PRC governmental authorities. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and our foreign investors.

It could be difficult to enforce any judgments obtained in non-PRC courts against our PRC subsidiary and assets located in the PRC

Our Company is incorporated under the laws of the Cayman Islands, but all of our operations and assets and most of our Directors and senior management are stabilised in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. On 18 January 2019, the Supreme People's Court and the Department of Justice of Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region" (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**Arrangement**"). The Arrangement provides the scope and mechanism regarding the reciprocal recognition and enforcement of judgments in civil and commercial matters between the PRC and Hong Kong. It covers both monetary and non-monetary relief, as well as rulings rendered for some intellectual property lawsuits. However, for judgment that provides for punitive or exemplary damages, the punitive or exemplary part of the damages would not be recognised and enforced, except where the judgment is rendered in respect of the claims specified in the Arrangement. The Arrangement has not come into effect and will only take effect after necessary procedures to enable implementation have been completed and will apply to judgments made on or after its commencement date. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

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

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding and payment of dividends from our PRC subsidiary are subject to restrictions under PRC laws and PRC withholding tax

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Companies including foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company incorporated in the Cayman Islands and our business and operations are conducted through Hubei Qiangda, our principal operating subsidiary. The availability of funds to pay distributions to Shareholders depends on dividends received from Hubei Qiangda. If Hubei Qiangda incurs any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that Hubei Qiangda can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

Governmental control of currency conversion may limit our ability to use our turnover effectively and the ability of our PRC subsidiary to obtain financing

All of our revenue is currently generated in RMB. Any future restrictions on currency exchanges may limit our ability to use turnover generated in RMB to make dividends or other payments in Hong Kong dollars, or US dollars or fund possible business activities outside the PRC. Although the PRC Government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, significant restrictions still remain, including primarily the restriction that enterprises may only buy, sell and/or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans, is subject to government approval in the PRC, and companies are required to open and maintain separate foreign exchange accounts for capital account items. On 19 November 2012, SAFE promulgated the Notice on Further Improve and Adjust the Direct Investment Foreign Exchange Administration Policies (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》 (the "**Circular 59**") according to which, certain administrative approval procedures were simplified, or abolished to approve the direct investment foreign exchange administration. For example, foreign-invested enterprises, like our PRC subsidiary, may increase its registered capital by using its legal earnings including capital reserves, surplus reserves or accumulated profits or re-invest them without obtaining prior foreign exchange approvals from SAFE. Furthermore, the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on 1 June 2015 and was amended on 30 December 2019, cancels certain administrative approval procedures relating to the domestic and overseas direct investment in certain districts, and the foreign exchange registration for domestic direct investment shall be directly reviewed and handled by qualified banks. However, we cannot assure you the regulatory authorities of the PRC will continue or further lift the restrictions on foreign exchange administration or will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**"), an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise". If an enterprise incorporated in a foreign country or region has its "de facto management bodies" located within the PRC, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. For further information, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to taxation — Enterprise Income Tax" in this prospectus.

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a "resident enterprise". If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as "resident enterprises", such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which may have an impact on our effective tax rate and materially and adversely affect our business, financial position and prospects.

In addition, under the EIT Law, to the extent dividends from earnings derived since 1 January 2008 are sourced within the PRC and if we were considered a "resident enterprise" in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realised on the transfer of our Shares by such "non-resident enterprise" investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a "resident enterprise" in the PRC. It is unclear whether, if we are considered a PRC "resident enterprise", holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are "non-resident enterprises", or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment

On 3 February 2015, the SAT issued the Announcement on Several Issues Concerning the Enterprise Income Tax Deriving from the Indirect Transfers of Properties among Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the "**Announcement 7**") which was amended on 17 October 2017 and 29 December 2017. The Announcement 7 repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the "**Circular 698**"), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, and the Announcement on the Administration of Enterprise Income Tax on Income of Non-resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》), issued by the SAT on 28 March 2011, with respect to a non-resident enterprises transferring the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company, or Indirect Transfer, and stipulates more detailed rules for tax treatment of indirect transfer of equity interest in PRC resident enterprises and other assets situated in the PRC. Announcement 7 has broadened the scope of the Indirect Transfer under Circular 698 to non-resident enterprises' indirect transfer of (i) the assets of an "establishment or place" situated in the PRC; (ii) real estate/immovable property situated in the PRC; and (iii) equity interest in Chinese resident enterprises. The Announcement 7 has also elaborated on how to determine that an Indirect Transfer has "a reasonable commercial purpose" and specified the legal consequences for failing to withhold and pay tax. We may conduct acquisitions involving changes in corporate structures in the future and Announcement 7 may be interpreted by the relevant tax authorities to be applicable. As a result, we may be required to expend valuable resources to comply with the Announcement 7 and other related tax rules, which could adversely affect our business, results of operations and financial conditions in the future.

RISKS RELATING TO THE SHARE OFFER

Investors will experience immediate dilution

Given the Offer Price of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the Share Offer, investors of our Shares in the Share Offer will experience an immediate dilution in the unaudited pro forma adjusted combined net tangible assets value to approximately HK$0.28 per Share and HK$0.29 per Share, respectively, based on the indicative Offer Price Range of HK$0.63 per Offer Share to HK$0.67 per Offer Share.

There has been no prior public market for the Share and the liquidity, market price and trading volume of the Share may be volatile

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or our competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation or fluctuations in the market prices for the services provided or supplies required by our Group, the liquidity of the market for the Shares, and the general market sentiment regarding the cigarette packaging paper manufacturing industry in the PRC could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price or at all.

There will be a time gap of several business days between pricing and trading of the Shares offered under the Share Offer. The market price of the Shares when trading begins could be lower than the Offer Price

The Offer Price of the Shares will be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. The Shares will not commence trading on the Stock Exchange until they are delivered and it is expected that there will be a considerable gap of time between the pricing of the Shares/closing of the application lists and the commencement of trading. Investors may not be able to sell or otherwise deal in the Shares until the commencement of trading and accordingly, holders of the Shares are subject to the risk that the price of their Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, Shareholders are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Granting options under the Share Option Scheme may affect our Group's results of operation and dilute Shareholders' percentage of ownership

We have adopted a Share Option Scheme on 2 June 2022 for the purpose of enabling us to grant options to eligible participants as incentive or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest. We may grant share options under the Share Option Scheme in the future, which we believe is of significant importance to our ability to attract and retain key personnel and employees. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

Any disposal by our Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

The Joint Bookrunners are entitled to terminate the Underwriting Agreements

Prospective investors should note that the Joint Bookrunners (for themselves and on behalf of other Underwriters) are entitled to terminate their obligations under the Underwriting Agreements by giving notice in writing to us upon the occurrence of any of the events set out in the paragraph 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 event may include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out.

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

Upon completion of the Share Offer, our Controlling Shareholders will own 42.38% of our Shares. Our Controlling Shareholders will therefore, have a significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporation actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders may be adversely affected as a result.

Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issue or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

There can be no assurance that we will declare or distribute any dividend in the future

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

Subject to the Companies Act and the Articles, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay to our Shareholders such interim dividends as appear to our Board to be justified by the financial conditions and the profits of our Company, and may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant by our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

RISKS RELATING TO THIS PROSPECTUS

Statistics and industry information from government sources contained in this prospectus may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by government departments or independent third parties. In addition, certain information and statistics set forth in that section have been extracted from a market research report commissioned by us and prepared by Ipsos, an independent market research agency. Neither our Group, our Directors, the Sponsor, nor any parties involved in the Share Offer other than Ipsos has independently verified the information from government sources contained in the Industry Report, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources were prepared on a comparable basis or that such information and statistics were stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications.

Our Group's future results could differ materially from those expressed or implied by the forward-looking statements

Included in this prospectus are various forward-looking statements that are based on various assumptions. Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking statements" in this prospectus. Investors should read this entire prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Share Offer including, in particular, any financial projections, valuations or other forward-looking statements.

Prior to the publication of this prospectus, there may be press or other media which contains information referring to us and the Share Offer that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, or the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the "**Professional Parties**") involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility and liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Offer Shares. You should rely only on the information contained in this prospectus.

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

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since our business and operations are primarily based, managed and conducted in the PRC, our executive Directors and members of the senior management team are and will be expected to continue to be based in the PRC. In addition, it would be practically difficult and commercially unnecessary for our Group to relocate our executive Directors to Hong Kong or appoint additional executive Directors who are ordinarily resident in Hong Kong.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements as set out in Rule 8.12 of the Listing Rules on the following conditions:

(a) we have appointed and will continue to maintain two authorised representatives, namely Mr. Yu Tsz Ngo, our company secretary, who is an ordinarily resident in Hong Kong, and Mr. Yu, the chief executive officer of our Group and our executive Director, to be the principal communication channel at all times between the Stock Exchange and our Company pursuant to Rule 3.05 of the Listing Rules and ensure that they will comply with the Listing Rules at all times. Each of the authorised representatives will be readily contactable by the Stock Exchange by mobile and telephone numbers, facsimile and/or email to deal promptly with enquiries from the Stock Exchange. Each of the authorised representatives is authorised to communicate with the Stock Exchange on our behalf;

(b) each of our authorised representatives has means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact any of our Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or will be able to apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time when required (subject to prevailing COVID-19 related border restrictions). To enhance communication among the Stock Exchange, our authorised representatives and our Directors, our Company will implement a policy whereby (i) our Directors have provided our authorised representatives with their respective mobile phone numbers, office phone numbers and/or email addresses; (ii) in the event that a Director expects to travel, he or she will provide the telephone number of the place of his or her accommodation to the authorised representatives or maintain an open line of communication via his or her mobile telephone; and (iii) each of our Directors and authorised representatives have provided their respective mobile phone numbers, office phone numbers, fax numbers and/or email addresses to the Stock Exchange;

(c) we have appointed Grande Capital to act as our compliance adviser under Rule 3A.19 of the Listing Rules, who will, among others, act as an additional communication channel with the Stock Exchange for a period commencing from the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. Our Company will ensure that our compliance adviser has prompt access to our authorised representatives and our Directors who will provide our compliance adviser with such information and assistance as our compliance adviser may need or may reasonably request in connection with the performance of our compliance adviser's duties; and

(d) meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or our compliance adviser, or directly with our Directors within a reasonable time. We will inform the Stock Exchange as soon as practicable in respect of any change in our authorised representatives and/or our compliance adviser in accordance with the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. Details of the terms of the Share Offer are described in the section headed "Structure and Conditions of the Share Offer" and in the **GREEN** Application Form.

The Listing is sponsored by the Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters and Placing is expected to be fully underwritten by the Placing Underwriters.

RESTRICTIONS ON SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and the **GREEN** Application Form in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus and the **GREEN** Application Form may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the **GREEN** Application Form and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the **GREEN** Application Form. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, any of its respective directors, agents or advisers or any other person or party involved in the Share Offer.

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

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

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

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

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

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

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All the Offer Shares will be registered on the Hong Kong branch register of members to be maintained by Boardroom Share Registrars (HK) Limited. Dealings in the Offer Shares registered on the 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 share register of the Company maintained by Appleby Global Services (Cayman) Limited in the Cayman Islands will not be subject to the Cayman Islands stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

STABILISATION AND OVER-ALLOTMENT OPTION

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, may over-allot Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the date of Listing. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Share Offer, our Company is expected to grant to the Placing Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Bookrunners (on behalf of the Placing Underwriters) up to (and including) the date which is the 30th day after the last day for lodging applications under the Public Offer. Pursuant to the Over-allotment option, our Company may be required to issue at the Offer Price up to an aggregate of 30,000,000 Shares, representing 15% of the total number of Offer Shares initially available under the Share Offer, to cover over-allocations in the Placing, if any.

For further details on the stabilisation and the Over-allotment Option, please refer to the section headed "Structure and Conditions of the Share Offer — Stabilisation and over-allotment" in this prospectus.

ROUNDING

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Details of the structure of the Share Offer are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out in the section headed "How to Apply for Public Offer Shares" in this prospectus and on the **GREEN** Application Form.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on or about Thursday, 30 June 2022. The Shares will be traded in board lots of 4,000 Shares each.

LANGUAGE

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

CURRENCY TRANSLATIONS

Unless otherwise specified, conversion of US$ into HK$ (or vice versa) and RMB into HK$ (or vice versa) in this prospectus is based on the exchange rate set out below (for illustration purposes only):

US$1.00: HK$7.80
HK$1.00: RMB0.85

No representation is made that any amounts in US$, RMB and HK$ can be or could have been converted at the relevant dates at the above exchange rate or any other rate or at all.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Chen Weizhuang (陳偉莊先生)	A1708, Mingshige Jiefang Road Shenzhen Guangdong Province China	Chinese
Mr. Yu Tianbing (余天兵先生)	No. 29-1-107, Minsheng Lidao Chengdong Avenue Yichang Hubei Province China	Chinese
Non-executive Director		
Mr. Hu Haoran (胡浩然先生)	Flat C, 11th Floor Block 7, Runfu China Resources City Tonggu Road Dachong, Nanshan District Shenzhen Guangdong Province China	Chinese
Independent non-executive Directors		
Mr. Liu Yimin (劉一敏先生)	2B2102 Jingwu Langqin Peninsula 63 Gaoxin South Ring Road Shenzhen Guangdong Province China	Chinese
Mr. Chen Yeung Tak (陳仰德先生)	Room A, 4th Floor, Mayfair Gardens 10 Sau Chuk Yuen Road Kowloon Tong Hong Kong	Chinese
Ms. Feng Yuan (馮苑女士)	Room 502, Block A, Building 1 Shenzhen Bay Science and Technology Ecological Park Gaoxinnan 10th Road Nanshan District Shenzhen Guangdong Province China	Chinese

Please refer to the section headed "Directors and senior management" in this prospectus for further details of our Directors.

PARTIES INVOLVED

Sponsor	**Grande Capital Limited** *A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities* Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong
Joint Bookrunners and Joint Lead Managers	**First Shanghai Securities 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) regulated activities* 1903 Wing On House 71 Des Voeux Road Central Hong Kong
	CRIC Securities Company Limited *A licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities* 8/F Prosperity Tower 39 Queen's Road Central Hong Kong
	Zhongtai International Securities Limited *A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities* 19/F Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong

Joint Lead Managers

Valuable Capital Limited
A licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities
Room 2808, 28/F
China Merchants Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Cinda International Capital Limited
A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
45/F
COSCO Tower
183 Queen's Road Central
Hong Kong

Livermore Holdings Limited
A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road, Kowloon
Hong Kong

China Galaxy International Securities (Hong Kong) Co., 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) regulated activities
20/F
Wing On Centre
111 Connaught Road Central
Hong Kong

Kingsway Financial Services Group Limited
A licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities
7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Legal advisers to our Company

As to Hong Kong law
ONC Lawyers
19th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law
Guangdong Wannuo Law Office
Room 11EF, 11/F
Block 2, Financial Base
Science and Technology Park, 8 Kefa Road
Nanshan District, Shenzhen
China

As to Cayman Islands law
Appleby
Suites 4201–03 & 12, 42/F
One Island East, Taikoo Place
18 Westlands Road, Quarry Bay
Hong Kong

Legal advisers to the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters

As to Hong Kong law
David Fong & Co.
Unit A, 12th Floor
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

As to PRC law
Beijing Grandway (Shenzhen) Law Offices
19/F, Galaxy Center Building
No. 18, Zhongxin 5th Road
Futian District, Shenzhen
China

Auditor and reporting accountant	**PricewaterhouseCoopers** *Certified Public Accountants and Registered Public Interest Entity Auditor* 22/F, Prince's Building Central Hong Kong
Compliance adviser	**Grande Capital Limited** Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong
Industry consultant	**Ipsos Asia Limited** Room 602, 6/F, China Life Center, Tower A One HarbourGate 18 Hung Luen Road Kowloon Hong Kong
Receiving bank	**CMB Wing Lung Bank Limited** 6/F, CMB Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong

Registered office	71 Fort Street PO Box 500 George Town Grand Cayman KY1–1106 Cayman Islands
Headquarters	New Industrial Park Mi'ersi Town Hong'an County Hubei Province China
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 2004–6, 20th Floor Strand 50, 50 Bonham Strand Sheung Wan Hong Kong
Company's website	www.weiliholdings.com *(Note: information contained in this website does not form part of this prospectus)*
Company secretary	Mr. Yu Tsz Ngo *Certified Public Accountant* Unit 2004–6, 20th Floor Strand 50, 50 Bonham Strand Sheung Wan Hong Kong
Authorised representatives ***(for the purposes of the Listing Rules)***	Mr. Yu Tsz Ngo Unit 2004–6, 20th Floor Strand 50, 50 Bonham Strand Sheung Wan Hong Kong Mr. Yu Tianbing No. 29-1-107, Minsheng Lidao Chengdong Avenue Yichang Hubei Province China
Audit Committee	Mr. Chen Yeung Tak *(Chairperson)* Mr. Liu Yimin Ms. Feng Yuan

Remuneration Committee	Ms. Feng Yuan *(Chairperson)* Mr. Chen Yeung Tak Mr. Chen Weizhuang
Nomination Committee	Mr. Liu Yimin *(Chairperson)* Ms. Feng Yuan Mr. Yu Tianbing
Principal share registrar	**Appleby Global Services (Cayman) Limited** 71 Fort Street PO Box 500 George Town Grand Cayman KY1–1106 Cayman Islands
Hong Kong branch share registrar and transfer office	**Boardroom Share Registrars (HK) Limited** 2103B, 21st Floor 148 Electric Road North Point Hong Kong
Principal banker	**Bank of China Hong'an Sub-branch** No. 6, Jianshe West Street Chengguan Town Hong'an County Hubei Province China

The information in the section below has been partly derived from various publicly available government sources, market data providers and other independent third-party sources. In addition, this section and elsewhere in this prospectus contains information extracted from the Industry Report, for the inclusion in this prospectus. The information from government sources has not been independently verified by us, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates, directors or advisers or any other persons or parties involved in the Share Offer, other than Ipsos and no representation is given as to its fairness, correctness and accuracy. Accordingly, the information from government sources contained herein may not be accurate and you should not place undue reliance on such information or statistics.

The information extracted from the Industry Report reflects estimates of market conditions based on samples and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information extracted from the Industry Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.

SOURCE AND RELIABILITY OF THE INFORMATION

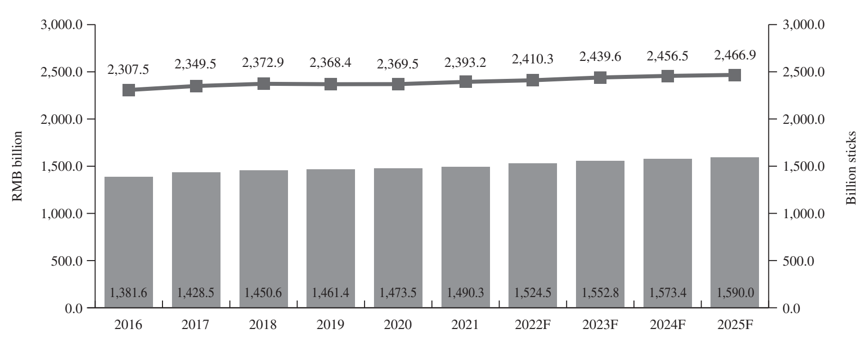
We have commissioned Ipsos, an independent market research company, to analyse and report on the industry development and competitive landscape of the cigarette packaging paper manufacturing industry in the PRC and Hubei for the period from 2016 to 2025 at a fee of HK$1,090,000. Ipsos is an independent market research company, employing approximately 18,000 personnel worldwide across 90 countries. Ipsos conducts research on market profiles, analysis on market size, share and segmentation, distribution and value analysis, competitor tracking and corporate intelligence. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Industry Report, various official government publications and other publications. In compiling the Industry Report, Ipsos obtained and gathered data and intelligence by: (a) conducting desk research covering government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals, and other online sources and data from the research database of Ipsos; (b) performing client consultation to obtain background information of our Group; and (c) conducting primary research by interviewing key stakeholders and industry experts. The information and data gathered by Ipsos have been analysed, assessed, and validated using Ipsos' in-house analysis models and techniques. The methodology used by Ipsos is based on information sourced from multiple levels, which allows such information to be cross-referenced for accuracy.

OVERVIEW OF THE CIGARETTE INDUSTRY IN THE PRC

Cigarettes are commonly preferred among consumers of tobacco products as they are generally considered to be the type of tobacco products that is more economical, convenient and easily accessible when compared to other tobacco product. Cigarettes are categorised into five tiers in the PRC. Tier 1 cigarettes refer to cigarettes with a retail price above RMB18 per box whereas tier 2 cigarettes refer to cigarettes with a retail price ranging from RMB13 to RMB18 per box. Tier 3 cigarettes refer to cigarettes with a retail price ranging from RMB6 to below RMB13 per box. Tier 4 cigarettes refer to cigarettes with a retail price ranging from RMB3 to below RMB6 per box. Tier 5 cigarettes refer to cigarettes below RMB3 per box. Tier 1 and tier 2 cigarettes are generally recognised as high-end cigarettes in the PRC, tier 3 cigarettes refer to mid-end cigarettes while tier 4 and tier 5 refer to low-end cigarettes. The differences among different tiers of cigarettes in the PRC are mainly attributable to the following factors: (i) *quality and origin of tobacco:* as tobacco leaves are the principal raw material of cigarettes, their quality and origin determine the tier of cigarettes to a large extent. For instance, high-quality tobacco is generally applied to the manufacturing of tier 1, tier 2, or tier 3 cigarettes; (ii) *grading of the leaves of tobacco plants used in cigarette manufacturing:* leaves on a tobacco plant could generally be grouped into four grades based on their stalk position. The highest grade of leaves of tobacco plants used in cigarette manufacturing is (a) ''tips'' which refer to leaves at the top of the stalk; followed by (b) "leaf"; (c) ''lugs''; and (d) ''flyings'' which refer to leaves near the cut end of the stalk and are generally considered as the lowest grade of leaves of tobacco plant used in cigarette manufacturing. Mid-to-high-end cigarettes generally contain a higher concentration of "tips" and "leaf", whereas low-end cigarettes generally contain a higher concentration of ''lugs'' and ''flyings''; (iii) *complexity of the tobacco processing procedures:* different tiers of cigarettes might need to add different auxiliary materials or flavors to generate different odor. Higher processing complexity may entail a higher tier of cigarettes, which can also be reflected the cigarette production cost and retail price; and (iv) *different quality of cigarette material used and design of cigarette:* material used in cigarettes such as filtration material, tipping paper, and wrapping paper vary in terms of quality and design. For instance, higher-tier cigarettes normally use cigarette materials of better quality with more delicate designs. Cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA are key suppliers of high-end cigarettes in the PRC.

The PRC has the largest consumer base for cigarettes across the globe of approximately 300.6 million smokers in 2020, with male being the predominant consumer. In particular, Yunnan, Hunan, Henan, Guangdong and Hubei are the top five production bases of cigarettes in the PRC, accounting for approximately 40% of the national production volume in aggregate.

Sales value and volume of cigarettes in the PRC from 2016 to 2025

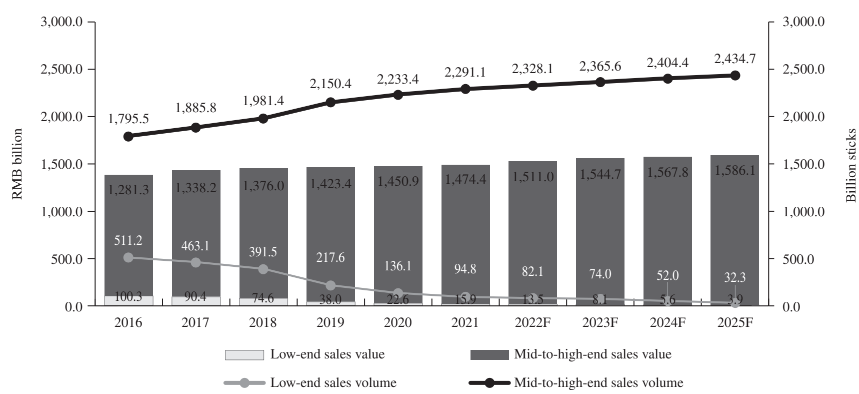


Source: Ipsos research and analysis

The sales volume of cigarettes in the PRC grew steadily from approximately 2,307.5 billion sticks in 2016 to 2,393.2 billion sticks in 2021 at a CAGR of approximately 0.7%, with a slight fall in 2019. In 2019, the PRC Government has issued the Opinions of the State Council on Carrying Out Health Operations (關於實施健康中國行動的意見) to promote citizen's healthy living which resulted in slower growth in cigarette sales volume. Notwithstanding the tightened regulations on smoking control, it is expected that the demand for tobacco products and the number of smokers in the PRC will remain stable, mainly due to (i) the enforcement of smoking control is inherently difficult and often costly, taking into account the government cost to be incurred for deploying officers for patrol, human resources for responding to complaints and reports, as well as expenses in relation to prosecution or other enforcement actions against smokers who are in breach of the regulations; and (ii) the PRC Government has not imposed an absolute ban on smoking, nor is there any indication that the PRC Government is inclined to do so in the foreseeable future. Hence, it is expected that the demand for tobacco products will remain stable in the forecast period. The number of smokers in the PRC is expected to remain stable at approximately 300 million and the sales volume of cigarettes is forecasted to increase from approximately 2,410.3 billion sticks in 2022 to 2,466.9 billion sticks in 2025 at a CAGR of approximately 0.8%.

The sales value of cigarettes in the PRC grew from approximately RMB1,381.6 billion in 2016 to RMB1,490.3 billion in 2021 at a CAGR of approximately 1.5% and is forecasted to grow from approximately RMB1,524.5 billion in 2022 to RMB1,590.0 billion in 2025, at a CAGR of 1.4%. Despite the slight drop in sales volume of cigarettes in 2019, the sales value of cigarettes is largely unaffected as the industry aims to increase sales by promoting mid-to-high-end cigarettes, which is also the major driver for the forecasted years.

Sales value and volume of cigarettes breakdown by tiers in the PRC from 2016 to 2025

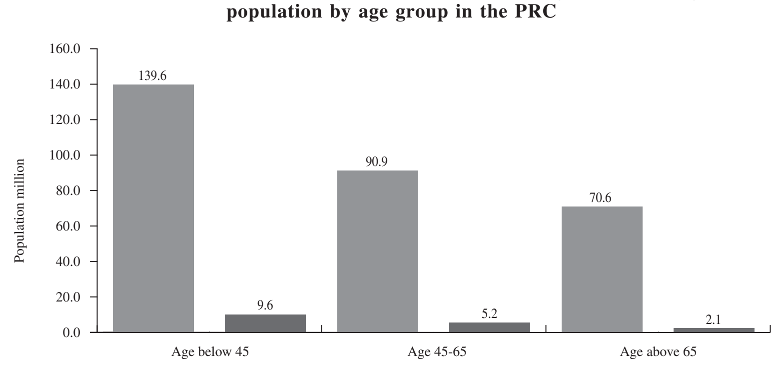


Source: Ipsos research and analysis

Mid-to-high-end cigarettes had a large sales value portion among all the cigarette sales in the PRC, and the sales value increased from RMB1,281.3 billion in 2016 to RMB1,474.4 billion in 2021 at a CAGR of approximately 2.8%. The sales value of low-end cigarettes in the PRC is relatively low in comparison to that of mid-to-high-end cigarettes. The sales value of low-end cigarettes in the PRC decreased from RMB 100.3 billion in 2016 to RMB 15.9 billion in 2021 at a CAGR of approximately -30.8%. The sales value of higher-end cigarettes in the PRC generally increased throughout the historical period, while that of low-end cigarettes plummet during the same period. Such distinct trends in sales value are mainly due to the government policy in promoting mid-to-high-end cigarettes as well as the shift in consumer preferences from low-end cigarettes to higher-end cigarettes. As it is expected that the PRC government will continue to promote mid-to-high-end cigarettes throughout the forecast period, it is forecasted that the respective sales trends for the cigarettes will follow the same directions as the historical period. The sales value of mid-to-high-end cigarettes in the PRC is expected to increase from RMB 1,511.0 billion in 2022 to RMB 1,586.1 billion in 2025 at a CAGR of approximately 1.6%. The sales value of low-end cigarettes is forecasted to drop from RMB 13.5 billion in 2022 to RMB 3.9 billion in 2025 at a CAGR of approximately -34.2%.

The sales volume of mid-to-high-end cigarettes in the PRC increased from 1,795.5 billion sticks in 2016 to 2,291.1 billion sticks in 2021, at a CAGR of approximately 5.0% and is forecasted to keep increasing from 2,328.1 billion sticks in 2022 to 2,434.7 billion sticks in 2025, at a CAGR of approximately 1.5%. The overall sales volume of mid-to-high-end cigarettes in the PRC is expected to increase due to the government's policy in promoting mid-to-high-end cigarettes, such as the "Three qualities strategy" and the "136/345 development goals". Among all mid-to-high-end cigarette tiers in the PRC, tier 3 cigarettes contributed the highest sales volume and is expected to remain as the main cigarettes tier. However, tier 3 cigarettes sales volume is expected to decrease slightly in the near future as the market trend of cigarettes in the PRC is expected to gradually shift upwards to high-end including tier 1 and tier 2 because cigarettes manufacturers prioritize developing high-end cigarettes as the branding and development strategy to cooperate with government policy. Meanwhile, due to the market trend of high-end shifting as explained above, tier 1 and tier 2 cigarettes sales volume in the PRC are expected to grow accordingly. The sales volume of low-end cigarettes in PRC experienced a significant decrease from 511.2 billion sticks in 2016 to 94.8 billion sticks in 2021, at a CAGR of approximately -28.6%. And it's estimated to drop from 82.1 billion sticks in 2022 to 32.3 billion sticks in 2025, at a CAGR of -26.8%. The sales volume developing trends of mid-to-high-end cigarettes and low-end cigarettes show the similar trends to their sales value in PRC.

Breakdown of traditional cigarette and electronic cigarette smoking population by age group in the PRC



Source: Ipsos research and analysis

Note: The figures shown in the above chart based on the latest available public data

In the age group below 45 years old, there were approximately 139.6 million traditional cigarette smokers, accounting for approximately 46.4% of the total traditional cigarette smoking population of all age in the PRC; and there were approximately 9.6 million electronic cigarette smokers, accounting for approximately 57.0% of the total electronic cigarette smoking population of all age in the PRC. In the age group below 45 years old, the traditional cigarette smoking population was approximately 14.5 times of electronic cigarette smoking population in the PRC. The electronic cigarette smoking population is concentrated within the age group below 45 years old mainly because electronic cigarette is perceived to be trendier by the younger generation.

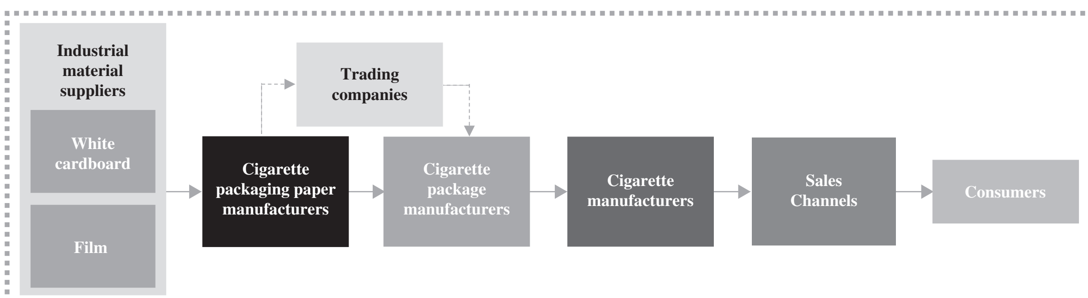
In the age group between 45 to 65 years old, there were approximately 90.9 million traditional cigarette smokers, accounting for approximately 30.2% of the total traditional cigarette smoking population of all age in the PRC; and there were approximately 5.2 million electronic cigarette smokers, accounting for approximately 30.9% of the total electronic cigarette smoking population of all age in the PRC. In the age group between 45 to 65 years old, the traditional cigarette smoking population was approximately 17.4 times of electronic cigarette smoking population in the PRC.

In the age group above 65 years old, there were approximately 70.6 million traditional cigarette smokers, accounting for approximately 23.4% of the total traditional cigarette smoking population of all age in the PRC; and there were approximately 2.1 million electronic cigarette smokers, accounting for approximately 12.2% of the total electronic smoking population of all age in the PRC. In the age group above 65 years old, the traditional cigarette smoking population was approximately 34.4 times of electronic cigarette smoking population in the PRC.

OVERVIEW OF THE CIGARETTE PACKAGING PAPER MANUFACTURING INDUSTRY IN THE PRC, HUBEI AND OTHER REGIONS

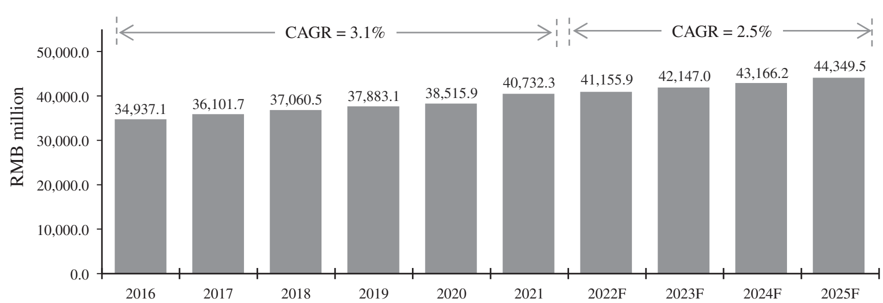
The cigarette packaging paper manufacturing industry in the PRC typically involves industrial material suppliers, cigarette packaging paper manufacturers, cigarette package manufacturers, cigarette manufacturers, sellers and consumers. Cigarette production of domestic brands is concentrated in specific provinces such as Yunnan, Hunan, Henan, Guangdong and Hubei. Accordingly, cigarette packaging paper manufacturers tend to follow a similar geographical trend as well since they mainly serve domestic cigarette brands in the nearby regions.

The diagram below highlights the value chain of the cigarette packaging paper manufacturing industry in the PRC:



The chart below sets forth the sales value of the cigarette packaging paper manufacturing industry in the PRC from 2016 to 2025:

Sales value of the cigarette packaging paper industry in the PRC from 2016 to 2025

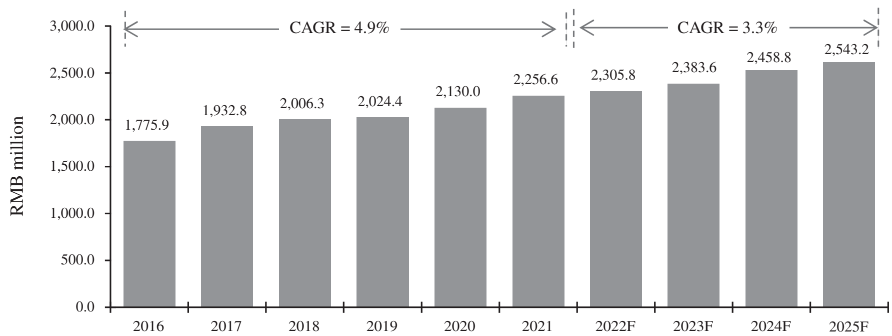


Source: Ipsos research and analysis

The sales value of the cigarette packaging paper manufacturing industry in the PRC increased from approximately RMB34,937.1 million in 2016 to RMB40,732.3 million in 2021 at a CAGR of approximately 3.1%. The steady growth in sales value of the cigarette packaging paper manufacturing industry in the PRC during the period was mainly attributable to (i) the relatively stable increase in the sales value of cigarettes in the PRC from approximately RMB1,381.6 billion in 2016 to RMB1,490.3 billion in 2021; (ii) the increasing focus of cigarette industry towards mid-to-high-end cigarettes, with greater emphasis placed by the PRC Government authorities on cigarette branding, quality, and variety. Cigarette brand companies also place emphasis on the consistency and standardisation of their cigarette packages as these are crucial to their brand recognition and product appeal. The quality of cigarette packaging to a large extent reflects the standing of the cigarettes contained in it. Cigarette packaging of higher quality which enhances the overall outlook of the products could attract consumers, and in turn boosts sales volume; and (iii) the increase in purchasing power of PRC citizens as evidenced by the rise in per capita disposable income in the PRC from approximately RMB23,821.0 in 2016 to RMB35,128.0 in 2021, resulting in the increase in spending on mid-to-high-end cigarettes by PRC citizens.

The sales value of the cigarette packaging paper manufacturing industry in the PRC is forecasted to grow from approximately RMB41,155.9 million in 2022 to RMB44,349.5 million in 2025, at a CAGR of approximately 2.5%. The forecasted increase in sales value of the cigarette packaging paper manufacturing industry in the PRC is mainly attributable to (i) the continuation of the focus of the cigarette industry towards mid-to-high-end cigarettes. Mid-to-high-end cigarettes, which are charged at a higher selling price, generally entail the use of cigarette packaging paper with advanced technical requirements so as to enhance their brand recognition and product appeal; and (ii) the increase in purchasing power of PRC citizens will likely result in a growth in demand for mid-to-high-end cigarettes. While the PRC Government has been tightening control on smoking by issuing a series of laws, regulations, and policies related to tobacco control, and it has been promoting tobacco withdrawal by increasing tobacco tax and placing advertisements, the demand for tobacco products is inelastic in general and the number of smokers in the PRC is expected to remain at approximately 300 million during the period from 2022 to 2025. Being supported by a huge tobacco consumer base, the cigarette and related manufacturing industries in the PRC are expected to expand moderately through 2025.

Sales value of the cigarette packaging paper industry in Hubei from 2016 to 2025



Source: Ipsos research and analysis

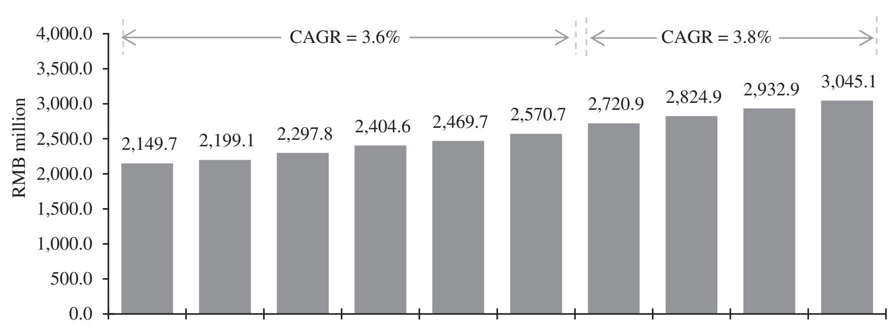
The cigarette packaging paper manufacturing industry in Hubei accounted for approximately 5.5% of the overall cigarette packaging paper manufacturing industry in the PRC in terms of sales value in 2021.

The sales value of cigarette packaging paper manufacturing industry in Hubei increased from approximately RMB1,775.9 million in 2016 to RMB2,256.6 million in 2021, at a CAGR of approximately 4.9%, representing a stable growth within that period. Despite the sales value of cigarettes in Hubei recorded a year-on-year fall of approximately 5.1% from 2019 to 2020, and rebounded back in 2021, at a year-on-year increase of approximately 5.3%. Further, the sales value of cigarette packaging paper manufacturing industry in Hubei remained at an average year-on-year growth of approximately 4.0% from 2019 to 2021. The growth in sales value of the cigarette packaging paper manufacturing industry in Hubei in 2020 and 2021 could remain positive mainly because the manufacturers in Hubei had resumed operations since mid-March or early-April 2020, thus the cigarette packaging paper manufacturers were able to recoup the loss on work stoppage caused by the lock-down.

During 2022 to 2025, the sales value of the cigarette packaging paper manufacturing industry in Hubei is expected to keep growing, due to economic recovery and post-COVID 19 reconstruction policy promoted by the PRC Government in Hubei. The cigarette packaging paper manufacturing industry in Hubei is expected to benefit from the government's policy in promoting mid-to-high-end cigarettes such as the "Three qualities strategy" and the "136/345 development goals". In addition, the PRC Government is also making efforts to boost the economic recovery of Hubei province by rolling out a series of subsidies after the COVID-19 pandemic. From the "Notice of the general office of the provincial people's government on issuing relevant policies and measures in response to the COVID-19 epidemic to support small and medium enterprises to overcome the difficulties (省人民政府辦公廳關於印發應對新型冠狀病毒肺炎疫情支持中小微企業共渡難關有關政策措施的通知)", the PRC Government aims to ameliorate the impact of COVID-19 to small and medium sized enterprises by implementing favourable measures, such as tax exemption, rent reduction and lowering the cost of financing. These measures are expected to support the local economy as well as production and manufacturing industry, including the cigarette packaging paper manufacturing industry in Hubei. The sales value of the cigarette packaging paper manufacturing industry in Hubei is expected to increase from approximately RMB2,305.8 million in 2022 to RMB2,543.2 million in 2025, representing a CAGR of approximately 3.3%.

The chart below sets forth the sales value of the cigarette packaging paper manufacturing industry in Henan from 2016 to 2025:

Sales value of the cigarette packaging paper manufacturing industry in Henan from 2016 to 2025



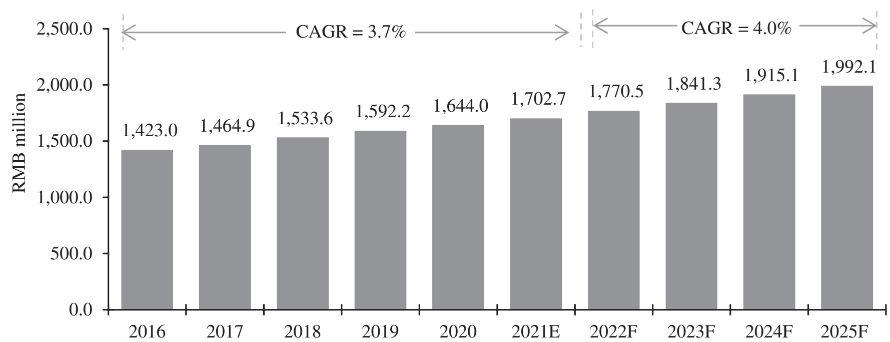
Source: Ipsos research and analysis

The sales value of the cigarette packaging paper manufacturing industry in Henan Province increased from RMB2,149.7 million in 2016 to RMB2,570.7 million in 2021, at a CAGR of approximately 3.6%, representing a stable growth during the period and showing a similar trend with the PRC cigarette packaging paper manufacturing industry. The stable growth in sales value of the cigarette packaging paper manufacturing industry in Henan Province from 2016 to 2021 was mainly attributable to government support in cigarette industry development in this region, such as the Henan provincial government's announcement on further accelerating the transformation and development of the tobacco industry in Henan (河南省人民政府辦公廳關於進一步促進煙草產業加快轉變發展方式的意見) to promote the development of mid-to-high-end cigarettes in the region.

The sales value of the cigarette packaging paper manufacturing industry in Henan Province is expected to increase from RMB2,720.9 million in 2022 to RMB3,045.1 million in 2025, at a CAGR of approximately 3.8%, which is slightly higher than that during the period from 2016 to 2021. The higher expected growth of the cigarette packaging paper manufacturing industry in Henan Province is mainly driven by the Henan provincial government's policies such as the "Henan Province's Implementation Plan for High-Quality Development of the Manufacturing Industry (河南省推動製造業高質量發展實施方案)" and "Made in China 2025 Henan Action Outline (中國製造2025河南行動綱要)" in support of the production of mid-to-high-end cigarettes and are expected to result in an increase in demand for high-quality cigarette packaging paper.

The chart below sets forth the sales value of the cigarette packaging paper manufacturing industry in North-east China from 2016 to 2025:

Sales value of the cigarette packaging paper manufacturing industry in North-east China from 2016 to 2025



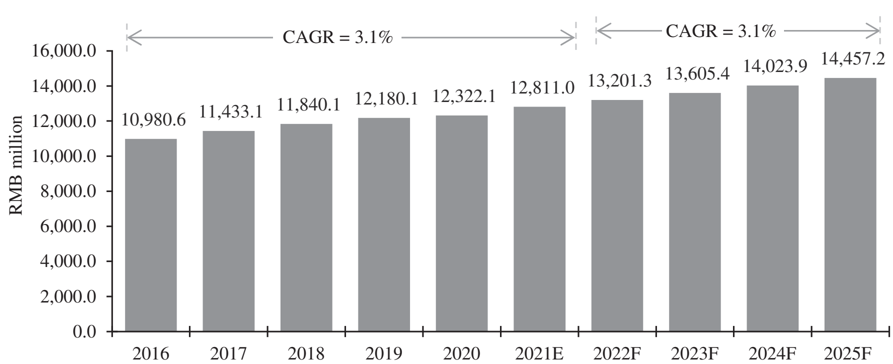
Source: Ipsos research and analysis

The sales value of the cigarette packaging paper manufacturing industry in North-east China increased from RMB1,423.0 million in 2016 to RMB1,702.7 million in 2021, at a CAGR of approximately 3.7%, representing a stable growth during the period. North-east China include Liaoning Province, Jilin Province and Heilongjiang Province. The growth in sales value of the cigarette packaging paper manufacturing industry in North-east China from 2016 to 2021 was mainly attributable to the government support in the cigarette industry development in this region, such as the Jilin provincial government's "Thirteenth Five-Year Plan for Jilin Tobacco Industry (吉林煙草工業十三五規劃)" and Liaoning provincial government's announcement on further accelerating the development of the tobacco industry in Liaoning.

The sales value of the cigarette packaging paper manufacturing industry in North-east China is expected to increase from RMB1,770.5 million in 2022 to RMB1,992.1 million in 2025, at a CAGR of approximately 4.0%, which was mainly attributable to the optimisation in production capacity of local cigarette manufacturers. In particular, a cigarette manufacturer in North-east China has optimised its production capacity by combining two old tobacco factories into a new tobacco factory in 2021. The production capacity of such cigarette manufacturer is expected to increase to 300,000 cigarette cartons per year, thereby promoting the future demand for cigarette packaging paper in North-east China.

The chart below sets forth the sales value of cigarette packaging paper manufacturing industry in East China from 2016 to 2025:

Sales value of the cigarette packaging paper manufacturing industry in East China from 2016 to 2025



Source: Ipsos research and analysis

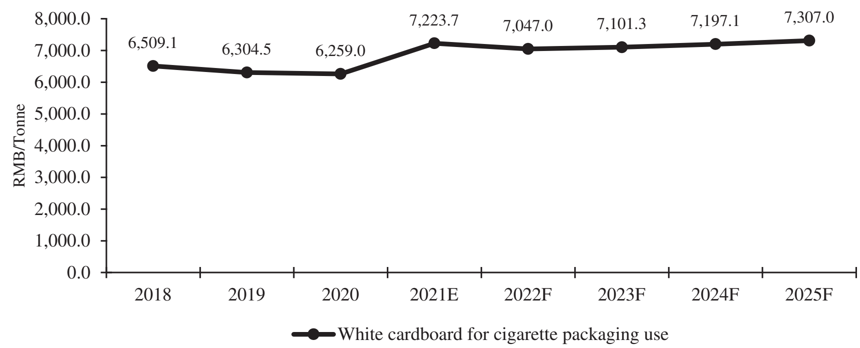
The sales value of cigarette packaging paper manufacturing industry in East China increased from RMB10,980.6 million in 2016 to RMB12,811.0 million in 2021, at a CAGR of approximately 3.1%, representing a stable increase during the period. East China, which include the provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, as well as Shanghai Municipality, is a major cigarette production region in China, and accounted for approximately 28.6% of the PRC cigarette production in 2020. East China is well-known for the production of high-end cigarettes. For instance, over 40% and 60% of the cigarettes produced in Jiangsu and Shanghai were tier 1 cigarettes in 2020, respectively.

Going forward, the sales value of the cigarette packaging paper manufacturing industry in East China is expected to grow from RMB13,201.3 million in 2022 to RMB14,457.2 million in 2025, at a CAGR of approximately 3.1%, representing a growth rate similar to the period from 2016 to 2021, mainly attributable to (i) a stable production capacity and a steady growth in demand for cigarettes in this region; and (ii) the per capital GDP and population growth in East China is expected to increase at a higher rate than the PRC as a whole due to the rapid development of new economy and digital economy in the region.

PRICE TREND OF MAJOR COST COMPONENTS

The major raw materials of the cigarette packaging paper manufacturing industry include white cardboard and films, where films are mainly composed of, BOPP, PET and aluminum foil.

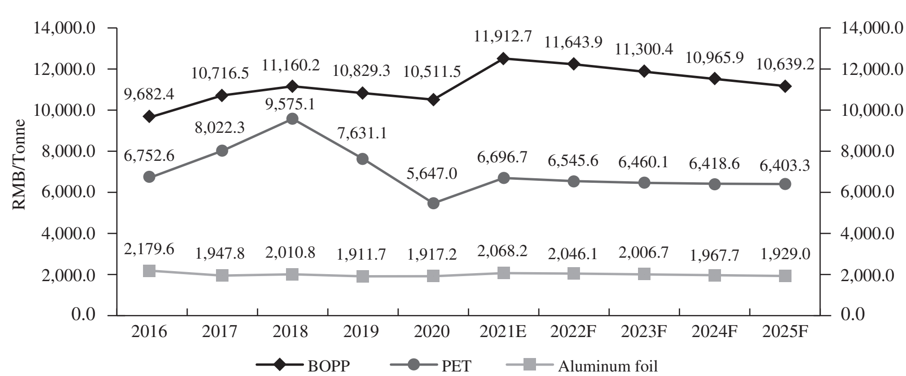
Price of white cardboard for cigarette packaging use in the PRC from 2018 to 2025



Source: Ipsos research and analysis

The price of white cardboard used in the production of cigarette packaging paper experienced an increase from approximately RMB6,509.1 per tonne in 2018 to RMB7,223.7 per tonne in 2021, at a CAGR of approximately 3.5%. The price of cigarette packaging using white cardboard started to increase by the end of 2020 and reached approximately RMB7,223.7 per tonne in 2021, at a growth rate of approximately 15.4%. The fluctuation in the price of the cigarette packaging used white cardboard was attributable to the increase in the price of wood pulp, which is a major raw material of cigarette packaging used white cardboard. The price of cigarette packaging using white cardboard is expected to increase from RMB7,047.0 per tonne in 2022 to approximately RMB7,307.0 per tonne in 2025, at an average year-on-year growth rate of approximately 0.3%.

Price of BOPP, PET and aluminum foil in the PRC from 2016 to 2025



Note:

(i) BOPP, PET and aluminum foil are the key raw materials for films and thus are the closest proxies to illustrate the price trend of films.

(ii) The prices of aluminum foil are represented by aluminum prices.

Source: Ipsos research and analysis

BOPP (biaxially oriented polypropylene) is a thermoplastic polymer. It is translucent, low electric static, and anti-slip, which makes it one of the most important materials for cigarette packaging paper. BOPP's price had increased moderately from approximately RMB9,682.4 per tonne in 2016 to RMB11,912.7 per tonne in 2021, at a CAGR of approximately 4.2%. In 2020, COVID-19 has temporarily halted industrial production in the PRC, resulting in lower demand for industrial raw-material including BOPP, which caused BOPP prices to slump by approximately 10% during the first half of 2020. Since the global outbreak of COVID-19 pandemic in 2020, the demand for face masks has surged which drove the demand for BOPP up since mid-2020 as BOPP is a major component of face masks. And the increased demand for BOPP is expected to spill over to 2021 bringing the price of BOPP up to approximately RMB11,912.7 per tonne. The price of BOPP is estimated to gradually decrease from approximately RMB11,643.9 per tonne in 2022 to approximately RMB10,639.2 per tonne in 2025 due to the expected alleviation of the COVID-19 pandemic.

PET (polyester or polyethylene terephthalate) has good optical clarity. It is highly glossy and can be metalised by vapor deposition of metals, which makes it a good aroma barrier film for tobacco packaging. PET price in the PRC had experienced fluctuation from approximately RMB6,752.6 per tonne in 2016 to RMB6,696.7 per tonne in 2021, at a CAGR of approximately -0.2%, which peaked at RMB9,575.1 per tonne in 2018. As crude oil is one of the key raw materials of PET film production, prices of PET are correlated with the crude oil prices and therefore showed a similar price trend. Crude oil prices are estimated to decrease slightly in the next five years, as the global supply of crude oil is expected to slightly overexceed market demand. PET prices are expected to follow a similar trend, with a slight decrease from approximately RMB6,545.6 per tonne in 2022 to RMB6,403.3 per tonne in 2025, at a CAGR of approximately -0.7%.

Aluminum foil is widely used in cigarette inner frames and external frames. Aluminum foil recorded a price decrease from approximately USD2,179.6 per tonne in 2016 to USD2,068.2 per tonne in 2021, at a CAGR of approximately -1.0%. Prices of aluminum foil is correlated with crude aluminum, the main component of aluminum foil. Historically in the PRC, the supply of crude aluminum has exceeded market demand, causing production surplus and subsequently drove down the prices of aluminum foil. It is expected that the aluminum foil prices are expected to rebound from approximately USD1,917.2 per tonne in 2020 to USD2,068.2 per tonne in 2021 with the government's economic stimulus policy in response to the outbreak of COVID-19. As aluminum is a raw material widely used in different industries including manufacturing and construction, the economic stimulus policy will create an intense demand for aluminum, resulting in the higher price of crude aluminum, so as aluminum foil. Thereafter, the prices of aluminum foil is expected to decrease from USD2,046.1 per tonne in 2022 to USD1,929.0 per tonne in 2025. The expecting decrease is attributed to (i) the fade out of the government's economic stimulus policy; and (ii) the increasing crude aluminum production, driving prices of aluminum foil downwards.

COMPETITIVE ANALYSIS OF THE CIGARETTE PACKAGING PAPER MANUFACTURING INDUSTRY IN THE PRC, HUBEI AND OTHER REGIONS

The overall cigarette packaging paper manufacturing industry in the PRC is relatively fragmented with over 200 cigarette packaging paper manufacturers in the market, among which the top five manufacturers accounted for approximately 12.6% market share as of 2020 in terms of sales value. Our Group was ranked as the tenth largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 0.8% in the PRC in 2020.

On the other hand, the overall cigarette packaging paper manufacturing industry in Hubei is concentrated with the top five manufacturers accounting for approximately 46.8% market share as of 2020 in terms of sales value.

The table below sets forth the top five cigarette packaging paper manufacturers in Hubei in 2020:

Rank	Company	Principal business	Listed/private	Market Share
1	Our Group	Sales, production, and processing of cigarette packaging paper.	Private	14.9%
2	Hubei Mengke Paper Co.,Ltd.; wholly-owned subsidiary of Champion Alliance International Holdings Limited	Provision of composite paper, high-grade transfer paper and new environmentally friendly packaging materials.	Holding company listed on the Stock Exchange	10.2%
3	Wuhan Huagong Image Technology & Development Co.,Ltd. (武漢華工圖像技術開發有限公司); wholly-owned subsidiary of Huagong Tech Company Limited. (華工科技產業股份有限公司)	Provision of transfer paper and hot stamping foil with anti-counterfeiting technology.	Holding company listed on the Shenzhen Stock Exchange	10.0%
4	Wuhan YEFW Anti-counterfeit Technology Co.,Ltd. (武漢宇恩防偽技術有限公司)	Focuses on anti-counterfeiting technology and related products such as holographic hot stamping foil and transfer paper.	Private	6.9%
5	Hubei LHTC Anti-counterfeit Technology Corp., Ltd. (湖北聯合天誠防偽技術股份有限公司)	Provision of high-tech products such as laser paper and laminated paper with anti-counterfeiting features.	Private	4.8%
Total				**46.8%**

Notes:

(i) The ranking is subject to amendments upon release of the 2020 revenue by the companies.

(ii) The market share is calculated based on the sales value derived from cigarette packaging paper manufacturing.

Source: Ipsos research and analysis

The cigarette packaging paper manufacturing industry in Henan Province is relatively fragmented, with over 30 cigarette packaging paper manufacturers in the industry, which is mainly attributable to the cigarette production in Henan accounts for approximately 6.5% of the PRC cigarette production in 2020 and covering approximately 10 cigarette brands, and the estimated market share of the Group in this region was approximately 3.8% in 2020.

The cigarette packaging paper manufacturing industry in North-east China is relatively concentrated, with just over 20 cigarette packaging paper manufacturers across Heilongjiang, Liaoning, and Jilin provinces. The cigarette production in this region is relatively low, accounting for approximately 5.0% of the PRC cigarette production in 2020 and covering just over 10 cigarette brands. As a result, the cigarette packaging paper manufacturing industry from the upper stream is relatively underdeveloped in the region, and the estimated market share of the Group in this region was approximately 1.0% in 2020.

The cigarette packaging paper manufacturing industry in East China is relatively competitive, with more than 40 cigarette packaging paper manufacturers in East China, which is mainly attributable to the relatively higher cigarette production in the region, accounting for approximately 28.6% of the PRC cigarette production in 2020 and covering over 40 cigarette brands, and the estimated market share of the Group in this region was approximately 0.1% in 2020.

The cigarette packaging paper manufacturing industry in Yunnan province is relatively concentrated, with more than 20 cigarette packaging paper manufacturers in this province. The cigarette packaging paper manufacturing industry in Yunnan province is supported by the relatively higher local cigarette production, which accounted for approximately 14.7% of the PRC cigarette production in 2020, covering approximately 20 cigarette brands. The estimated sales value of the cigarette packaging paper manufacturing industry in Yunnan province is approximately RMB5.7 billion in 2021. As part of our efforts of geographical expansion, in FY2020, our Group successfully obtained tender from a new customer located in Yunnan, which is a subsidiary of a state-owned cigarette manufacturer. As at the Latest Practicable Date, our Group was engaged in product development works with such customer. For further details, please refer to the paragraph headed "Business – Business strategies – Increasing our marketing efforts in various provinces in the PRC" in this prospectus. As the prototype of the relevant product was still subject to the approval of such customer in Yunnan and had not yet been launched for sales, no sales were generated by the Group from Yunnan during FY2021.

ENTRY BARRIERS

High capital requirements

The cigarette packaging paper manufacturers require a substantial amount of capital investment in production facility and machinery. As the PRC Government encourages cigarette manufacturers to develop mid-to-high-end cigarettes, the cigarette packaging paper is also expected to meet high quality requirements. In addition, the quality standards of cigarette packaging paper set by cigarette manufacturers may also vary by products. Established cigarette packaging paper manufacturers invest substantial amount on machinery to ensure the consistent quality of cigarette packaging paper. Cigarette packaging paper manufacturers are also required to employ workers with relevant capabilities and experience. New entrants may find it challenging to enter the industry since the capital requirement is high.

Established relationship with cigarette package manufacturers

It is not uncommon for cigarette package manufacturers to identify a few established cigarette packaging paper manufacturers as their suppliers. Since different cigarette products may have different packaging requirements, cigarette package manufacturers typically select cigarette packaging paper manufacturers whom they have established relationship with or have proven track record to ensure quality production. Since accumulation of track record and establishing strong relationship with cigarette package manufacturers require time and effort, it is therefore considered as a major entry barrier for new entrants to compete with the existing market players.

High production capacity

Cigarette packaging paper manufacturer which has high production capacity is able to meet the needs of different customers with various demands in terms of volume, packaging paper materials and size. In addition, sizeable cigarette packaging paper manufacturers have a stronger bargaining power with their upstream raw material suppliers owing to bulk purchasing. Since the scale of new entrants is likely to be smaller than the existing players, they are less likely to enjoy the economies of scale in the aspect of both production and purchase.

Competitive research and development capability with constant innovation

Cigarette brands generally search for higher quality and better designed cigarette packaging paper in order to enhance their brand and product appeal. Hence, cigarette packaging paper manufacturers have to invest in their research and development capability so as to improve their design and manufacturing quality to attract more business opportunities. Innovation in the cigarette packaging paper manufacturing industry includes developing anti-counterfeiting and environmentally friendly material. New entrants may have limited capability in developing advanced technology and research and development to provide more product features to their customers, making them less competitive to face the market competition in the cigarette packaging paper manufacturing industry.

INDUSTRY DRIVERS AND OPPORTUNITIES

Rising disposable income level

The disposable income of both urban and rural residents in the PRC sustained continuous growth. The disposable income per capita in the PRC increased from approximately RMB23,821 in 2016 to RMB35,128 in 2021, at a CAGR of approximately 8.1%. Due to the rising level of disposable income, purchasing power of consumers has been strengthened. It is expected that increasing number of consumers are willing to spend more on high quality cigarette products which are deemed to have better taste and impose less harm on health. Therefore, it is expected that there will be an increasing sales of mid-to-high-end cigarette products which in turn will drive the sales for high quality cigarette packaging paper.

Government's policy on promoting mid-to-high-end cigarette

The CNTC aims to foster industry growth in the PRC cigarette market by encouraging mid-to-high-end cigarette brands to export local cigarette products. To make cigarette products more attractive, mid-to-high end cigarettes manufacturers generally emphasised more on product packaging as a marketing strategy. Cigarette manufacturers will therefore demand higher requirements with regards to the cigarette packaging paper materials. In addition, given the PRC Government receives higher tax income from mid-to-high-end cigarettes as they generate a higher profit margin, the CNTC and STMA have introduced various policy initiatives such as increasing tobacco excise tax and the "Three qualities strategy" and the "136/345 development goals" to further promote mid-to-high-end cigarettes.

The "Three qualities strategy" was announced by the General Office of the State Council in 2016 to strengthen the PRC consumer goods industry and accelerate the transformation of the consumer goods market in the PRC towards the higher-end market, with no exception of the cigarette industry as perceived. The relevant discussion among the three missions to drive the demand for mid-to-high-end cigarettes in the PRC are stated as follows:

(i) Improving quality: Advanced quality management models and systems were advised to be promoted among all segments of consumer goods including the cigarette segment;

(ii) Increasing variety: The market was advised to increase the supply of mid-to-high-end products, including the cigarette manufacturing segment, by developing personalized, functional, and greener products, and to also launch products of higher-technology threshold as well as higher-value added; and

(iii) Enhancing reputation of brands: It was suggested to upgrade traditional domestic brands and cultivate new brands to accommodate the emerging demand for higher-end products. In the case of the cigarette market in the PRC, with the promotion of higher-quality cigarettes by various manufacturers, consumers were increasingly open to accept more expensive cigarettes with higher quality standards.

The "136/345 development goals" was mentioned by the State Tobacco Monopoly Administration in 2019, aiming to achieve the sales targets of (i) "136" and (ii) "345" in the mid-to-high end cigarette market in the PRC within the next four to five years:

(i) "136" refers to one cigarette brand exceeding a sales volume of 3.5 million cartons in a year, three cigarette brands exceeding a sales volume of 2 million cartons in a year, and six cigarette brands exceeding a sales volume of 1 million cartons in a year.

(ii) "345" refers to three cigarette brands exceeding a wholesale value of RMB150 billion in a year, four cigarette brands exceeding a wholesale value of RMB100 billion in a year, and five cigarette brands exceeding a wholesale value of RMB60 billion in a year.

The "136/345 development goals" encourages the development and consolidation of large cigarette brands, and at the same time motivates cigarette brands to move towards higher-end and to achieve higher sales. Together with the "Three qualities strategy", the PRC Government has promoted the transformation of the cigarette industry towards higher-end, thereby driving the demand for mid-to-high-end cigarettes.

With the CNTC and STMA's initiative on promoting mid-to-high-end cigarettes, the demand for mid-to-high-end cigarette packaging paper is expected to increase as well. According to the National Bureau of Statistics, the percentage of sales volume of mid-to-high-end cigarettes (i.e. tier 1 to tier 3) over the total sales volume of cigarettes in the PRC increased considerably from 77.8% in 2016 to 96.0% in 2021.

THREATS AND CHALLENGES

Fluctuation in raw material costs

The major raw materials of cigarette packaging paper are white cardboard and film. Any material fluctuation in raw material costs is likely to affect the prices and sales of cigarette packaging paper. Factors affecting the raw material prices of cigarette packaging paper include global supply and demand and seasonality. For example, PET which is a major component of film, is correlated with crude oil prices and may be subject to price volatility.

Emerging alternatives, such as electronic cigarettes

In face of serious health issues caused by smoking, increasing smokers attempt to quit smoking or turn to alternatives of cigarette, such as electronic cigarettes. The increasing popularity of electronic cigarettes may capture the market share of traditional cigarette, which may further hamper the growth of cigarette packaging paper manufacturing industry in the PRC.

Along with the development and growth in the electronic cigarette market, tobacco companies around the globe have successively entered into the electronic cigarette market. As compared to traditional cigarettes, electronic cigarettes are generally perceived to be trendier, more environmentally friendly, less addictive and inflict less harm on smoker and on third parties. Smokers, especially younger generations, would generally consider electronic cigarettes as an alternative to traditional cigarettes, taking into consideration the aforementioned perceived advantages of electronic cigarettes over traditional cigarettes. Given no cigarette packaging paper is involved in the production of electronic cigarettes packaging, the rise of electronic cigarettes in the PRC is a potential threat to the cigarette packaging paper manufacturing industry.

Notwithstanding the rise in electronic cigarettes in the PRC in recent years, the sales value of electronic cigarettes only accounted for less than 2.0% of the PRC cigarette industry in 2020. Therefore, electronic cigarettes are yet to be an immediate threat to the traditional cigarette industry. Further, many smokers in the PRC still perceive traditional cigarettes as classier and superior. Demand for traditional cigarettes is still relatively inelastic, and there is no sign of a major shift in demand from traditional cigarettes to electronic cigarettes up to date that could hamper the growth of the traditional cigarette industry in the PRC.

On 26 November 2021, China's State Council amended the "Implementing Regulation of the Tobacco Monopoly Law" to the effect that electronic cigarettes are also subject to the same monopoly requirements imposed on traditional cigarettes. The amendments are perceived to prevent an exponential growth of electronic cigarettes in the PRC in the future, which in turn protects the traditional cigarette industry as well as the cigarette packaging paper manufacturing industry in the PRC.

Government's effort in promoting healthy living

Smoking has been on a declining trend in the PRC since it is often related to many adverse health effects such as cancer, heart disease, etc. The PRC Government has also ramped up its tobacco effort control including the "Healthy China Action 2030" which aims to reduce the cigarette smoking population to 20%. The Beijing Tobacco Control Association has also developed a "tobacco control map" that permits citizens to report illegal smoking in public through social accounts. This may hamper the growth of cigarette packaging paper manufacturing industry in the PRC.

Plain packaging

"Plain packaging" is a way of cigarette packaging without any branding, colour, imagery, corporate logo, or trademark. "Plain packaging" could only include the brand name of the cigarette in a specified size, font, and place on the cigarette pack, in addition to health warnings and any other legally mandated information such as toxic constituents and tax-paid stamps. There are around 15 overseas countries adopting "plain packaging" in their cigarette industries until 2021.

According to our PRC Legal Advisers, the State Tobacco Monopoly Administration has enacted various cigarette labeling laws, rules, and regulations that set forth specific requirements on the text, size, colour, and background of cigarette packaging in the PRC. Warnings in relation to the potentially harmful effects of smoking on health must be printed in Chinese and cover at least 35 percent of the front side of the cigarette package. Changes to these regulations may further hamper the growth of the cigarette packaging paper manufacturing industry in the PRC. As at the Latest Practicable Date, no laws, rules or regulations that require plain packaging on cigarette in effective or to be effective.

According to the State Tobacco Monopoly Administration, the current cigarette packaging regulations in the PRC have complied with the requirements of the Framework Convention on Tobacco Control (《煙草控制框架公約》) issued by World Health Organization, and the health warnings on the cigarette packages are effective to the consumers. In the future, the State Tobacco Monopoly Administration will continue to focus on the research of strengthening the health warnings on cigarette packages, and there is no indication that the PRC Government intends to adopt plain packaging on cigarette as a measure of tobacco control.

IMPACT OF COVID-19 ON THE CIGARETTE PACKAGING PAPER MANUFACTURING INDUSTRY IN THE PRC AND HUBEI

The outbreak of COVID-19 in 2020 has affected the global economy. Subject to various pandemic measures imposed by the PRC Government, factories and schools were closed in the first quarter of 2020. Most of the economic activities were disrupted and the manufacturing sector was close to a full suspension. The PRC economy showed contraction in the first quarter in 2020, with a GDP growth rate of -5.3% year-on-year. While 2020 is the worst performing year for the PRC economy in terms of GDP growth rate since 1978, it showed strong resilience towards the pandemic and still achieved a GDP growth rate of 3.0% in 2020 in comparison to 2019. Being one of the former major outbreak regions in the PRC, Hubei recorded a 4.4% annual decline in GDP from 2019 to 2020, which is far below the GDP growth rate of the nation in the same period.

The pace for cigarettes production in the PRC started to pick up in the second quarter of 2020 and led to a spillover effect into the cigarette packaging paper manufacturing industry. Driven by the resumption of manufacturing production, the GDP in Hubei rebounded at a quarter-by-quarter rate of 74.0%, 10.8% and 11.1% in the second, third and fourth quarter of 2020, respectively.

In general, the disruption of the COVID-19 outbreak was temporary, and the production for cigarette packaging paper in the PRC as well as in Hubei have resumed normal business. The industry has shown solid resilience towards external shock due to the relatively inelastic supply and demand for tobacco products.

This section sets forth a summary of the most significant laws and regulations that affect our business activities in China.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Company Law, Foreign Investment Law and its Implementation Regulations for the Foreign Investment Law

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the "**PRC Company Law**"), which was promulgated on 29 December 1993, came into effect on 1 July 1994 and was last amended on 26 October 2018. The PRC Company Law shall be applicable to foreign-invested companies with limited liability and such companies limited by shares; and where laws on foreign investments provide otherwise, the provisions there shall be applicable.

On 15 March 2019, the National People's Congress (the "**NPC**") enacted the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**"), which came into effect on 1 January 2020. The Foreign Investment Law has replaced the previous major laws and regulations governing foreign investment in the PRC, including the Sino-foreign Equity Joint Ventures Enterprises Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-foreign Co-operative Enterprises Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law of the PRC (《中華人民共和國外資企業法》). According to the Foreign Investment Law, "foreign-invested enterprises" refers to enterprises that are wholly or partly invested by foreign investors and registered under the PRC laws within China, and "foreign investment" refers to any foreign investor's direct or indirect investment activities in China, including: (i) establishing foreign-invested enterprises in China either individually or jointly with other investors; (ii) obtaining stock shares, equity shares, shares in properties or other similar interests of Chinese domestic enterprises; (iii) investing in new projects in China either individually or jointly with other investors; and (iv) investing through other methods provided by laws, administrative regulations or provisions prescribed by the State Council.

On 26 December 2019, the State Council issued Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the "**Implementation Rules**") which came into effect on 1 January 2020, and replaced the Implementing Rules of the Sino-foreign Equity Joint Ventures Enterprises Law of the PRC (《中華人民共和國中外合資經營企業法實施條例》), the Implementing Rules of the Sino-foreign Co-operative Enterprises Law of the PRC (《中華人民共和國中外合作經營企業法實施細則》) and the Implementing Rules of the Wholly Foreign-invested Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》). According to the Implementation Rules, in the event of any discrepancy between the Foreign Investment Law, the Implementation Rules and the relevant provisions on foreign investment promulgated prior to 1 January 2020, the Foreign Investment Law and the Implementation Rules shall prevail.

On 30 December 2019, the Ministry of Commerce of the People's Republic of China (the "**MOFCOM**") and the State Administration for Market Regulation (the "**SAMR**") jointly promulgated the Measures on Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on 1 January 2020, and has replaced the Interim Measures for the Administration of Record-filling on the Establishment and Changes in Foreign-Invested Enterprises

(《外商投資企業設立及變更備案管理暫行辦法》). Foreign investors or foreign-invested enterprises shall submit investment information to the commerce administrative authorities through the Enterprise Registration System and the National Enterprise Credit Information Publicity System.

Foreign investment industrial policy

Investments activities in China by foreign investors are principally governed by the Catalogue for the Encouragement of Foreign Investment Industries (2020 Edition) (《鼓勵外商投資產業目錄（2020年版）》) (the "**Catalogue**") and the Special Administrative Measures (Negative List) for Access of Foreign Investment (2021 Edition) (《外商投資准入特別管理措施(負面清單) (2021年版)》) (the "**Negative List (2021)**"), which were both promulgated by the MOFCOM and the National Development and Reform Commission and each became effective on 27 December 2021 and 1 January 2022. The Catalogue and the Negative List (2021) set forth the industries in which foreign investments are encouraged, restricted and prohibited. Industries that are not listed in any of these three categories are generally open to foreign investment unless otherwise specifically restricted by other PRC rules and regulations.

LAWS AND REGULATIONS RELATING TO OUR OPERATIONS

Industry standards for cigarette packaging paper manufacturing

The manufacturing of printed cigarette packet packaging paper, cigarette inner liner and cigarette tipping paper is subject to a series of industrial standards, compulsory or voluntary, regarding the technical requirements, safety, sampling inspection, packaging, labelling, transportation and storage. Some of the major industry standards for cigarette packaging paper manufacturing include the Tobacco Industry Standard for Printed Cigarette Carton and Packet Packaging Papers of the PRC (《中華人民共和國煙草行業標準卷煙條與盒包裝紙印刷品》) (YC/T 330–2014 Standard) which took effect on 15 January 2015, the Tobacco Industry Standard for Inner Liner for Cigarette of the PRC (《中華人民共和國煙草行業標準煙用內襯紙》) (YC 264–2014 Standard) and the Tobacco Industry Standard for Tipping Paper for Cigarette of the PRC (《中華人民共和國煙草行業標準煙用接裝紙》) (YC 171–2014 Standard) which both took effect on 15 April 2015, the Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (《卷煙條與盒包裝紙中揮發性有機化合物的限量》) (YC 263–2008 standard) which took effect on 1 July 2008, the System of Material for Cigarette (煙用材料標準體系) (YC/T 195–2005 Standard) which took effect on 1 December 2005 and etc.

The Notice of the State Tobacco Monopoly Administration on Issues Concerning the New Caliber of Statistics and New criteria for Cigarette Classification promulgated on 19 October 2001 by the State Tobacco Monopoly Administration (the "**STMA**") has formulated new criteria for the classification of each of tier 1 to tier 5 cigarettes. Tier 1 cigarettes refer to cigarettes with a retail price above RMB18 per box whereas tier 2 cigarettes refer to cigarettes with a retail price ranging from RMB13 to RMB18 per box. Tier 3 cigarettes refer to cigarettes with a retail price ranging from RMB6 to below RMB13 per box. Tier 4 cigarettes refer to cigarettes with a retail price ranging from RMB3 to below RMB6 per box. Tier 5 cigarettes refer to cigarettes below RMB3 per box. Tier 1 and tier 2 cigarettes are generally recognised as high-end cigarettes in the PRC, tier 3 cigarettes refer to mid-end cigarettes while tier 4 and 5 refer to low-end cigarettes. The Measures for the Administration of Information Collection and Verification of Cigarette Consumption Tax Price (Revised in 2018) promulgated on 15 June 2018 by the State Administration of Taxation (the

"**STA**") further renewed the criteria. Pursuant to the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》) (YC/T 273–2014 Standard) published by the STMA for the PRC Tobacco Industry Standard which was effected on 15 August 2014, the design of cigarette package shall comply with a series of industrial standards, compulsory or voluntary, regarding the packaging texture, packaging structure and packaging cost. Specifically, the ratio of packaging cost to cigarette selling price (excluding value-added tax) must be no more than certain limits set for each tier of cigarettes as follows:

tier 1 cigarettes (ex-factory price above RMB1 per stick) .... no more than 8%

tier 1 (others) and tier 2 cigarettes .... no more than 9%

tier 3 cigarettes .... no more than 11%

tier 4 to tier 5 cigarettes .... no more than 12%

According to the Notice of the State Tobacco Monopoly Administration and the General Administration of Quality Supervision, Inspection and Quarantine on Issuing the Provisions on the Domestic Cigarette Packaging Labels (《國家煙草專賣局、國家質量監督檢驗檢疫總局關於印發境內卷煙包裝標識的規定的通知》) (the "**Notice on the Domestic Cigarette Packaging Labels**") which effected on 22 January 2017, the regulator imposes stricter requirements for warning statements printed on cigarette package boxes which includes the wordings, the positions, the area and the font size of the warning statements. Cigarette packages should be printed with warning statements by the standard Chinese characters of the PRC. Other labels on cigarette strips and cigarette packages should also meet the relevant requirements of national standards.

Since we are in the upstream sector within the cigarette packaging paper manufacturing value chain, as advised by our PRC Legal Advisers, we are not subject to the Notice on the Domestic Cigarette Packaging Labels. Our Directors are of the view that the Notice on the Domestic Cigarette Packaging Labels does not have any material impact on overall customer demand, the production volume of the cigarette packages, or on our Group's operations or financial position as this notice only affects the printing requirements of the cigarette packages but not the cigarette packaging paper that we produce for our customers.

Cigarette control

Pursuant to the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which came into effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was last amended on 26 December 2017, smoking is prohibited in indoors public areas.

Based on the Regulations on the Administration of Sanitation at Public Places, various provincial and municipal government authorities such as Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, Tianjin, Wuhan, Hangzhou, Zhangjiakou, Lanzhou, Fuzhou, Xining, Qingdao, Yinchuan and etc., had issued their detailed rules on smoking control in public areas in recent years, which provides the legal basis for imposing penalties against those who violate the rules.

LAWS AND REGULATIONS RELATING TO PRODUCTS QUALITY AND SAFETY

Production quality

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), took effect on 1 September 1993 and last amended on 29 December 2018, according to which, the producers shall develop and improve proper internal product quality management system, and rigorously implement quality standards, quality liabilities and relevant assessment measures for each position. Quality of products shall pass standard examinations and no sub-standard products shall be used as standard ones. Producers shall be responsible for the quality of their products and assume product quality liabilities in accordance with the requirements of such law.

Production safety

According to the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), which came into effect on 1 November 2002 and was amended on 27 August 2009, 1 December 2014 and 1 September 2021, a manufacturing enterprise shall strengthen the management of production safety, establish and develop production safety accountability systems and maintain safe production facilities to ensure production safety. Education and training for production safety shall be provided for employees to ensure that they are equipped with the necessary knowledge of production safety, sufficient understanding of the relevant rules and regulations and the skills for safe operations according to their respective positions. In addition, a manufacturing enterprise shall provide the workers with education and training on production safety. A manufacturing enterprise with over 100 production workers shall establish a production safety management department to strengthen the safety of production facilities or assign special personnel for production safety management.

Special equipment

In accordance with the Special Equipment Safety Law of the PRC (《中華人民共和國特種設備安全法》) which took effect on 1 January 2014 and the Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) which came into effect on 1 June 2003, subsequently amended on 24 January 2009 and came into effect on 1 May 2009, ''special equipment'' refers to boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting appliances, yard (factory) special motor vehicles, passenger ropeways, and large amusements devices, which relate to the safety of human lives or having high risks. As required by the Regulations on Safety Supervision of Special Equipment, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position on the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators and other devices shall not engage in corresponding operation or management until they have passed the examination organized by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment.

Fire Control

Pursuant to the Fire Control Law of the PRC (《中華人民共和國消防法》) which took effect on 1 September 1998 and with the latest amendment on 29 April 2021, the above laws and regulations shall be applicable to the fire control supervision and control of construction, expansion, alteration and other construction projects. The Ministry of Housing and Urban-Rural Development shall, in accordance with the law, conduct fire control design review, inspection, filing and spot check of fire control facilities of construction projects to oversee the fire control of construction projects.

LAWS AND REGULATIONS RELATING TO LAND, PLANNING AND CONSTRUCTION

Land

The Land Administration Law of the PRC (《中華人民共和國土地管理法》promulgated by the Standing Committee of the National People's Congress (the "**NPCSC**") on 25 June 1986, implemented on 1 January 1987 and revised on 29 December 1988, 29 August 1998, 29 December 1998, 28 August 2004, 26 August 2019 and effective on 1 January 2020, and the Implementation Regulations for the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) promulgated by the State Council on 4 January 1991, implemented on 1 February 1991 and 29 July 2014, and with the latest amendment on 1 September 2021, according to which, land owned by the State may be remised or allotted to construction units or individuals in accordance with the law and regulations.

Planning and construction

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) (the "**Urban and Rural Planning Law**") promulgated by the NPCSC on 28 October 2007, implemented on 1 January 2008 and revised on 24 April 2015 and 23 April 2019, a construction land planning permit is required for the right to use the state-owned land acquired by assignment and appropriation. According to the Urban and Rural Planning Law, to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity or individual shall apply to the competent department of urban and rural planning under the people's government of the city or county or the town people's government specified by the people's government of the province, autonomous region or municipality directly under the central government for a planning permit on construction project.

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the NPCSC on 1 November 1997, implemented on 1 March 1998 and revised on 22 April 2011 and 23 April 2019, construction units shall, in accordance with the relevant provisions of the State, apply to the competent construction administrative departments under the prefecture-county governments or above for construction licences.

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated by the State Council on 30 January 2000 and amended on 7 October 2017 and 23 April 2019, and the Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated and implemented by the former Ministry of Construction on 4 April 2000 and amended on 19 October 2009, construction project shall not be delivered for use unless it has passed the completion-based check. The construction entity should file a record to a competent construction administrative department of the people's government at or above the county level of the place where the project is located within 15 days from the day when the construction project passes the acceptance check.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》), promulgated by the NPCSC on 12 March 1984, amended on 4 September 1992, 25 August 2000, 27 December 2008 and further amended on 17 October 2020 and effective on 1 June 2021, and the Implementation Regulations of the PRC Patent Law (《中華人民共和國專利法實施細則》) promulgated by the China Patent Bureau Council on 19 January 1985, last amended by the State Council on 9 January 2010, and effective from 1 February 2010, inventions and creations eligible for patent application are categorized into three types: invention patents, utility models and design patents. A patent is valid for a term of 20 years in the case of an invention patent and a term of 10 years in the case of a utility model and design patent, starting from the application date. The patent administrative authority under the State Council shall make decision to grant the patent right, issue the patent certificate and make registration and announcement. The patent right shall be valid from the date of announcement. The patentee shall pay an annual fee beginning with the year in which the patent right is granted. Unless otherwise provided in the Patent Law of the PRC, after the granting of patent right for an invention patent or utility model, no entity or individual is entitled to, without permission of the patentee, exploit the patent, that is, to make, use, promise the sale of, sell or import the patented product, or use the patented process and use, promise the sale of, sell or import the product directly obtained from the patented process, for production or business purposes.

Trademark

Trademarks are protected by 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, last amended on 23 April 2019, and took effect on 1 November 2019, as well as the Regulation on Implementation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) adopted by the State Council on 3 August 2002, and revised on 29 April 2014. The Trademark Office of the administrative department for industry and commerce under the State Council shall take charge of trademark registration and administration across the country. Application for trademark registration shall be approved by the Trademark Office of the National Intellectual Property Administration which shall issue the trademark registration certificate and make relevant announcement. A trademark registrant shall have the right to exclusively use the registered trademark which is protected by law. The registered trademark shall be valid for a term of 10 years from the date of approval for registration. The trademark registrant may renew the registration of registered trademark upon expiry and each registration renewal is valid for a term of ten years.

LAWS AND REGULATIONS RELATING TO LABOR, SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

Labor protection

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the NPCSC on 5 July 1994, came into effect on 1 January 1995, and was last amended on 29 December 2018, and the Labor 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, came into effect on 1 January 2008, and was amended on 28 December 2012, and came into effect on 1 July 2013, and the Implementation Regulations on the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated and came into effect on 18 September 2008, by the State Council, labor contracts in written form shall be executed to establish labor relationship between employers and employees. Employers shall establish and develop labor rules, regulations and systems according to PRC laws to protect the rights and ensure the performance of duties of employees, and career development and training systems shall be formed. Employers shall also set up and develop the labor safety and health system in strict compliance with the regulations and standards of labor safety and sanitation of the PRC and provide education on labor safety and sanitation for the employees to prevent work-related accidents and occupational harm. Necessary articles for labor protection in compliance with the labor safety and health requirements shall be provided to employees and regular health examination for employees engaged in work with occupational hazards shall be conducted.

Social insurance

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the NPCSC on 28 October 2010 and became effective on 1 July 2011, subsequently amended on 29 December 2018, employers and/or employees (depending on the type of specific social insurance) shall register with the competent authority and pay a number of social insurance premiums, including basic pension insurance, unemployment insurance, basic medical insurance, work injury insurance, and maternity insurance. Employers who fail to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Housing provident fund

Pursuant to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated by the State Council and effective on 3 April 1999 and subsequently amended on 24 March 2002 and 24 March 2019, employers shall go to the housing accumulation fund management center to register the housing provident fund deposit, and deposit the housing provident fund for all employees on schedule. If the employer fails to pay or pay less than the housing provident fund within the time limit, the housing accumulation fund management center shall order it to pay within a time limit. If it fails to deposit the fund within the time limit, the center may apply to the people's court for enforcement.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental protection

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**") that took effect on 26 December 1989 and was amended on 24 April 2014, the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) (the "**Water Pollution Prevention and Control Law**") effected on 1 November 1984 with the latest amendment on 27 June 2017, the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) (the "**Solid Wastes Pollution Prevention and Control Law**") which came into effect on 1 April 1996 and with the latest amendment on 29 April 2020, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) (the "**Atmospheric Pollution Prevention and Control Law**") which took effect on 1 June 1988 and was last amended on 26 October 2018 and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境譟聲污染防治法》) (the "**Environmental Noise Pollution Prevention and Control Law**") which took effect on 1 March 1997 and with the latest amendment on 29 December 2018, according to which, all entities and individuals shall have the obligation to protect the environment. Enterprises, public institutions and other business operators that discharge waste water, sewage, waste residues, waste gas, malodorous gases, dust, noise and any other pollutant generated during the production, construction and other activities shall prevent and reduce environmental pollution and ecological disruption, and assume liabilities for damage caused by them. Enterprises and public institutions that discharge pollutants shall each establish an environmental protection responsibility system, and specify the responsibilities of the persons in charge and relevant personnel thereof.

Discharge of waste water

According to the Water Pollution Prevention and Control Law, the discharge of waste water shall not exceed the national or local standards for the discharge of water pollutants and the total discharge control index of key water pollutants. The enterprises that discharge industrial waste water shall take effective measures to collect and treat all the waste water so as to prevent environmental pollution.

Solid waste pollution

According to the Solid Wastes Pollution Prevention and Control Law, entities and individuals shall take measures to reduce the amount of solid waste generated, promote the comprehensive utilization of solid waste and reduce the hazards of solid waste. Entities and individuals that generate, collect, store, transport, utilize, and dispose of solid waste shall take measures to prevent or reduce the environmental pollution caused by solid waste, and shall be liable for the environmental pollution caused by it in accordance with the law.

Atmospheric pollution

The competent department for the ecological environment of the State Council or the people's governments of provinces, autonomous regions, and municipalities directly under the central government have formulated atmospheric pollutant emission standards based on atmospheric environmental quality standards and national economic and technical conditions. In accordance with Atmospheric Pollution Prevention and Control Law, the enterprises which discharge pollutants into the atmosphere shall comply with the standards and comply with the requirements for total discharge of key atmospheric pollutants.

Noise pollution

Entities that produce environmental noise pollution shall take measures to control and pay fees for excessive discharge of noise pollutants in accordance with Environmental Noise Pollution Prevention and Control Law. Industrial enterprises that produce environmental noise pollution shall take effective measures to reduce the impact of noise on the surrounding living environment.

Environmental impact assessment and Acceptance of environmental protection of construction projects

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended on 2 July 2016 and amended 29 December 2018, the Administrative Rules on Environmental Protection of Construction Projects 《建設項目環境保護管理條例》) promulgated on 29 November 1998 and amended on 16 July 2017, the Classified Management Catalogue of Environmental Impact Assessments for Construction Projects (2021 Edition) (《建設項目環境影響評價分類管理名錄》(2021年版)) effected on 1 January 2021 and the Measures on Filing Administration of Environmental Impact Registration Forms of Construction Projects (《建設項目環境影響登記表備案管理辦法》) came into effect on 1 January 2017, for construction projects with environmental impact carried out within the territory of the PRC subject to the jurisdiction of the PRC, environmental impact assessment shall be conducted according to relevant laws. The State implements classification-based management on the environmental impact assessment of construction projects based on the impact of the construction projects on the environment. Constructors shall prepare Environmental Impact Report or Environmental Impact Statement or fill out the Environmental Impact Registration Form according to the Classified Management Catalogue of Environmental Impact Assessments for Construction Projects. The constructors shall submit the Environmental Impact Report and Environmental Impact Statement of construction projects to the competent authorities for ecology with approving power for approval, and shall complete the filing procedures for the Environmental Impact Registration Form. For construction projects, the Environmental Impact Report or Environmental Impact Statement of which failed to be approved by relevant approving department, the constructors shall not commence construction. The environmental protection facilities that are required to be built together with the construction projects shall be designed, constructed and put into operation simultaneously with the construction of the main body. Upon completion of the construction projects that required the preparation of the Environmental Impact Report and Environmental Impact Statement, the constructors shall perform inspection and acceptance procedures for the environmental protection facilities and prepare the inspection report in accordance with the standards and procedures required by the competent administrative authorities for environmental protection under the State Council.

Pollutant discharge permit

Pursuant to the Environmental Protection Law, the Water Pollution Prevention and Control Law, the Solid Wastes Pollution Prevention and Control Law and the Atmospheric Pollution Prevention and Control Law, the PRC adopts the pollutant discharge permit administration system. The enterprises, public institutions and other business operators that are subject to the pollutant discharge permit administration shall discharge pollutants according to the requirements under the pollutant discharge permit and shall not discharge pollutants without obtaining the pollutant discharge permit. Pursuant to the Measures for Administration of Pollutant Discharge Permit (For Trial Implementation) (《排污許可管理辦法(試行)》) which took effect on 10 January 2018 and was last amended on 22 August 2019, the Ministry of Environmental Protection shall develop and issue a classification administration list of pollutant discharge permit for fixed pollution sources according to relevant laws. The enterprises, public institutions and other business operators included in the classification administration list of pollutant discharge permit for fixed pollution sources shall apply for and obtain a pollutant discharge permit within the limited time period.

LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise income tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**") which was promulgated on 16 March 2007, and came into effect on 1 January 2008, and last amended on 29 December 2018, and the Regulation on 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》) (the "**Regulation on Implementation of the EIT Law**") which was promulgated by the State Council on 6 December 2007, came into effect on 1 January 2008, amended by the State Council on 23 April 2019, and came into effect on the same date, a uniform income tax rate of 25% will be applied to resident enterprises and non-resident enterprises that have established production and operation facilities in China. Besides enterprises established within the PRC, enterprises established in accordance with the laws of other judicial districts whose "de facto management bodies" are within the PRC are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. A non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. An income tax rate of 10% will normally be applicable to dividends declared to or any other gains realized on the transfer of shares by non-PRC resident enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. High-tech enterprises to which the State needs to give key support are given a reduced enterprise income tax rate of 15%.

According to the Administrative Measures for Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) effected on 1 January 2008 and amended on 29 January 2016, a high and new technology enterprise recognized under the Administrative Measures for Determination of High and New Technology Enterprises may apply for enjoying the tax preferential policies in accordance with the EIT Law, the Regulation on Implementation of the EIT Law and other relevant laws and regulations. The certificate of a high and new technology enterprise shall be valid for three years from the date of issuance of the certificate. An enterprise which is recognized as a high and new technology enterprise is entitled to tax preference from the year in which the high and new technology enterprise certificate is granted.

For research and development expenditures incurred by enterprises in the development of new technology, new products and new skills, if these expenditures have not been reflected in the profit or loss for the same period as intangible assets, enterprises are allowed to make a deduction of 100% of the actual cost of research and development; if these expenditures have been reflected as intangible assets, enterprises are allowed to make an amortization of 200% of the cost of intangible assets.

Withholding tax

According to the Arrangement for the Avoidance of Double Taxation and Tax Evasion between Mainland of China and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》) (the "**Double Tax Avoidance Arrangement**") entered into between Mainland China and the HKSAR on 21 August 2006, if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which directly owns 25% or more of the equity interest of the PRC foreign-invested enterprise which pays the dividends and interests, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws. However, according to the Notice on the Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties (《國家税務總局關於執行税收協定股息條款有關問題的通知》), which was promulgated by the STA on 20 February 2009, and came into effect on the same date, if the relevant PRC tax authorities determine, in their discretion, that a company benefits unjustifiably from such reduced income tax rate due to a transaction or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Announcement of the Certain Issues with respect to the "Beneficial Owner" in Tax Treaties (《國家税務總局關於税收協定中"受益所有人"有關問題的公告》), issued by the STA on 3 February 2018, and effective on 1 April 2018, if an applicant's business activities do not constitute substantive business activities, it could result in the negative determination of the applicant's status as a "beneficial owner" and consequently, the applicant could be precluded from enjoying the above mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

Value-added tax

According to the Interim Regulation on Value Added Tax of the PRC (《中華人民共和國增值税暫行條例》) which was promulgated on 13 December 1993, came into effect on 1 January 1994, last amended on 19 November 2017, and the Details Rules for Implementation of the Interim

Regulation on Value Added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) which was promulgated on 25 December 1993, and last amended on 28 October 2011, came into effect on 1 November 2011, unless otherwise provided, entities and individuals that sell goods or labor services of processing, repair or replacement, sell services, intangible assets, or immovable properties, or import goods within the territory of the PRC shall pay a value-added tax at the rate of 0%, 6%, 11%, and 17% for different goods sold or different services rendered.

On 19 November 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (《關於廢止<中華人民共和國營業稅暫行條例>和修改<中華人民共和國增值稅暫行條例>的決定》), according to which, all enterprises and individuals engaged in the sale of goods, the provision of processing, repairing and replacement labor services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of value-added tax.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value Added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》), issued on 4 April 2018, and became effective on 1 May 2018, value-added tax taxpayers who were previously subject to rates of 17% and 11% for taxable sales or imported goods shall be subject to an adjusted 16% and 10% rates respectively. According to the Notice on Relevant Policies for Deepening Value Added Tax Reform (《關於深化增值稅改革有關政策的公告》) effected on 1 April 2019, the value-added tax rate was reduced to 13% and 9% respectively.

Cigarette consumption tax

In accordance with the Circular of the Ministry of Finance and the State Administration of Taxation Regarding the Adjustment of Cigarette Consumption Tax (《關於調整卷煙消費稅的通知》) which took effect on 10 May 2015, the cigarette consumption tax on cigarette wholesale prices has increased from 5% to 11% and a specific tax will be levied at RMB0.005 per cigarette.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Regulation on the Foreign Exchange Control of PRC (《中華人民共和國外匯管理條例》), promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and was last amended on 5 August 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》), promulgated by the People's Bank of China in June 1996 and came into effect on 1 July 1996, according to which, Renminbi for current account items is freely convertible, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans and investments in securities outside of the PRC, unless the prior approval or record-filing of the State Administration of Foreign Exchange (the "**SAFE**") or its local counterpart is obtained.

According to the Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Administration Policies for Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) which took effect on 17 December 2012 and was last amended on 4 May 2015, the previous approving procedures were significantly simplified by cancelling the requirement for the opening of a foreign exchange account or the entry of any amount in the foreign exchange accounts under direct investment, and instead, the bank can open the account for the relevant client according to the information registered in the relevant system of the SAFE.

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) which was promulgated by the SAFE on 4 July 2014 and came into effect on the same date, before a domestic resident contributes its legally owned onshore or offshore assets or equity to a special purpose vehicle (the "**SPV**"), the domestic resident shall conduct foreign exchange registration for offshore investment with the SAFE. Where a domestic resident contributes its legally owned onshore assets or equity, it shall apply to the local branch of SAFE of the registration place, or the local branch of SAFE of the location of the domestic enterprise's assets or equity for going through the procedures for registration. Where a domestic resident contributes its legally owned offshore assets or equity, it shall apply to the local branch of SAFE of the registration place, or the local branch of SAFE of the location of household registration for going through the procedures for registration.

The Notice of State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policy for Overseas Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) which was promulgated on 13 February 2015, came into effect from 1 June 2015 and was partially invalidated by the Notice by the State Administration of Foreign Exchange of Repealing or Invalidating Five Regulatory Documents on Foreign Exchange Administration and Clauses of Seven Regulatory Documents on Foreign Exchange Administration (《國家外匯管理局關於廢止和失效5件外匯管理規範性檔及7件外匯管理規範性檔條款的通知》) lifted the requirement of administrative approval in relation to foreign exchange registration and approval for offshore direct investment, which was changed to the mechanism that the banks directly review and complete the foreign exchange registration for offshore direct investment. Where a domestic resident individual makes an offshore investment with its onshore assets or equity, such individual shall complete the foreign exchange registration for SPV owned by the domestic resident individual at the bank of the location of the domestic enterprise's assets or equity.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTIONS

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in China include the PRC Company Law and the Foreign Investment Law. Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company, including foreign-invested enterprise, is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided, and shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

LAWS AND REGULATIONS RELATING TO M&A AND OVERSEAS LISTINGS

M&A rules

The Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》, the "**M&A Rules**") was jointly promulgated by six PRC governmental authorities including the MOFCOM, the STA, the SAFE, the SAMR, the State-owned Assets Supervision and Administration Commission of the State Council and the China Securities Regulatory Commission (the "**CSRC**") on 8 August 2006, and last amended on 22 June 2009. Foreign investors must comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing of the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the assets of a domestic company by agreement, establish a foreign-invested enterprise by injecting such assets, and operate the assets. According to Article 11 of the M&A Rules, where a domestic enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic enterprise which is related to or connected with it/him/her, approval from the MOFCOM is required. The M&A Rules, among other things, further purport to require that an offshore special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Laws and regulations relating to overseas listing

On 24 December 2021, the CSRC issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行證券和上市備案管理辦法(徵求意見稿)) (collectively the "**Draft Regulations on Listing**") for public comments.

Pursuant to the Draft Regulations on Listing, PRC domestic companies (including (i) any PRC company limited by shares, and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests) that directly or indirectly offer or list their securities in an overseas market are required to file with the CSRC within three business days after submitting their listing application documents to the relevant authority in the place of intended listing. Meanwhile, overseas offerings and listings are prohibited under certain circumstances, including but not limited to that (i) the PRC domestic companies are explicitly prohibited by PRC laws and regulations; (ii) the intended overseas offerings and listings constitute threat to or endanger national security as reviewed and identified by competent PRC authorities; (iii) there are material ownership disputes over equity, major assets, and core technologies, etc.; (iv) the PRC domestic companies and/or their controlling shareholders and actual controllers have committed criminal offences of embezzlement, bribery, misappropriation of property, or sabotage of the order of the socialist market economy in recent three years, or are currently under judicial investigations for suspicion of criminal offences or major violations of laws and regulations; and (v) the directors, supervisors, or senior management of the PRC domestic companies have been subject to administrative punishments for severe violations in recent three years, or are currently under judicial investigations for suspicion of criminal offenses or major violations of laws and regulations (together the "**Forbidden Circumstances**"). Our PRC Legal Advisers have conducted public searches against our PRC incorporated subsidiaries, Mr. Chen, as well as our Directors and members of our senior management, and was not aware that any of them had been involved in relevant criminal offences or administrative penalties that would prohibit us from proceeding with overseas listing under the Draft Regulations on Listing. To our best knowledge and after our PRC Legal Advisers' due inquiry, if the Draft Regulations on Listing become effective and implemented in their current form, we believe that we do not fall within any of the Forbidden Circumstances which would prohibit us from proceeding with overseas listing under the Draft Regulations on Listing and our Directors do not foresee any impediment for us to comply with the Draft Regulations on Listing in any material aspects.

At the press conference held for the Draft Regulations on Listing on 24 December 2021, the spokesperson from the CSRC clarified that implementation of the Draft Regulations on Listing will follow the non-retroactive principle, which means that only the initial public offerings by PRC domestic companies and financing by existing overseas listed PRC domestic companies to be conducted after the Draft Regulations on Listing become effective will be required to complete the filing process. In addition, the Draft Regulations on Listing will grant a proper transition period for existing overseas listed companies that do not have subsequent financing activities to comply with the filing requirement. Therefore, our PRC Legal Advisors are of the view that if the Draft Regulations on Listing become effective in their current form before our Listing, we may be required to complete the filing procedures with the CSRC in connection with the Listing; or if the Draft Regulations on Listing come into effect after our proposed Listing, it will not be applied retrospectively, which we are not required to complete the CSRC filing procedures.

Further, the Draft Regulations on Listing apply to overseas offerings and listings of PRC domestic companies, but it does not raise new compliance requirements for business operations of PRC domestic companies. As such, our Directors and our PRC Legal Advisors do not foresee the Draft Regulations on Listing, if become effective and implemented in their current form, would have a material adverse impact on our business operations.

Our PRC Legal Advisers are of the view that, given the Draft Regulations on Listing are still in their draft forms and have not come into effect, as at the Latest Practicable Date, we are not required to go through the filing procedures with the CSRC under the Draft Regulations on Listing with respect to the Listing. Further, as at the Latest Practicable Date, there are no laws, regulations or regulatory documents cited by either the CSRC or other relevant industry authorities in effect that would explicitly require the Company to comply with any approval, verification or filing procedures for the proposed Listing, and we had not received any inquiry, notice, warning, or sanctions regarding the proposed Listing or our corporate structure from the CSRC or any other PRC government authorities with respect to the filing requirement under the new regulatory regime. Based on the foregoing, our Directors and our PRC Legal Advisers do not foresee the Draft Regulations on Listing would have any material adverse impact on our business operations and the proposed Listing and the Group will be able to comply with the Draft Regulations on Listing in all material aspects.

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 21 April 2021. Pursuant to the Reorganisation as more particularly described in the paragraph headed "Reorganisation" in this section, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interest in three subsidiaries, namely, Shengxi Global, Hong Kong WEIli and Hubei Qiangda.

OUR BUSINESS DEVELOPMENT

The history of our Group can be traced back to 2011 when Mr. Lin founded Hubei Qiangda through Moral Fame as a wholly foreign-owned enterprise in the PRC to engage in the manufacture of cigarette packaging paper in the PRC with a focus on transfer paper and laminated paper. At the time of the establishment of Hubei Qiangda, the entire issued share capital of Moral Fame was held by Mr. Lin. Prior to establishing Hubei Qiangda, Mr. Lin had over 10 years of experience in the cigarette packaging industry and he was the business manager of Shantou Lvxin Packing Materials Company Limited* (汕頭市綠新包裝材料有限公司) (currently known as Shantou Lvxin Consulting Company Limited* (汕頭市綠新企業諮詢有限公司)), a company which engaged in the manufacture of cigarette packaging paper in the PRC, since January 2001. Eyeing the potential in the cigarette packaging industry in the Hubei Province, Mr. Lin would like to set up production facilities for manufacture of cigarette packaging paper in the Hubei Province. In 2011, Moral Fame entered into an investment agreement with the People's Government of Hong'an County of Hubei Province, pursuant to which Moral Fame was granted a right to use a piece of land in Hong'an County for setting up production facilities for manufacture of cigarette packaging paper (i.e. the piece of land where our current production facilities is located). In the circumstances, Mr. Lin established Hubei Qiangda, through Moral Fame, in 2011 using his personal funds.

As the capital needs of Hubei Qiangda grew, Mr. Lin wished to introduce more equity holders to the company and enlarge its capital base. In 2017, he invited Mr. Chen, Mr. Yu, Mr. Hu, Mr. Lu and Mr. Wu, who are friends of Mr. Lin, to invest in Hubei Qiangda. Before Mr. Chen, Mr. Yu, Mr. Hu, Mr. Lu and Mr. Wu invested in Hubei Qiangda, Mr. Lin had acquainted with them for around three to 13 years: (a) Mr. Lin first met Mr. Yu, Mr. Chen and Mr. Wu in 2004, 2006 and 2011, respectively, due to business connections of their then employers, which were industry players in the cigarette packaging industry or were involved in providing ancillary products to industry players in the cigarette packaging industry; (b) Mr. Lin first met Mr. Lu in 2012 in one of the projects of the property development business of Mr. Lin; and (c) Mr. Chen introduced his friend, Mr. Hu, to Mr. Lin in 2014, and Mr. Lin and Mr. Hu attended various business events of the property development industry since then.

Eyeing the potential development of the cigarette packaging industry, Mr. Chen, Mr. Yu, Mr. Hu, Mr. Lu and Mr. Wu agreed to invest in Hubei Qiangda using their personal funds. In particular, (i) Mr. Chen invested in Hubei Qiangda using gains from his other business; (ii) Mr. Yu invested in Hubei Qiangda using his personal savings and funds received from his family; (iii) Mr. Hu invested in Hubei Qiangda using his personal savings; (iv) Mr. Lu invested in Hubei Qiangda using the personal savings of both himself and his spouse; and (v) Mr. Wu invested in Hubei Qiangda using gains from his other business. Prior to joining Hubei Qiangda, Mr. Chen had accumulated more than five years of experience in the paper industry in the PRC, while Mr. Yu had accumulated over 22 years of experience in the cigarette industry in the PRC (including the cigarette packaging industry) and Mr. Hu had over five years of experience in business management in various industries. For details of their background and experience, please refer to the section headed "Directors and Senior Management" in this prospectus. Since they joined our Group in 2017, Mr. Chen, Mr. Yu and Mr. Hu have been serving as directors of Hubei Qiangda. Since 2017, Mr. Yu has been primarily responsible for the overall management and day-to-day management of the operations of our Group. Mr. Yu usually stations at the production facilities of our Group, and his major responsibilities include reviewing and approving production and operation related documents, supervising the daily production and operation of our Group, implementation of the decisions of the board meetings or shareholders' meetings as well as the business and financial plans of our Group. Mr. Chen has been primarily responsible for the overall management and formulation of business strategies of our Group since 2017. As the chairman of the board of Hubei Qiangda, in order to supervise the operation and management of our Group, Mr. Chen would travel to our production facilities from time to time. He travelled to our production facilities for around 30 times from 2019 to 2021. He is responsible for developing our customer base and maintenance of our business relationship with our major customers, whereas he liaises with some of our major customers and attends meetings regarding our sales review and planning. He is also responsible for holding shareholders' meetings and formulation of business and financial plans of our Group. Mr. Hu has been primarily responsible for providing advice on the strategy, performance and standard of conduct of our Group and has not been involved in the daily operation of our Group. Mr. Yu and the management of the Group would provide business updates to Mr. Hu from time to time, and Mr. Hu would review such information and provide advice to our Group, in particular financial performance of our Group. Mr. Chen and Mr. Yu are our executive Directors, while Mr. Hu is our non-executive Director.

Prior to investing in Hubei Qiangda, Mr. Wu had experience in supplying machinery to manufacturers of cigarette packaging materials, for instance, he has been the general manager of Chengdu Yeoman Stone Engineering Technology (China) Company Limited* (成都優曼司通工程技術有限公司) since October 2014. As such, he has some knowledge as well as business network related to the cigarette packaging industry in the PRC. On the other hand, Mr. Lu had experience in business management, for instance, he has been the general manager of Shenzhen Tianle Industry and Trade Company Limited* (深圳市天樂工貿有限公司), a company engages in trading, since March 1999. Since Mr. Lu and Mr. Wu invested in Hubei Qiangda in April 2017, they have been passive investors and have not participated in the day-to-day management and operations of our Group. They participate in the matters of our Group through attending shareholders' meetings of Hubei Qiangda.

In late 2018, as Mr. Lin decided to focus on his property development business, he sold 46.50% of the equity interest in Hubei Qiangda to Mr. Chen. Subsequent to the transfer, Mr. Chen has become the controlling shareholder of Hubei Qiangda. During the Track Record Period, Mr. Lin did not participate in the day-to-day management and operations of our Group.

Under the leadership of Mr. Chen and Mr. Yu, we have expanded our business in terms of our sales networks in the PRC, production capacity, product range and production processes over the years and we were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of 14.9% in Hubei Province, according to the Industry Report. We also have been focusing on the development of our products, as at the Latest Practicable Date, we had registered 24 patents in the PRC which are, in the opinion of our Directors, material to our business, in respect of, among others, the production method of our products.

Our Group strived to increase our competitiveness and expand our market share in the industry and our achievements were recognised by obtaining a number of awards from the PRC governmental authorities. In 2017, we were first recognised as "High and New Technology Enterprise" (高新技術企業) by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Taxation Bureau (湖北省國家稅務局) and Hubei Provincial Local Taxation Bureau (湖北省地方稅務局). With our continuous innovations, we strive to achieve a leading position in the industry.

OUR KEY BUSINESS MILESTONES

The key milestones in our Group's development to date are set out below.

Year	Events
2011	• Hubei Qiangda was established as our principal operating entity in the PRC.
2014	• We completed the construction of our production plant, accommodation and office premises at Hong'an New Industrial Park, Hong'an County, Huanggang, Hubei Province.
	• Hubei Qiangda was first accredited with ISO 9001 (Quality Management System) and the ISO 14001 (Environmental Management System) certifications.
	• Hubei Qiangda was first authorised as the 3-grade enterprise of work safety standardisation by the Huanggang Administration of Work Safety (黃岡市安全生產監督管理局).
	• We commenced business relationship with Customer E, being one of our top five customers during the Track Record Period.
2017	• We commenced our business relationship with Hubei Golden Three Gorges, being one of our top five customers during the Track Record Period.
	• Hubei Qiangda was first accredited with OHSAS 18001 (Occupational Health and Safety Management System) (currently upgraded to ISO 45001) certification.
	• Hubei Qiangda was first recognised as "High and New Technology Enterprise" (高新技術企業) by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Taxation Bureau (湖北省國家稅務局) and Hubei Provincial Local Taxation Bureau (湖北省地方稅務局).

Year	Events
2018	• We expanded our production scale by adding three new production lines and replacing two of our then existing production lines, and the maximum production capacity of our production facility increased from approximately 19,019 tonnes for FY2018 to approximately 28,028 tonnes for FY2019.
	• We commenced our business relationship with Customer Group C, being one of our top five customers during the Track Record Period.
	• We were awarded "Hong'an County 2015–2017 Outstanding Enterprises in Scientific and Technological Innovation Work" (紅安縣2015–2017年度科技創新工作成果突出企業) by Hong'an County People's Government (紅安縣人民政府).
2019	• Hubei Qiangda was recognised as "The 2019 (7th) Huanggang City Excellent Enterprise (Golden Eagle Award)" (2019年(第七屆)黃岡市優秀企業(金鷹獎)) by the Huanggang City Entrepreneurs Association of Hubei Province* (湖北省黃岡市企業家協會) and the Huanggang City Enterprise Confederation* (黃岡市企業聯合會).
	• We further expanded our market in the PRC by commencing business relationship with one of the leading cigarette printing companies in the PRC located in Shanghai.
2021	• Hubei Qiangda was appraised as (i) "AAA-Level Enterprise Credit Rating Certificate"; (ii) "AAA-Level Contract Abiding and Trustworthy Unit"; and (iii) "AAA-Level Quality Service Integrity Unit" by Beijing Zhiyunxin International Credit Evaluation Co., Ltd. (北京智雲信國際信用評價有限公司).

OUR CORPORATE DEVELOPMENT

The following is a brief corporate history of the establishment and major changes in shareholdings of subsidiaries of our Company:

Shengxi Global

Shengxi Global was incorporated in BVI with limited liability on 29 March 2021. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 per share. It is an investment holding company.

On 23 April 2021, Shengxi Global allotted and issued one share with a par value of US$1 as fully paid to our Company, and Shengxi Global became a wholly-owned subsidiary of our Company.

Hong Kong WEIli

Hong Kong WEIli was incorporated in Hong Kong with limited liability on 30 April 2021. On the date of its incorporation, Hong Kong WEIli allotted and issued one ordinary share as fully paid to Shengxi Global, and Hong Kong WEIli became a wholly-owned subsidiary of Shengxi Global. It is an investment holding company.

Hubei Qiangda

Hubei Qiangda was established in the PRC on 8 June 2011 as a limited company, with an initial registered capital of US$800,000 and was a wholly foreign-owned enterprise. At the time of its establishment, the entire equity interest of Hubei Qiangda was owned by Moral Fame which is wholly owned by Mr. Lin, as such the ultimate beneficial owner of Hubei Qiangda was Mr. Lin. Hubei Qiangda engages in the manufacture of cigarette packaging paper in the PRC with a focus on transfer paper and laminated paper.

On 25 April 2017, Moral Fame and Mr. Lin entered into an equity transfer agreement, pursuant to which Mr. Lin acquired the entire equity interest in Hubei Qiangda from Moral Fame, at a consideration of US$800,000, which was equivalent to the then registered capital of US$800,000 of Hubei Qiangda. Upon completion of such equity transfer, Hubei Qiangda became wholly-owned by Mr. Lin and it was converted from a foreign-invested enterprise into a domestic company. According to the Sino-Foreign Equity Joint Ventures Enterprises Law of the PRC (中華人民共和國中外合資經營企業法), the domestic participant(s) of a sino-foreign joint venture must be Chinese companies, enterprise or other economic organisations. As such, the conversion of Hubei Qiangda from a wholly foreign-owned enterprise into a domestic company served to facilitate the introduction of shareholders who are PRC natural persons. On the same day, Hubei Qiangda increased its registered capital from US$800,000 to RMB60 million. The additional registered capital was contributed in cash as to RMB25,158,069.44 by Mr. Lin, RMB9.6 million by Mr. Yu, RMB6.6 million by Mr. Hu, RMB6 million by Mr. Chen, RMB4.2 million by Mr. Wu and RMB3.3 million by Mr. Lu, respectively. After the aforesaid transfer and increase in the registered capital, Hubei Qiangda became owned by the following persons and their respective percentage of interest is as follows:

Name of equity holders	**Capital contribution** *RMB*	**Percentage of equity interest**
Mr. Lin	30,300,000	50.50%
Mr. Yu	9,600,000	16.00%
Mr. Hu	6,600,000	11.00%
Mr. Chen	6,000,000	10.00%
Mr. Wu	4,200,000	7.00%
Mr. Lu	3,300,000	5.50%
Total	60,000,000	100.00%

On 5 November 2018, Mr. Lin and Mr. Chen entered into an equity transfer agreement, pursuant to which, Mr. Lin agreed to sell and transfer to Mr. Chen, and Mr. Chen agreed to acquire from Mr. Lin, 46.50% of the equity interest in Hubei Qiangda at a consideration of RMB39.525 million, which was determined with reference to the appraisal of the net assets of Hubei Qiangda as at 31 March 2018 of approximately RMB85 million by an independent valuer. Mr. Chen fully settled the consideration in December 2018 using his personal funds, including gains from his then other businesses, and he was not directly or indirectly financed by Mr. Lin, Mr. Yu, Mr. Hu, Mr. Lu, Mr. Wu, shareholders, directors and senior management of our Group or any of their respective associates to settle the consideration. Such transfer was properly and legally completed and settled. Upon completion of the equity transfer, Hubei Qiangda became owned by the following persons and their respective percentage of interest is as follows:

Name of equity holders	**Capital contribution** *RMB*	**Percentage of equity interest**
Mr. Chen	33,900,000	56.50%
Mr. Yu	9,600,000	16.00%
Mr. Hu	6,600,000	11.00%
Mr. Wu	4,200,000	7.00%
Mr. Lu	3,300,000	5.50%
Mr. Lin	2,400,000	4.00%
Total	60,000,000	100.00%

On 12 April 2021, as part of our Reorganisation, Mr. Hu and the Pre-IPO Investor entered into an equity transfer agreement, pursuant to which, Mr. Hu agreed to sell and transfer to the Pre-IPO Investor, and the Pre-IPO Investor agreed to acquire from Mr. Hu, 3.00% of equity interest in Hubei Qiangda at a consideration of RMB3.927 million. The consideration was agreed by the parties after arms' length commercial negotiation. Such transfer was properly and legally completed and settled. Upon completion of the transfer, Hubei Qiangda became a foreign-invested enterprise, being owned by the following persons and their respective percentage of interest is as follows:

Name of equity holders	**Capital contribution** *RMB*	**Percentage of equity interest**
Mr. Chen	33,900,000	56.50%
Mr. Yu	9,600,000	16.00%
Mr. Hu	4,800,000	8.00%
Mr. Wu	4,200,000	7.00%
Mr. Lu	3,300,000	5.50%
Mr. Lin	2,400,000	4.00%
Pre-IPO Investor	1,800,000	3.00%
Total	60,000,000	100.00%

On 6 May 2021, as part of the Reorganisation, Hong Kong WEIli entered into seven equity transfer agreements with each of Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and the Pre-IPO Investor, pursuant to which, Hong Kong WEIli acquired 56.50%, 16.00%, 8.00%, 7.00%, 5.50%, 4.00% and 3.00% of the equity interest in Hubei Qiangda from Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and the Pre-IPO Investor, respectively, at the consideration of RMB43.505 million, RMB12.32 million, RMB6.16 million, RMB5.39 million, RMB4.235 million, RMB3.08 million and RMB2.31 million, respectively. The considerations were determined with reference to the valuation of Hubei Qiangda as at 31 December 2020 of approximately RMB76.9 million prepared by an independent valuer. The considerations to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin were settled in cash and the consideration to the Pre-IPO Investor was settled by our Company allotting and issuing 30 Shares, credited as fully paid, to the Pre-IPO Investor. Such transfers were properly and legally completed and settled, and Hubei Qiangda became wholly owned by Hong Kong WEIli.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

Incorporation of City Ease, Yong Ning and Enlighten East

On 31 March 2021, City Ease was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 per share. On 16 April 2021, City Ease allotted and issued one share with a par value of US$1 as fully paid to Mr. Chen. City Ease then became wholly-owned by Mr. Chen.

On 4 January 2021, Yong Ning was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 per share. On 16 April 2021, Yong Ning allotted and issued one share with a par value of US$1 as fully paid to Mr. Yu. Yong Ning then became wholly-owned by Mr. Yu.

On 8 December 2020, Enlighten East was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 per share. On 16 April 2021, Enlighten East allotted and issued 3,266 shares, 2,857 shares, 2,244 shares and 1,633 shares with a par value of US$1 each as fully paid to Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin, respectively, and all the issued shares of Enlighten East were owned as to 32.66% by Mr. Hu, 28.57% by Mr. Wu, 22.44% by Mr. Lu and 16.33% by Mr. Lin, respectively.

Incorporation of our Company

On 21 April 2021, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of our incorporation, our Company had an authorised share capital of HK$380,000 divided into 38,000,000 Shares.

On the date of its incorporation, our Company allotted and issued one subscriber Share as fully paid to a nominee subscriber. On the same date, the nominee subscriber as transferor executed an instrument of transfer in favour of City Ease as transferee, pursuant to which the nominee subscriber transferred the one subscriber Share, representing the entire issued share capital of our Company, to City Ease.

Upon completion of the above transaction, on the same date, our Company further allotted and issued 564 Shares, 160 Shares and 245 Shares as fully paid to City Ease, Yong Ning and Enlighten East, respectively. After such allotment and issue of Shares, our Company was owned as to approximately 58.25% by City Ease, 16.49% by Yong Ning and 25.26% by Enlighten East, respectively.

Incorporation of Shengxi Global

On 29 March 2021, Shengxi Global was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class with a par value of US$1 per share. On 23 April 2021, Shengxi Global allotted and issued one share with a par value of US$1, credited as fully paid, to our Company. All the issued share of Shengxi Global then became wholly-owned by our Company.

Incorporation of Hong Kong WEIli

On 30 April 2021, Hong Kong WEIli was incorporated in Hong Kong with limited liability. It engages in investment holding. On the date of its incorporation, Hong Kong WEIli allotted and issued one ordinary share as fully paid to Shengxi Global. The entire issued share capital of Hong Kong WEIli then became wholly-owned by Shengxi Global.

Acquisition of 3.00% of equity interest in Hubei Qiangda by the Pre-IPO Investor

On 12 April 2021, Mr. Hu and the Pre-IPO Investor entered into an equity transfer agreement, pursuant to which, Mr. Hu agreed to sell and transfer to the Pre-IPO Investor, and the Pre-IPO Investor agreed to acquire from Mr. Hu, 3.00% of equity interest in Hubei Qiangda at a consideration of RMB3.927 million. The consideration was agreed by the parties after arm's length commercial negotiation. Such transfer was properly and legally completed and settled. Upon completion of the transfer, Hubei Qiangda became a foreign-invested enterprise, being owned by Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and Pre-IPO Investor as to approximately 56.50%, 16.00%, 8.00%, 7.00%, 5.50%, 4.00% and 3.00%, respectively.

Acquisition of the entire equity interest in Hubei Qiangda from Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and the Pre-IPO Investor, respectively, by Hong Kong WEIli

On 6 May 2021, Hong Kong WEIli entered into seven equity transfer agreements with each of Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and the Pre-IPO Investor, pursuant to which, Hong Kong WEIli acquired 56.50%, 16.00%, 8.00%, 7.00%, 5.50%, 4.00% and 3.00% of the equity interest in Hubei Qiangda from Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and the Pre-IPO Investor, respectively, at the consideration of RMB43.505 million, RMB12.32 million, RMB6.16 million, RMB5.39 million, RMB4.235 million, RMB3.08 million and RMB2.31 million, respectively. The considerations were determined with reference to the valuation of Hubei

Qiangda as at 31 December 2020 of approximately RMB76.9 million prepared by an independent valuer. The considerations to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin were settled in cash and the consideration to the Pre-IPO Investor was settled by our Company allotting and issuing 30 Shares, credited as fully paid, to the Pre-IPO Investor. Such transfers were properly and legally completed and settled, and Hubei Qiangda became wholly owned by Hong Kong WEIli.

On 6 May 2021, our Company allotted and issued 30 Shares, credited as fully paid, to the Pre-IPO Investor in consideration of the acquisition of 3.00% of the equity interest in Hubei Qiangda from the Pre-IPO Investor by Hong Kong WEIli. After such allotment and issue of Shares, our Company was owned as to 56.50% by City Ease, 16.00% by Yong Ning, 24.50% by Enlighten East and 3.00% by the Pre-IPO Investor.

PRE-IPO INVESTMENT

Details of the Pre-IPO Investment are set out in the table below:

Name of the Pre-IPO Investor	Mr. Lam Wing Chak Victor
Date of the agreement	12 April 2021
Amount of consideration paid	HKD equivalent of RMB3,927,000 (i.e. HKD4,748,000)
Settlement date of the consideration	18 May 2021
Basis of determination of the consideration	The consideration was agreed by the parties after arm's length commercial negotiations, which is at a discount to the Offer Price. Our Directors consider that the discount is justified because (i) there are investment risks for investing in a private unlisted company, including the uncertainties in the timeline for the Listing; and (ii) the Pre-IPO Investor was not granted any special rights.
Number of Shares held by the Pre-IPO Investor upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	18,000,000 Shares
Effective cost per Share paid	approximately HKD0.26

Discount to the Offer Price (based on the Offer Price of HK$0.65 per Offer Share, being the mid-point of the Offer Price range)	approximately 59.4%
Use of proceeds	Not applicable
Benefits brought to our Group	Our Directors believe that the Pre-IPO Investor does not only diversify the shareholders' portfolio of our Group, but also has demonstrated his confidence in the operation of our Group which serves as an endorsement of our performance, strength and future business prospects, which may broaden our shareholding base through introduction of investors with diversified background. Taking into account his experience as a licensed person under the SFO, his previous pre-IPO investment experience and his investment experience in other listed companies, our Directors believe that the Pre-IPO Investment could create synergistic effect to the future development of our Company. While the Pre-IPO Investor would not take part in our day-to-day management, our Directors believe that, leveraging on his knowledge, experience and business networks in the financial industry and equity market, the Pre-IPO Investor will provide strategic input in our business strategies, management and general corporate governance practices of our Company and improvement of the overall corporate strategies, financial reporting, internal control and risk management policies of our Company.
Shareholding in our Company immediately after the completion of Reorganisation and the Pre-IPO Investment but before the Capitalisation Issue and the Share Offer	3.00%

Shareholding in our Company immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	2.25%
Lock-up period	There is no lock-up period pursuant to the agreement between Mr. Hu and the Pre-IPO Investor
Public float	The Shares held by the Pre-IPO Investor are considered as part of the public float for the purpose of Rule 8.24 of the Listing Rules as (i) the Pre-IPO Investor is not a director, chief executive or substantial shareholder of our Company or its subsidiaries or a close associate of any of them (the "**Non-Public Shareholders**"); (ii) the acquisition of the Shares by the Pre-IPO Investor was not financed by the Non-Public Shareholders; and (iii) the Pre-IPO Investor is not accustomed to taking instructions from a Non-Public Shareholder for the voting or dispositions in respect of the Shares held by the Pre-IPO Investor
Special rights	Nil

Background of the Pre-IPO Investor

The Pre-IPO Investor was introduced to our Group by Mr. Hu, our non-executive Director. The Pre-IPO Investor and Mr. Hu have known each other for more than four years since they met at a private event in early 2017. When our Group was devising our Reorganisation and acknowledged that pre-IPO investment is common for red-chip companies, Mr. Hu introduced the Pre-IPO Investor to our Group in early 2020.

The Pre-IPO Investor has over 15 years of working experience in the financial industry and has served as a licensed person for dealing in securities (type 1 regulated activity), advising on securities (type 4 regulated activity) and asset management (type 9 regulated activity) under the SFO in various registered institutions which engage in providing financial services integration platform and/or asset management services. As at the Latest Practicable Date, the Pre-IPO Investor is a responsible officer of Quasar Securities Co., Limited, which is licensed to carry out type 1 (dealing in securities) regulated activities under the SFO, and Quasar Asset Management Limited, which is licensed to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. According to the prospectus of Kin Pang Holdings Limited (stock code: 1722), a company listed on the Stock Exchange on 15 December 2017 which engages in construction industry, the Pre-IPO Investor took part in its pre-IPO investment through Quasar Global Selection SPC Fund which he was one of the ultimate owners. Furthermore, the Pre-IPO Investor is a private investor. The investment portfolio of the Pre-IPO Investor included investments in various companies listed on the Stock Exchange and the London Stock Exchange, and such companies engage in various industries in various countries, including ports and infrastructure in many countries, construction engineering in Hong Kong, biopharmaceutical industry in the PRC, multi-brand restaurant group in Singapore, information technology in Singapore and freight forwarding services. It is expected that the exposure and experience of the Pre-IPO Investor in the capital market in Hong Kong could contribute to our Company from an investor's perspective and share his professional experience. After Mr. Hu introduced our Group to the Pre-IPO Investor, the Pre-IPO Investor expressed interests in investing in enterprises based in the PRC. Considering the background, historical performance and prospect of our business, the Pre-IPO Investor invested in our Group using his personal resources, including his savings.

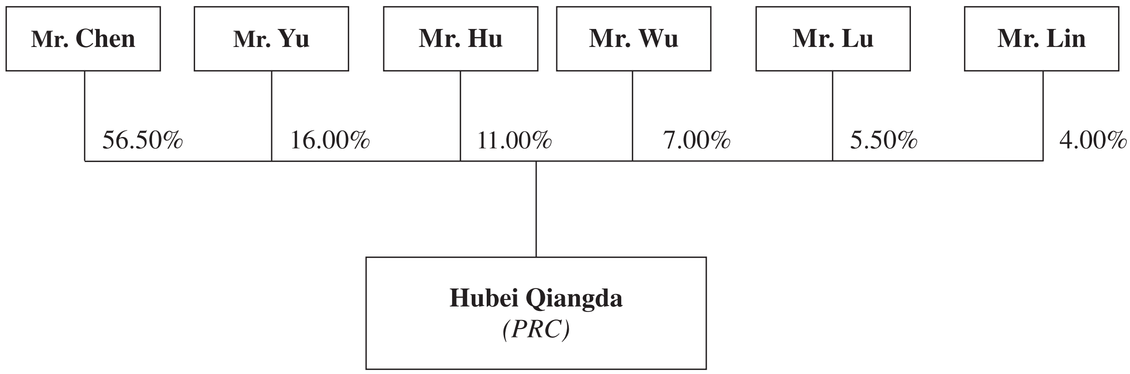
Save as the Pre-IPO Investment, the Pre-IPO Investor was not involved in and did not have any role in the operation nor the proposed Listing of our Group up to the Latest Practicable Date. To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, the Pre-IPO Investor invested in our Group because he appreciates the prospects and potential growth of our Group. Save for the Pre-IPO Investment, the Pre-IPO Investor did not have any past or present relationships (including, without limitation, family, trust, business, employment relationships) or any agreements, arrangements, understanding or undertakings with our Company, our subsidiaries, Shareholders, Directors or senior management and any of their respective associates and is an Independent Third Party as at the Latest Practicable Date. As the Pre-IPO Investor is not a core connected person of our Company, the Shares held by him will be counted towards the public float after the Listing.

Sponsor's confirmation

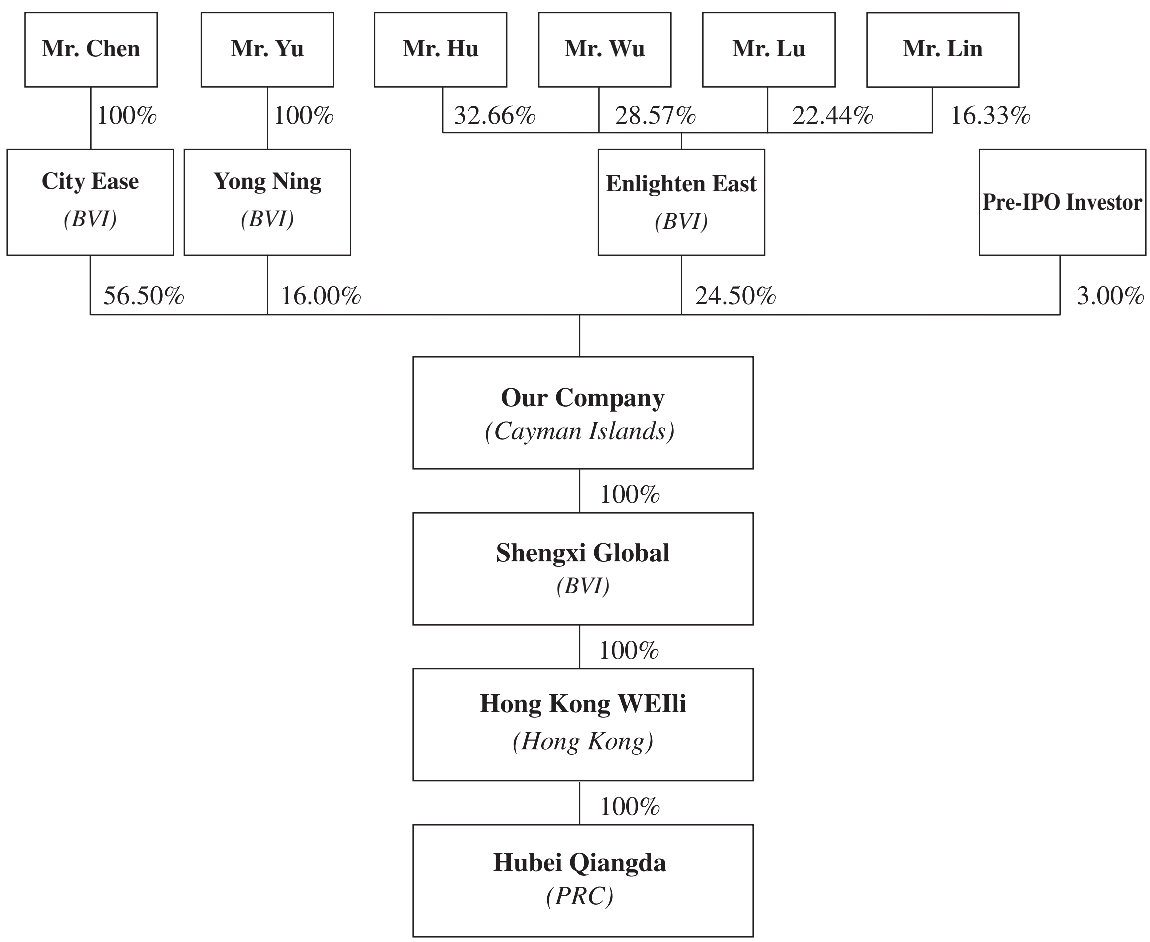
The Sponsor has confirmed that the Pre-IPO Investment is in compliance with (i) the Guidance Letter HKEx-GL29-12 (Interim Guidance on Pre-IPO Investments) issued in January 2012 and updated in March 2017 by the Stock Exchange as the consideration for the Pre-IPO Investment was all settled more than 28 clear days before the date of the first submission of the listing application to the Stock Exchange in relation to the Listing; and (ii) the Guidance Letter HKEx-GL43-12 (Guidance on Pre-IPO investments) issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange as there are no special rights granted to the Pre-IPO Investor that will survive the Listing whereas the Guidance Letter HKEx-GL44-12 (Guidance on Pre-IPO investments in convertible instruments) issued in October 2012 and updated in March 2017 is not applicable to the Pre-IPO Investment.

CORPORATE STRUCTURE

The following chart sets forth the shareholding and corporate structure of our Group immediately before the Reorganisation:



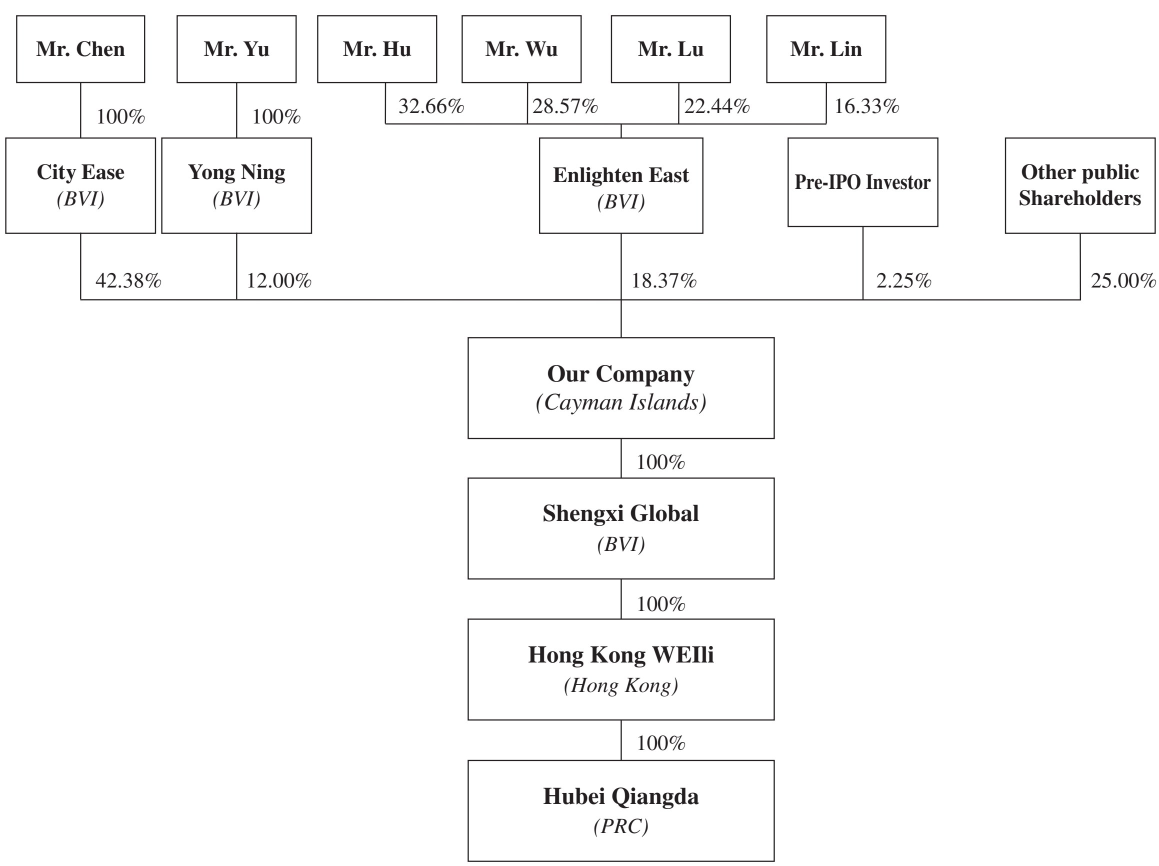
The following chart sets forth the shareholding and corporate structure of our Group immediately after the Reorganisation and the Pre-IPO Investment but before the Capitalisation Issue and the Share Offer:



Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Listing, our Directors are authorised to capitalise an amount of HK$5,999,990 standing to the credit of the share premium account of our Company by applying such sum towards to pay up in full at par a total of 599,999,000 Shares for allotment and issue, immediately prior to the Share Offer, to the Shareholders whose names appear on the register of members of our Company as of 2 June 2022, on a pro rata basis (subject to rounding to avoid fractions and odd lots), so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by them, will constitute 75% of the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

The following chart sets forth the shareholding and corporate structure of our Group immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme):



PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

Compliance with M&A Rules

Under the M&A Rules, a foreign investor is required to obtain approvals from competent authorities when a foreign investor (i) 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 via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (iii) establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or (iv) purchases the assets of a domestic enterprise and injects those assets to establish a foreign invested enterprise. According to the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic company which is related to or connected with it/him/her, approval from MOFCOM is required.

As advised by our PRC Legal Advisers, (1) given that the Pre-IPO Investor is a natural person of foreign nationality and was not connected with our Group before his acquisition of 3.00% of the equity interest in Hubei Qiangda from Mr. Hu, no approval from MOFCOM is required in respect of such acquisition as the acquisition was not subject to the relevant articles of the M&A Rules and Hubei Qiangda has been converted from a domestic company into a foreign-invested enterprise immediately after such acquisition by the Pre-IPO Investor; and (2) the acquisition of the equity interest in Hubei Qiangda by Hong Kong WEIli was not subject to the M&A Rules because Hubei Qiangda was a foreign-invested enterprise at the time of the acquisition of the equity interest by Hong Kong WEIli. Accordingly, the said acquisition was not subject to any prior approval from MOFCOM and CSRC under the M&A Rules.

Compliance with the SAFE Circular No. 37 and SAFE Circular No. 13

As advised by our PRC Legal Advisers, all indirect individual shareholders of our Company who are PRC residents have completed their registration under SAFE Circular No. 37 and SAFE Circular No. 13 on 1 June 2021.

Our PRC Legal Advisers further confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation and equity interest transfers in respect of Hubei Qiangda as set out in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations in all material respects.

BUSINESS OVERVIEW

We are a PRC-based cigarette packaging paper manufacturer with research and development capabilities to supply customised products to our customers. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. During the Track Record Period, a majority of our revenue was derived from the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes, and our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 14.9% in Hubei Province in 2020, and the tenth largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 0.8% in the PRC in 2020.

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

	FY2019				FY2020				FY2021			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*
Sale of cigarette packaging paper												
— Transfer paper	246,017	78.6	16,162	15,200	253,250	79.6	17,326	14,600	312,741	84.5	20,357	15,400
— Laminated paper	61,414	19.6	5,517	11,100	59,616	18.7	5,553	10,700	55,889	15.1	5,137	10,900
— Frame paper	2,328	0.8	312	7,500	1,486	0.4	175	8,500	1,594	0.3	180	8,800
Sub-total	309,759	99.0	21,991		314,352	98.7	23,054		370,224	99.9	25,674	
Provision of cigarette packaging paper processing services	3,041	1.0			3,994	1.3			87	0.1		
Total	312,800	100.0			318,346	100.0			370,311	100.0		

During the Track Record Period, we manufactured all our products at our self-owned production facility in Hong'an County, Huanggang, Hubei Province with a gross floor area of approximately 12,000 sq.m.. Geographically, we are in proximity to sizeable regional cigarette manufacturing markets, such as Hubei, Hunan and Henan where a number of cigarette and related packages manufacturers operate. We also have close access to the extensive transportation networks in Wuhan City, Hubei Province which greatly facilitates our logistics and transportation arrangements.

We are committed to investing in our machinery to enhance our production efficiency and ensure our product quality. As at the Latest Practicable Date, we operated a total of seven production lines. Our production lines are commonly applicable to the production of transfer paper, laminated paper and frame paper. Our principal machinery includes laminating machine, crosscutting machine and winding machine. We also possess various testing equipment to conduct measurement on the colour shading, temperature resistance and chemical compositions of our products. Our machinery is well equipped to be used for producing products with different specifications. For further details on our production facility, please refer to the paragraph headed ''Production facility and capacity — Production facility'' below in this section.

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

We believe that our understanding of our customers' needs and our ability to deliver quality and customised products have been crucial to our success in maintaining stable relationship with our existing customers and attracting new customers. Regular communication and interaction with our customers allows us to stay abreast of the latest trend and development of our customers' product requirements and facilitates us in further enhancing our product and technical development to maintain and improve the market appeal of our products. We have maintained a stable customer base during the Track Record Period. For FY2019, FY2020 and FY2021, we had generated sales from 37, 40 and 34 customers, respectively. For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively. We had established business relationship with Customer E (being one of our top customers during the Track Record Period) for seven years. In addition, some of our top customers are established market players in the cigarette package manufacturing industry. For instance, Hubei Golden Three Gorges is a subsidiary of a company listed on the

Stock Exchange, whereas Customer Group C are subsidiaries of state-owned enterprises in the PRC. For further details on our top customers, please refer to the paragraph headed "Our customers – Top customers" below in this section.

The principal types of raw materials for our production process include white cardboard, film and other accessory materials such as glue and ink. We source raw materials from various suppliers in the PRC. To ensure our product quality, our raw materials procurement policy is to make procurement from those approved suppliers who have passed our quality control assessment and have a satisfactory record of quality and on-time delivery. As at 31 December 2021, we had more than 120 approved suppliers on our internal list.

We believe that the quality and reliability of our products are critical to our success. We have established quality assurance standards to meet our customers' requirements. As at the Latest Practicable Date, our quality control department was staffed with 11 personnel to implement our quality management system. Our quality control manager has over 15 years of relevant industry experience. Under our quality management system, we conduct quality control testing at various stages throughout our production process, including (i) incoming quality check on raw materials; (ii) quality control throughout the production process; and (iii) outgoing quality check on finished products. Our quality management system has been certified to be in compliance with ISO 9001 certification. In addition, in recognition of our commitment to work safety and environmental protection, our occupational health and safety management system and environmental management system have been certified to be in compliance with ISO 45001 certification and ISO 14001 certification, respectively. For further details, please refer to the paragraphs headed "Quality control", "Occupational health and safety" and "Environmental, social and corporate governance matters" below in this section.

Our Directors believe that we have built up reputation as an established cigarette packaging paper manufacturer in the PRC. We were recognised as "High and New Technology Enterprise" (高新技術企業) by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Tax Service, State Taxation Administration (國家税務總局湖北省税務局) since November 2017 and was awarded "Hong'an County 2015–2017 Outstanding Enterprises in Scientific and Technological Innovation Work" (紅安縣2015–2017年度科技創新工作成果突出企業) by Hong'an County People's Government (紅安縣人民政府) in December 2018. We were also recognised as "The 2019 (7th) Huanggang City Excellent Enterprise (Golden Eagle Award) (2019年(第七屆)黃岡市優秀企業(金鷹獎))" by the Huanggang City Entrepreneurs Association of Hubei Province* (湖北省黃岡市企業家協會) and Huanggang City Enterprise Confederation* (黃岡市企業聯合會) in May 2019. For further information, please refer to the paragraph headed "Certification and recognitions" below in this section.

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

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

We have established stable business relationship with established cigarette package manufacturers which supply cigarette packages for well-known cigarette brands in the PRC

We supply our products primarily to cigarette package manufacturers. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. We believe that being a supplier for established cigarette package manufacturers has enhanced our market position and industry recognition.

Our customers operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. We had established business relationship with Customer E (being one of our top customers during the Track Record Period) for seven years. In addition, some of our top customers are established market players in the cigarette package manufacturing industry. For instance, Hubei Golden Three Gorges is a subsidiary of a company listed on the Stock Exchange, whereas Customer Group C are subsidiaries of state-owned enterprises in the PRC. For further details on our top customers, please refer to the paragraph headed "Our customers – Top customers" below in this section.

According to the Industry Report, cigarette brand companies generally place emphasis on the consistency and standardisation of their cigarette packages as these are crucial to their brand recognition and product appeal. As such, consistency in the supply and quality of cigarette packaging paper is highly regarded by cigarette package manufacturers as well as cigarette manufacturers. Our customers generally engage us through direct negotiation or tender selection process. If our quotation or tender is accepted by our customers, they will typically confirm our engagement by entering into a framework sales agreement with us. If our customers are satisfied with the quality of our products, they would likely renew the framework sales agreement with us upon its expiry under a new unit price for the products with similar terms and conditions. Based on the aforesaid, our Directors consider that we are well-positioned to maintain the relationship with existing customers so long as our products consistently comply with their standards and requirements. With the effort of our senior management team, we have established stable business relationship with our existing customers and have maintained a generally stable customer base during the Track Record Period. The length of our relationships with major customers ranged from two years to seven years. Our customer base spans across various provinces in China, which facilitates us to further expand our potential customer base and explore new business opportunities.

Our Group has made consistent effort in geographic expansion and diversifying our customer base. Our sales representatives have engaged in business development and marketing activities in various provinces in the PRC. They are responsible for (i) enhancing our promotion and sales efforts; (ii) actively approaching and liaising with our existing and potential customers; and (iii) collecting feedbacks and handling any queries on our products from customers in those provinces. While our customers are mainly located in Hubei Province and Henan Province, we strive to expand our reach to customers located at different provinces in the PRC. For example, our Group has established business relationship with (i) a cigarette package manufacturer, being a subsidiary of a state-owned enterprise in the PRC, with its headquarters in Shanghai Municipality in FY2019; (ii) a cigarette package manufacturer (being listed on the Shanghai Stock Exchange) with its headquarters in Anhui Province in FY2020; and (iii) a cigarette package manufacturer located in Yunnan Province, which is a subsidiary of a state-owned cigarette manufacturer, in FY2020.

We are an established cigarette packaging paper manufacturer located strategically in Hubei Province with solid production capacity

We have an established market position in the cigarette packaging paper manufacturing industry in Hubei Province. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of approximately 14.9% in Hubei Province.

Our production facility is located in Hong'an County, Huanggang, Hubei Province with a gross floor area of approximately 12,000 sq.m.. Geographically, we are in proximity to sizeable regional cigarette manufacturing markets, such as Hubei, Hunan and Henan where a number of cigarette and related packages manufacturers operate. We also have close access to the extensive transportation networks in Wuhan City, Hubei Province which greatly facilitates our logistics and transportation arrangements. Since cigarette packaging paper is generally bulky and heavy, we believe our strategic location in Hubei Province allows us to have better access to our target customers, shorten the delivery time of products and minimise our logistics and transportation costs.

As at the Latest Practicable Date, we operated a total of seven production lines. Our production lines are commonly applicable to the production of transfer paper, laminated paper and frame paper. We are committed to investing in our machinery to enhance our production efficiency and ensure our product quality. Our principal machinery includes laminating machine, crosscutting machine and winding machine. We also possess various testing equipment to conduct measurement on the colour shading, temperature resistance and chemical compositions of our products. Leveraging our solid production capacity, we are able to schedule our production flexibly, promptly respond to our customers' requirements and ensure timely delivery of products at the required volume.

We possess research and development capabilities to supply customised products to our customers

We constantly strive to differentiate ourselves from our competitors through providing customised products that match with the evolving requirements and specifications of our customers. We believe that our ability to supply customised products has allowed us to build up a stable and sustainable customer base. In addition, through regular communication and interaction with our customers, we are able to stay abreast of the latest trend and development of our customers' products requirements. Our research and development department comprised 18 personnel as at the Latest Practicable Date and 17 of them have worked with us for over three years. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture. For FY2019, FY2020 and FY2021, the expenses incurred by us on research and development amounted to approximately RMB10.7 million, RMB10.4 million and RMB13.1 million, respectively. In 2018, we have collaborated with a university in Xi'an in the development of new products and fine-tuning of our production process. In 2021, we have further collaborated with the university in the advancement of our technological innovation capacity. As at the Latest Practicable Date, our Group had registered 24 patents in the PRC which are, in the opinion of our Directors, material to our business. For further information, please refer to the paragraph headed "Intellectual property" below in this section. Moreover, as at the Latest Practicable Date, we possessed more than ten sets of equipment for performing testing in the process of research and development.

We were recognised as "High and New Technology Enterprise" (高新技術企業) by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Tax Service, State Taxation Administration (國家稅務總局湖北省稅務局) since November 2017 and was awarded "Hong'an County 2015–2017 Outstanding Enterprises in Scientific and Technological Innovation Work" (紅安縣2015–2017年度科技創新工作成果突出企業) by Hong'an County People's Government (紅安縣人民政府) in December 2018. We believe our commitment to research and development represent our core competitive strength and will continue to play a major role in our business going forward.

We implement stringent quality control management to ensure a high quality standard

We believe that the quality and reliability of our products are critical to our success. We have established quality assurance standards to meet our customers' requirements. As at the Latest Practicable Date, our quality control department was staffed with 11 personnel to implement our quality management system. Our quality control manager has over 15 years of relevant industry experience. Our quality management system has been certified to be in compliance with ISO 9001 certification. We have incorporated features of Total Productive Maintenance (TPM) to maintain and enhance the performance efficiency of our production facility. In addition, in recognition of our commitment to work safety and environmental protection, our occupational health and safety management system and environmental management system have been certified to be in compliance with ISO 45001 certification and ISO 14001 certification, respectively.

In order to meet our customers' requirements on product quality, we have implemented stringent quality control procedures for each stage of our production process, including (i) incoming quality check on raw materials; (ii) quality control throughout the production process; and (iii) outgoing quality check on finished products. To ensure our product quality, our raw materials procurement policy is to make procurement from those approved suppliers who have passed our quality control assessment and have a satisfactory record of quality and on-time delivery. We also monitor our manufacturing processes and conduct series of testing with a view to ensuring that our products have a low defect rate and meet the expectations of our customers. In addition, we communicate regularly with our customers to obtain feedback on the quality standards of our products.

We have an experienced management team

We have an experienced management team. Mr. Chen, our Chairman and an executive Director, has over 25 years of experience in business management in various industries, including the paper industry in the PRC. Mr. Chen is responsible for the overall management and formulation of business strategies of our Group. Mr. Yu, an executive Director and chief executive officer of our Group, has over 25 years of experience in the cigarette industry, including the cigarette packaging industry. Mr. Yu is responsible for the overall management and day-to-day management of the operations of our Group. Our executive Directors are supported by our senior management who possess practical skills and experience. Mr. Bao Zhigang, our chief technology officer, has over 15 years of experience in the paper industry and Mr. Song Zhengmei, our chief product officer, has over 10 years of experience in product quality control. For the biographical details of our Directors and senior management, please refer to the section headed ''Directors and senior management'' of this prospectus. With the experience of our executive Directors and senior management, we believe that we are able to strengthen our presence in the market we operate.

We believe that the networks of our executive Directors and senior management with the cigarette package manufacturers have enabled them to understand the needs of the cigarette package manufacturers, thereby allowing them to better anticipate and fulfil our customers' requirements in a timely and responsive manner and adopt better strategies in securing regular and recurring business and explore more new business opportunities which are crucial to the continuous development of our Group. Our Directors also believe that the profound industry knowledge of our management team are critical to the efficiency of our production and overall development of our business.

BUSINESS STRATEGIES

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

In this connection, our key business strategies are as follows:

Expanding our production capacity, production efficiency and product portfolio

(I) Increasing demand for mid-to-high-end cigarettes and higher quality cigarette packaging paper in the PRC

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

Along with the promotion of tobacco withdrawal, the PRC Government has taken the health promotion initiative to steer the consumption of cigarettes towards mid-to-high-end cigarettes which are generally associated with higher quality and inflict less harmful effect on health. This, in turn, encourages a shift in the focus of cigarette manufacturers on promoting mid-to-high-end cigarettes. According to the Industry Report, the percentage of sales volume of mid-to-high-end cigarettes, as represented by tier 1 to tier 3 cigarettes, over the total sales volume of cigarettes in the PRC increased from approximately 90.8% for FY2019 to approximately 94.3% for FY2020 and further increased to approximately 96.0% for FY2021. Driven by the PRC Government's health promotion initiative in steering the consumption of cigarettes towards mid-to-high-end cigarettes, which are generally charged at a higher selling price, it is forecasted that the sales value of cigarettes will continue to grow from 2022 to 2025 in the PRC.

Mid-to-high-end cigarettes generally entail the use of cigarette packaging paper with higher quality requirements as the quality of cigarette packaging to a large extent reflects the brand premium of the cigarettes contained in it. According to the Industry Report, the sales value of cigarette packaging paper manufacturing industry in the PRC is forecasted to increase from approximately RMB41,155.9 million in 2022 to RMB44,349.5 million in 2025, at a CAGR of approximately 2.5%, which is mainly attributable to (i) the continuous focus of the cigarette industry towards mid-to-high-end cigarettes; and (ii) the expected increase in per capita disposal income in the PRC that will likely result in an increase in purchasing power of PRC citizens and their spending on mid-to-high-end cigarettes. In light of the expected growth in cigarette packaging paper manufacturing industry and the increasingly stringent technical and quality requirements of cigarette packaging paper associated with the increase in demand for mid-to-high-end cigarettes in the PRC, our Directors consider that it is imperative for our Group to further expand our production capacity and product portfolio through the acquisition of more advanced production machinery.

(II) Outperformance of our Group as compared to the industry trend during the Track Record Period

According to the Industry Report, the sales volume of cigarettes in the PRC decreased by approximately 0.2% in FY2019 and remained relatively stable in FY2020; whereas the sales volume of cigarettes in Hubei remained relatively stable in FY2019 and decreased by approximately 1.3% in FY2020. Notwithstanding the decrease in the sales volume of cigarettes in the PRC and Hubei during the Track Record Period, our Group was able to achieve an increase in sales volume of cigarette packaging paper by approximately 33.7% in FY2019 and approximately 4.8% in FY2020, which was mainly attributable to the followings:

(i) *The composition of our product mix:* according to the Industry Report, the overall sales volume and value of mid-to-high-end cigarettes, as represented by tier 1 to tier 3 cigarettes, in the PRC have recorded an increment during the Track Record Period as driven by the PRC Government's policy in promoting mid-to-high-end cigarettes. For FY2019, FY2020 and FY2021, the sales volume of mid-to-high-end cigarettes in the PRC was approximately 2,150.4 billion sticks, 2,233.4 billion sticks and 2,291.1 billion sticks, representing approximately 90.8%, 94.3% and 96.0% of the total sales volume of cigarettes in the PRC, respectively.

During the Track Record Period, a majority of our revenue was derived from the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes. Our revenue generated therefrom increased from approximately RMB292.8 million for FY2019 to approximately RMB358.7 million for FY2021, representing an increase of approximately 22.5%. Our Directors consider that the increase in our revenue derived and sales volume generated from cigarette packaging paper products applied for mid-to-high-end cigarettes was primarily driven by the increase in volume and proportion of mid-to-high end cigarettes sold in the PRC as aforementioned; and

(ii) *Expansion in our production capacity to cater to orders from existing and new customers:* along with the expansion in our production scale following the addition of three new production lines and replacement of two of our then existing production lines in FY2018, the maximum production capacity of our production facility increased from approximately 19,019 tonnes for FY2018 to approximately 28,028 tonnes for FY2019. For further details, please refer to the paragraph headed "Production Facility and Capacity — Utilisation rate" in this section. Such increase in our maximum production capacity enabled our Group to cater to the increase in demand from some of our existing major customers as well as new customers. In particular, our Group's sales volume to Changge Dayang increased from approximately 315 tonnes for FY2018 to approximately 1,293 tonnes for FY2019, while our Group's sales volume to Customer Group C increased from approximately 1,309 tonnes for FY2018 to approximately 2,107 tonnes for FY2019. Besides, attributable to our consistent effort in diversifying our customer base to secure new business opportunities, our number of customers increased from 22 for FY2018 to 37 for FY2019 and these new customers in FY2019 contributed sales volume of approximately 4,654 tonnes to our Group in aggregate for FY2019.

While the cigarette packaging paper manufacturing industry in the PRC is forecasted to achieve nominal growth from 2022 to 2025, our Directors consider that, with the successful implementation of our business strategies, we will continue to outperform the industry trend, taking into account our operation history and financial performance during the Track Record Period. Our Group's revenue and gross profit increased at a CAGR of approximately 8.8% and 11.5%, respectively, from FY2019 to FY2021 which largely outmatched the industry growth of approximately 1.9% in the PRC cigarette packaging paper manufacturing industry in terms of sales value during the corresponding period. Leveraging (i) our production capability and ability in fulfilling the stringent requirements of various cigarette package manufacturers and well-known cigarette brands in the PRC; (ii) our ability in manufacturing quality cigarette packaging paper for the use by mid-to-high-end cigarette brands and our products being used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC; (iii) our ability in providing customised products that match with the evolving requirements and specifications of our customers; and (iv) the increase in the consumption proportion of mid-to-high-end cigarettes in recent years as explained above, our Directors consider that, with the successful implementation of our business strategies, our Group will continue to achieve business expansion and outperform the forecasted industry growth rate in the PRC cigarette packaging paper manufacturing industry.

(III) Continuous diversification of customer base and geographical expansion

Our Group has made consistent effort in diversifying our customer base. Our customers include various cigarette package manufacturers which provide cigarette packages to various well-known cigarette brands in the PRC. In particular, FY2019, FY2020 and FY2021, approximately 64.6%, 78.0% and 76.4% of our revenue derived from the sale of cigarette packaging paper products was attributable to the sale of cigarette packaging paper for the use in the manufacture of cigarette package of nine of the "Dual 15 cigarette brands (雙十五煙草品牌)" recognised by the STMA. For a detailed breakdown of our sales attributable to the "Dual 15 cigarette brands", please refer to the paragraph headed "Our products and services — Breakdown of our product sales by cigarette brands" below in this section. Our Directors consider that our ability in delivering products which fulfil the stringent quality and technical requirements of various cigarette package manufacturers and well-known cigarette brands, especially those being recognised as the "Dual 15 cigarette brands", is a recognition of our product quality, technical know-how, industry knowledge and experience which are transferrable by us to serving new potential customers.

According to the Industry Report, Yunnan, Hunan, Henan, Guangdong and Hubei are the top five production bases of cigarettes in the PRC, accounting for approximately 40% of the national production volume in aggregate. During the Track Record Period, a majority of our revenue was derived from customers situated in Hubei Province and Henan Province which in aggregate contributed approximately 73.5%, 88.1% and 77.6% of our total revenue for FY2019, FY2020 and FY2021, respectively.

While our major customers are mainly located in Hubei Province and Henan Province, we also strive to expand our reach to customers located in different provinces in the PRC. For example, our Group has successfully developed business relationship with various customers in other provinces, including (i) a cigarette package manufacturer, being a subsidiary of a state-owned enterprise in the PRC, with its headquarters in Shanghai Municipality in FY2019; (ii) a cigarette package manufacturer (being listed on the Shanghai Stock Exchange) with its headquarters in Anhui Province in FY2020; and (iii) a cigarette package manufacturer located in Yunnan Province, which is a subsidiary of a state-owned cigarette manufacturer, in FY2020.

According to the Industry Report, our Group was ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of approximately 14.9% in Hubei Province. Having considered our established presence in Hubei Province and the potential business opportunities available in the other geographical regions in the PRC, our Directors believe that it is the appropriate timing for our Group to further expand geographically and enlarge our market share in the PRC. Leveraging our sales network and business relationship with customers located in different provinces, our Directors believe that we are well positioned to penetrate into other geographical markets in the PRC. In this regard, it is part of our business strategies to increase our marketing efforts by strategically establishing sales centres in Shanghai Municipality, Yunnan Province and Henan Province. For further details, please refer to the paragraph headed "Increasing our marketing efforts in various provinces in the PRC" below in this section.

Our Directors believe that our planned geographical expansion and continuous effort in diversifying our customer base will likely result in an increase in demand for our cigarette packaging paper products of different product requirements and specifications. Hence, our Directors believe that we have genuine and imminent need to expand our production capacity, production efficiency and product portfolio.

(IV) Growing emphasis on the anti-counterfeiting and eco-friendliness features of cigarette packaging paper

According to the Industry Report, the PRC Government authorities have placed greater emphasis on cigarette branding, quality, and variety. In 2014, the State Tobacco Monopoly Administration for the PRC Tobacco Industry Standard issued the "*Requirements for Design of Cigarette Package (卷煙包裝設計要求) YC/T 273-2014*" which encouraged cigarette manufacturers to use environmentally friendly cigarette packaging materials. Likewise, cigarette manufacturers have striven to ensure the consistency and standardisation of their cigarette packages as these are crucial to their brand recognition and product appeal. The more stringent requirements for cigarette packages have resulted in an increase in demand for quality cigarette packaging materials which in turn encouraged cigarette packaging paper manufacturers to develop more products with advanced anti-counterfeiting and eco-friendliness features. Cigarette packaging paper manufacturers are therefore committed to improve their know-how and optimise their manufacturing process to develop cigarette packaging paper which aligns with such market trend.

According to the Industry Report, it is increasingly common for cigarette manufacturers to use platinum positioning paper as cigarette packaging materials owing to its high precision anti-counterfeiting and eco-friendliness features. Platinum positioning paper is a type of cigarette packaging paper mainly used in the packaging of certain tier 1 cigarettes which are generally used for gifting. As compared to the mainstream cigarette packaging material which are being widely used in the market such as transfer paper and laminated paper, the usage and demand of platinum positioning paper is significantly lower. Platinum positioning paper was first launched to the market in 2012 but has yet to become a mainstream packaging material for cigarette packaging in the PRC mainly because (i) the platinum films used in the production of platinum positioning paper were only supplied by a limited number of suppliers as it required unique design and production technology; (ii) the establishment of production lines of platinum positioning paper for cigarette packaging use is capital intensive as it requires specific production equipment and involves high research and development cost; and (iii) the production of platinum positioning paper has higher requirements on precision which require advanced machinery and experienced workers. Owing to the relatively high market entry barriers, there are only a few major players in the production of platinum positioning paper in the PRC.

According to the Industry Report, notwithstanding platinum positioning paper has not become a mainstream cigarette packaging material to date, demand for platinum positioning paper has been on the rise as cigarette brands have unremittingly striven to search for higher quality and better designed cigarette packaging paper in order to enhance their brand and product appeal. Platinum positioning paper is also gaining favour among cigarette package manufacturers owing to its compatibility with different printing methods and printing machinery which enhances their flexibility in fulfilling different product features and designs.

As confirmed by our Directors and Ipsos, the production process of platinum positioning paper is largely similar to that of our existing products. However, our existing production machinery lacks the capability to handle all the production steps of platinum positioning paper. In light of (i) the growing market demand for platinum positioning paper; and (ii) the increase in number of suppliers which possessed the production technology to manufacture platinum films used in the production of platinum positioning paper according to the Industry Report, which would facilitate us in securing the supply of materials used for the production of platinum positioning paper. In particular, our Directors are aware that a number of our suppliers with whom we have established years of business relationship have also developed the capability in supplying the platinum films used in the production of platinum positioning paper; our Directors consider that it is the appropriate timing for our Group to develop the capability of manufacturing platinum positioning paper by acquiring machinery that can be interchangeably used for the production of different cigarette packaging paper with advanced features, which would in turn allow us to expand our production capabilities as well as to capture the market demand for platinum positioning paper.

In 2021, we entered into non-binding letters of intent with Changge Dayang and a customer in Henan Province (the "**Henan Customer**"), pursuant to which we would develop and supply certain types of cigarette packaging paper to Changge Dayang and the Henan Customer. The table below sets forth the salient terms of the letters of intent:

Estimated date of sales	:	In or before 2023, depending on the progress of developing the products
Products and estimated annual sales volume to Changge Dayang	:	(i) 500 tonnes of holographic laser cigarette packaging paper with anti-counterfeiting and positioning features per year (ii) 500 tonnes of special cigarette packaging paper with anti-counterfeiting features per year (iii) 750 tonnes of imitation aluminum cigarette packaging paper with eco-friendliness features per year
Products and estimated annual sales volume to the Henan Customer	:	500 tonnes of imitation aluminum cigarette packaging paper with eco-friendliness features per year
Product development and sales arrangement	:	Our Group shall develop the cigarette packaging paper in accordance with the specifications prescribed by Changge Dayang and the Henan Customer and submit prototypes for approval. Upon confirming the prototypes, our Group shall negotiate and enter into a framework sales agreement with Changge Dayang and the Henan Customer. Changge Dayang and the Henan Customer shall place purchase orders according to the agreed unit price as stated in the framework sales agreement.

(V) Improving our production capacity and efficiency

We are committed to improving our production efficiency and product quality. We currently operate seven production lines. For FY2019, FY2020 and FY2021, the utilisation rate of our production facility was approximately 83.3%, 97.4% and 95.4%, respectively. For further details, please refer to the paragraph headed "Production facility and capacity — Utilisation rate" below in this section. The overall utilisation rate of our production facility has reached a relatively high level during the Track Record Period. We believe that in order to keep up with the expected growth in our business, especially those periods with higher sales, we have a genuine and imminent need to increase our production capacity.

During the Track Record Period, we had occasionally arranged our workers to work overtime in order to fulfil the volume of purchase orders received by us. As a result of such overtime work arrangement, during the Track Record Period, the utilisation rates of our production facility had occasionally exceeded 100%, especially for the period before Chinese New Year. Further, while our workers were willing to perform overtime works on an as-needed basis, there is nonetheless a limitation on the operating hours of our machinery given that (i) excessive usage of machinery may result in more frequent machine malfunctioning or breakdown; and (ii) we have to spare adequate time for performing routine cleaning and maintenance of our machinery to maintain its operating conditions at an optimal level. In view of the business growth achieved by us during the Track Record Period (excluding the one-off impact associated with the outbreak of COVID-19 in early 2020) and the forecasted increase in our sales, our Directors consider that it may not be feasible for our Group to solely rely on overtime work arrangement to fulfil the expected increase in demand for our cigarette packaging paper products in the long run. Given that the utilisation rate of our production facility remained at a relatively high level throughout the Track Record Period and we had to arrange for overtime work from time to time to fulfil our production needs, our Directors consider that our existing production capacity may not be able to support our further business expansion as it may overload our production facility as well as existing staff. Accordingly, it is essential for our Group to expand our production capacity in order to fulfil the continuous increase in demand for our products while maintaining the workload of our staff at an appropriate level at the same time.

Taking into account (i) the expected increase in market demand for cigarette packaging paper; (ii) the limitation in our production capacity; and (iii) the relatively high utilisation rate of our production facility, our Directors consider that it is justified for our Group to further expand our production capacity by replacing an existing production line which dated back to 2014 with a new one and setting up three additional new production lines with more advanced production machinery. The table below sets forth the remaining useful life of our existing production lines:

Production line(s)	**Remaining useful life**
	years
#01	2
#02 to #04	6
#05 to #07	7

As the age of our machinery increases, they generally depreciate in value, operational efficiency and cost-effectiveness. As at the Latest Practicable Date, we owned seven production lines, among which one production line is expected to be fully depreciated in two years. By replacing the aged machinery, our Group will benefit from the higher operational efficiency, shorter down time and lower maintenance cost of new machinery. It is crucial for our Group to constantly review the conditions of our machinery and determine if any machinery replacement or upgrade is required for maintaining our competitiveness.

Our new production lines will possess more advanced functions which enable us to further strengthen our capability in developing cigarette packaging paper that match with the evolving requirements and specifications of our customers.

(VI) Increase in our production capacity to accommodate the increase in demand for our products

In FY2018, our Group underwent expansion in terms of our production scale following the addition of three new production lines and replacement of two of our then existing production lines. The aforesaid expansion was mainly implemented during the second half of FY2018 and thereafter, our Group spent months on the installation, adjustment and testing of the newly acquired machinery and arranged trainings for our staff on the safe operation of the newly acquired machinery. Therefore, the increase in production capacity arising from the acquisition of machinery in FY2018 was only fully reflected in FY2019, resulting in the substantial increase in maximum production capacity of our production facility from approximately 19,019 tonnes for FY2018 to approximately 28,028 tonnes for FY2019, representing an increase of approximately 47.4%.

The increase in our maximum production capacity in FY2019 enabled our Group to cater to the increase in demand from some of our existing major customers. For instance, our revenue derived from Changge Dayang increased from approximately RMB4.6 million for FY2018 to approximately RMB26.2 million for FY2019 as our sales volume to Changge Dayang increased from approximately 315 tonnes for FY2018 to approximately 1,293 tonnes for FY2019, whereas our revenue derived from Customer Group C increased from approximately RMB19.2 million for FY2018 to approximately RMB30.4 million for FY2019 as our sales volume to Customer Group C increased from approximately 1,309 tonnes for FY2018 to approximately 2,107 tonnes for FY2019.

Besides, the increase in our maximum production capacity in FY2019 also allowed us to cater to potential demand for our products from new customers which in turn enlarged our customer base. The number of customers which generated sales to our Group increased from 22 for FY2018 to 37 for FY2019. These additional customers in FY2019 contributed revenue of approximately RMB56.7 million, representing approximately 18.1% of our total revenue for FY2019.

As a result of the aforesaid, our Group achieved substantial business growth from FY2018 to FY2019 which can be demonstrated by the substantial increase in our revenue from approximately RMB233.9 million for FY2018 to approximately RMB312.8 million for FY2019, representing an increase of approximately 33.7%. Leveraging our ability in securing additional purchase orders to utilise the increase in production capacity resulting from our expansion in production scale in FY2018, the utilisation rate of our production facility increased from approximately 77.9% for FY2018 to approximately 83.3% for FY2019.

In FY2020, our business operations were suspended for approximately two months between late-January 2020 to late-March 2020 due to the outbreak of COVID-19. Subsequent to our resumption of business operations, our production facility was operated at a high utilisation level to fulfill the purchase orders in the remaining period of the year. For FY2021, the utilisation rate of our production facility maintained at a relatively high level of approximately 95.4% which was primarily due to the increase in purchase orders placed by our major customers during the period.

Based on the above, our Directors are of the view that our existing production capacity has been substantially utilised to fulfil the demand from our existing customers and our future business growth is largely limited by the existing production capacity of our production facility.

Accordingly, our Directors believe that the continuous expansion in our production capacity is conducive and precarious to our business growth as it helps to strengthen our capability in satisfying demand for our products from existing and potential customers.

(VII) Technical improvement of our production lines

Currently, our Group mainly relies on manual inspection on identifying defective products. Our new production lines will be equipped with automatic control system that could perform automatic identification and elimination of defective products. Also, the automatic control system would alert our production staff about the detection of defective products on a real-time basis. Likewise, we also plan to install the automatic control system on our existing production lines. It is expected that the automatic control system will enhance our production efficiency and stability as well as strengthen our quality control.

In addition, the new production lines are expected to substantially increase our overall production efficiency as they will involve less idle time for replenishment of raw materials during the production process. By using more advanced machinery, our new production lines could also reduce the wear-and-tear to our raw materials, namely white cardboard, during replenishment.

Comparison between our existing laminating machines and the advanced laminating machines

The table below sets forth a comparison between the specifications and functions of our existing laminating machines and the advanced laminating machines that we intend to purchase:

Specifications and functions	**Existing laminating machines**	**Advanced laminating machines**
Useful life *(years)*	10	10
Maximum production capacity *(tonnes per year)*	4,004	4,605
Automatic paper loader *(Note 1)*	No	Yes
Positioning function *(Note 2)*	No	Yes
Automatic control system *(Note 3)*	No	Yes

Notes:

1. The automatic paper loader will enable us to replenish white cardboard while the machine is in operation, which can reduce waste materials and idle time.

2. The positioning function will enable us to produce a wider range of cigarette packaging paper, such as platinum positioning paper.

3. The automatic control system will alert our production staff about the detection of defective products on a real-time basis.

Features of products to be manufactured by the new production lines

We intend to acquire four sets of advanced laminating machine to facilitate the replacement of an existing production line and set up three new production lines. The advanced laminating machines will allow us to manufacture a wider range of cigarette packaging paper products and achieve higher operational efficiency than our existing models. For instance, according to the Industry Report, it is increasingly common for cigarette manufacturers to use platinum positioning paper as cigarette packaging materials owing to its high precision anti-counterfeiting and eco-friendliness features.

Besides, the use of advanced laminating machines in our new production lines would facilitate us in enhancing the features of our products. The following table sets forth a comparison of the features of cigarette packaging paper that could be manufactured by each of our existing and new production lines:

	Existing production lines	**New production lines**
Anti-counterfeiting features	Basic anti-counterfeiting features such as holographic and laser effects.	Enhanced anti-counterfeiting features such as positioning pattern, watermarks and special symbols.
Eco-friendliness features	Basic eco-friendliness features such as glass-imitation characteristics.*(Note)*	Enhanced eco-friendliness features such as aluminum foil-imitation characteristics.*(Note)*
Technical features	Basic technical features such as aluminised and high gloss effects.	Advanced technical features such as double-sided lamination, hollowing, extra low weight and extra thin characteristics.

Note:

At the lamination stage, the white cardboard and film are bonded together by pressing between the rollers under pressure conditions to form a laminated sheet.

Our existing production lines are equipped with heating tubes which would heat up the white cardboard and film at the lamination stage and is capable of producing a glass-imitation or mirror-like feature. The cigarette packaging paper produced by us are eco-friendly in terms of high recyclability and decomposability.

Our new production lines will be equipped with ultraviolet-fixed point heating technology (the "**UV Heating Technology**"), which provides more cost-efficient and more environmental-friendly manufacturing solutions. UV Heating Technology enables the bond between the white cardboard and film to form more naturally and is capable of producing an aluminum foil-imitation effect. Our existing production lines are only capable of manufacturing aluminum foiled cigarette packaging paper with a thicker metallic layer and are in general more costly. In contrast, the UV Heating Technology enables us to use film with metallic layer of less than one-fifth of the thickness of the metallic film used in our existing production lines, which is therefore more cost-efficient and more bio-degradable. In addition, the UV Heating Technology enables more efficient heat transfer which contributes to reduced heat loss and lower utilities costs.

(VIII) Breakeven and investment payback periods

Breakeven period refers to the length of time required for our new production lines to generate sufficient monthly revenue to cover their monthly operating expenses incurred for the relevant month, taking into account the non-cash items such as depreciation expenses. Based on our historical record, the breakeven period for the five production lines established by our Group in FY2018 was approximately six months after they came into operation. Our Directors estimated that the breakeven period for the production lines to be established by our Group under our business expansion plan will follow a similar pattern to that of our existing production lines, i.e. approximately six months after they come into operation.

Investment payback period refers to the length of time required for our new production lines to generate sufficient accumulated cash inflows to recover the initial investment costs. The investment payback period for the five production lines established by our Group in FY2018 was approximately 3.5 years after they came into operation. Our Directors expect that the investment payback period for the production lines to be established by our Group under our business expansion plan will be approximately three years after they come into operation.

In making the aforesaid estimation on the breakeven period and investment payback period of our new production lines, our Directors have taken into account the following assumptions: (i) the historical breakeven period and investment payback period for our existing production lines; (ii) the estimated annual maximum production capacity of approximately 4,605 tonnes of each of the new production line; (iii) each of the new production line is expected to have an estimated useful life of ten years; (iv) the new production lines will achieve a utilisation rate of approximately 92.0%, being the average utilisation rate of our existing production lines for the Track Record Period, upon completion of the installation, adjustment and testing process of the machinery; (v) the operating costs and expenses of production machinery mainly including maintenance costs, utilities and depreciation expenses; (vi) the cost structure in relation to the operation of our new production line will remain the same as our existing ones; (vii) the forecasted growth in demand for cigarette packaging paper in the PRC from 2022 to 2025 according to the Industry Report; (viii) the newly acquired machinery will enhance our production capability and allow us to produce a wider range of cigarette packaging paper products with advanced features; and (ix) the forecasted demand for cigarette packaging paper with new product features with reference to, among others, the letter of intent provided by our customer, details of which are set forth in the table under the paragraph headed "(IV) Growing emphasis on the anti-counterfeiting and eco-friendliness features of cigarette packaging paper" above.

(IX) Enhancing our production facility

Our Group owns a parcel of land in Hong'an County, Huanggang, Hubei Province with an aggregate site area of approximately 35,243 sq.m. Our production facility consists of five factory buildings with an aggregate gross floor area of approximately 12,000 sq.m. The five factory buildings are mainly designated for production workshops and warehouse use.

As mentioned above, we currently plan to set up additional production lines to increase our production capacity and efficiency. As at the Latest Practicable Date, our production facility had already been substantially occupied. Our office, production lines, warehouses and area designated for conducting research and development activities had occupied over 90% of our existing production facility, with only less than 100 sq.m. of vacant space available. Cigarette packaging paper is generally bulky and require a controlled environment with specified humidity and temperature levels during production. Also, we would have to secure enough space to maintain the required level of air ventilation such that the conditions of our paper products and materials could be preserved in our desired conditions. Further, we believe that it is important to provide sufficient operating space for our employees to ensure a safe and congenial work environment.

Based on the number and size of the machinery to be acquired by us under our business expansion plan, our Directors estimated that it would require a total gross floor area of at least 6,000 sq.m. to set up our additional production lines. Given our production facility had already been substantially occupied, it is infeasible for us to allocate adequate space for setting up the additional production lines. In view of the aforesaid, our Directors believe that we have the operational need to enhance our production facility by constructing a two-storey factory building with a gross floor area of approximately 8,200 sq.m. at the vacant portion of land owned by us in Hong'an County, Huanggang (the "**New Factory Building**"). We intend to house the machinery to be acquired by us in the New Factory Building which will occupy approximately 73.2% of its total gross floor area. In addition, under the assumptions that each of the three new production lines will achieve (i) a utilisation rate of approximately 92.0% with reference to the average utilisation rate of our existing productions lines for the three years ended 31 December 2021; and (ii) an annual estimated maximum production capacity of approximately 4,605 tonnes for each new production line, it is expected that the three new production lines will contribute to an increase in our annual actual production volume by approximately 12,710 tonnes in aggregate. The expected increase in our actual production volume will likely result in an increase in our need for storage space in relation to our raw materials, finished goods and packaging materials to support our production activities. Accordingly, our Directors consider that it is essential for us to allocate space in the New Factory Building for storage purpose.

In order to create an optimal working environment for our employees and to maintain the conditions of our production workshops, the New Factory Building will be equipped with advanced humidity and temperature control systems as well as a dust-free environment. Based on our management's best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the New Factory Building.

Enhancing our research and development capabilities

(I) Acquiring more advanced research and development equipment

We constantly strive to differentiate ourselves from our competitors through providing customised products that match with the evolving requirements and specifications of our customers. Our research and development department comprised 18 personnel as at the Latest Practicable Date. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture. For FY2019, FY2020 and FY2021, the expenses incurred by us on research and development amounted to approximately RMB10.7 million, RMB10.4 million and RMB13.1 million, respectively.

According to the Industry Report, the forecasted increase in sales value of cigarette packaging paper manufacturing industry in the PRC is primarily attributable to consumer preference and industrial focus towards mid-to-high-end cigarettes. Further, driven by the PRC Government's policy on the promotion of mid-to-high-end cigarettes, cigarette packaging paper manufacturers have increased their investment on the research and development for more products with advanced anti-counterfeiting and eco-friendliness features which are critical in boosting cigarette brand recognition and product appeal. Based on the Industry Report, anti-counterfeit technology has been continually evolving and developing to combat illicit cigarettes in the PRC. The production of cigarette packaging paper with anti-counterfeiting features is a relatively sophisticated production process which requires high technical know-how. Some of those new cigarette packaging paper manufacturers may not be capable of producing cigarette packaging paper with the latest anti-counterfeiting features due to limited technical capability.

Taking into consideration the expected increase in demand and government policies on the promotion of mid-to-high-end cigarettes as well as the increasing awareness of anti-counterfeiting and eco-friendliness in the cigarette industry, our Directors consider that it is imperative for our Group to further enhance our research and development capabilities, especially on anti-counterfeiting features, in order to strengthen our capability in developing products which fulfil the evolving requirements and specifications of our customers and to maintain our market competitiveness. One of our strategies in enhancing our research and development capabilities is to acquire more advanced research and development equipment to assist us in the design, development and production of new products.

The table below sets forth the primary function(s) of (i) our existing principal research and development equipment and testing equipment; and (ii) the advanced research and development equipment and testing equipment to be acquired by us:

	Type of equipment	Principal functions
(I)	***Existing equipment***	
	Ultraviolet curing machine	Curing of materials at high speed
	Quantitative sampler	Extraction of a fixed amount of material for testing
	Automatic headspace sampler	Conduct residual solvent testing
	Surface absorption tester	Conduct surface absorption testing
	Gas chromatography instrument	Measurement of chemical compositions
	Spectrometer	Measurement of colour shading
	Heat seal tester	Measurement of temperature resistance
	Thickness tester	Measurement of thickness of our products
(II)	***Advanced equipment***	
	Printing roller engraving machine	Precision engraving of pattern for paper and film application
	Positioning crosscutting machine (Double helix blade)	Precision cutting of paper and reduce material waste
	Programmable logic controller high speed winding machine	Automatic winding of paper with enhanced precision
	Gas chromatography-mass spectrometry instrument	Measurement of chemical compositions with enhanced accuracy
	Liquid chromatography instrument	Measurement of chemical compositions of less volatile compounds
	Stiffness tester	Measurement of stiffness
	Rapid moisture analyser	Measurement of moisture content

According to the Industry Report, cigarette brands generally search for higher quality and better designed cigarette packaging paper in order to enhance their brand and product appeal. Hence, cigarette packaging paper manufacturers have to invest in their research and development capability so as to improve their design and manufacturing quality to attract more business opportunities.

Our Directors consider that the need for acquiring more advanced research and development equipment is complementary to our plan to expand our production capacity and capability. Upon the establishment of the new production lines which consist more advanced production machinery as aforementioned, our Group will be able to manufacture a wider range of cigarette packaging paper products with more diversified and advanced features. In light of the planned expansion in our product offerings, our Directors consider that there are operational needs for us to strengthen our research and development capabilities by acquiring more advanced research and development equipment and testing equipment which possess higher degree of precision and proficiency.

Based on the aforesaid, we intend to acquire the advanced research and development equipment and testing equipment as set forth in the table above to strengthen our capability in (i) developing a wider range of products with enhanced product features; and (ii) conducting a wider range of testing on our products with higher degree of precision to ensure our products quality. For instance, the chemical components of cigarette packaging paper products are subject to various national and industrial standards. To ensure the chemical components of our cigarette packaging paper products fall within the permissible limit under applicable national and industrial standards, we intend to acquire gas chromatography-mass spectrometry instrument and liquid chromatography instrument, which are capable of measuring chemical compositions with enhanced accuracy. Further, according to the Industry Report, it is increasingly common for cigarette manufacturers to use platinum positioning paper as cigarette packaging materials owing to its high precision anti-counterfeiting and eco-friendliness features and increased compatibility with different printing methods. Platinum positioning paper requires a high level of precision and automation. In light of the growing market demand for platinum positioning paper, our Directors consider that it is imperative for our Group to strengthen our research and development capability in developing platinum positioning paper by acquiring positioning crosscutting machine and programmable logic controller high speed winding machine, which are crucial in the development of platinum positioning paper tailored to our customers' needs.

(II) Expanding our research and development department

As at the Latest Practicable Date, our research and development activities were carried out at a designated area in our production facility with no more than 1,000 sq.m.. We owned more than ten sets of research and development equipment and testing equipment as at the Latest Practicable Date, which were all housed at the designated area in our existing production facility. The designated area for research and development activities has been fully occupied with our existing equipment as well as research and development staff.

As aforementioned, it is part of our business expansion plan to acquire additional research and development equipment to enhance our research and development capabilities. We currently intend to apply a portion of the net proceeds from the Share Offer to acquire a total of 10 additional sets of advanced research and development equipment and testing equipment. For further details, please refer to the paragraph headed "Future plans and use of proceeds — Use of proceeds" in this prospectus. Along with the acquisition of additional advanced research and development equipment, our Group intends to recruit four additional research and development staff members. Based on the number and size of the additional equipment to be acquired by us, our Directors estimated that we will require an additional floor area of approximately 1,700 sq.m..

In light of the space required for housing our additional research and development equipment and our additional research and development staff, our Directors currently plan to construct a research and development centre with a gross floor area of approximately 3,200 sq.m. (the "**R&D Centre**") at the vacant portion of land owned by us and relocate our research and development department to the R&D Centre. It is estimated that approximately 84.4% of the gross floor area of the R&D Centre will be occupied with our existing as well as additional research and development equipment and staff, with the remaining area to be reserved for ancillary use. Based on our management's best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the R&D Centre.

(III) Strengthening our quality control systems

Our Group places significant emphasis on product quality and safety by implementing stringent and comprehensive quality control measures covering all stages of our operations. We are committed to achieving a low product defect rate and ensuring our products meet the requirements and specifications of our customers. As at the Latest Practicable Date, our quality control department comprises 11 staff members who are primarily responsible for conducting various quality control measures throughout the production process including sample-testing on our goods based on their size, appearance, colour shading, temperature resistance and chemical compositions with the use of our testing equipment.

The production of cigarette packaging paper is subject to various national and industrial standards including the Tobacco Industry Standard for Printed Cigarette Carton and Packet Packaging Papers of the PRC (《中華人民共和國煙草行業標準卷煙條與盒包裝紙印刷品》) (YC/T 330-2014 Standard), the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》) (YC/T 273-2014 Standard) and the Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (《卷煙條與盒包裝紙中揮發性有機化合物的限量》) (YC 263-2008 Standard). These national and industrial standards impose various requirements on the design, safety and physiochemical and hygienic properties of cigarette packaging paper.

It is our standard operating procedure to conduct various testing on our new products to ensure their compliance with applicable laws, regulations, national and industrial standards and customers' requirements and specifications before launching them in the market. In light of the increasingly stringent quality requirements of cigarette packaging paper, our Directors consider that it is vital for our Group to acquire additional testing equipment to assist us in conducting a wider range of testing on our products based on different aspects in our research and development process. Based on the aforesaid, our Group currently intends to acquire testing equipment which assist us in (i) testing the chemical components of our products to ensure their compliance with applicable national and industrial standards; and (ii) testing the moisture content of our products to prevent product quality issues such as deformation and warpage.

(IV) Research and development projects to be undertaken

Following the acquisition of the additional research and development equipment and testing equipment and the construction of the R&D Centre, we intend to implement a range of research and development projects to strengthen our product features, enhance our product offerings and increase our production efficiency. Such research and development projects will be financed with our own internal resources. The table below sets forth details of the research and development projects we intend to undertake:

Projects	**Expected timeframe**	**Estimated cost**
	Year	*RMB'000*
Research on recycling of plastic transparent layer of transfer film	2	1,500
Research on application of transfer paper as an eco-friendly substitute for aluminum foil	2	1,000
Research on the anti-counterfeiting feature of cigarette boxes for one of the "Dual 15 cigarette brands"	2	1,000
Research on the wettability of lightweight thin paper	2	1,600
Research and development of cigarette packaging paper with positioning features	2	1,500

Our Directors consider that it is essential for us to acquire advanced research and development equipment and testing equipment to conduct the aforementioned research and development projects. For instance, the positioning crosscutting machine and programmable logic controller high speed winding machine are vital in developing cigarette packaging paper with positioning features and anti-counterfeiting features as it requires a high level of precision and automation. Testing equipment such as the gas chromatography-mass spectrometry instrument and liquid chromatography instrument are essential in testing the chemical compositions of our products to enhance their recyclability and eco-friendliness, while rapid moisture analyser and stiffness tester are crucial in analysing the physical properties of our cigarette packaging paper products, such as wettability.

Enhancing our enterprise resource planning ("ERP") system and infrastructure systems to improve our operational efficiency

We believe that an advanced ERP system is essential to support our business growth and internal controls. We plan to establish a centralised ERP system to support and manage our business expansion and improve our operational efficiency. The centralised ERP system will be able to manage various aspects of our business operations which include (i) supply chain management; (ii) inventory management; (iii) operation flow management; (iv) production management; and (v) quality control management. The centralised ERP system will be equipped with an online portal which allows us to monitor our procurement, production, sales and inventory data on a real-time basis, which in turn facilitates our production planning, procurement decision-making, inventory analysis, and sale and logistics analysis.

We will also authorise our approved customers and suppliers access to the online portal. We will share with our approved suppliers the specifications and requirements for raw materials provided by our customers on the online portal so as to streamline our procurement process and facilitate our management of the quality of raw materials procured by us. Likewise, we will also authorise our approved customers access to the online portal so that they can monitor the production and delivery status of their purchase orders on a real-time basis.

In addition, we also plan to upgrade our infrastructure systems, including air-conditioning and mechanical ventilation system, electrical system, lightning protection system, programmable logic controller system and fire alarm system.

Increasing our marketing efforts in various provinces in the PRC

Our Group has made consistent effort in geographic expansion and diversifying our customer base. During the Track Record Period, our sales representatives have engaged in business development and marketing activities in various provinces in the PRC. They are responsible for (i) enhancing our promotion and sales efforts; (ii) actively approaching and liaising with our existing and potential customers; and (iii) collecting feedbacks and handling any queries on our products from customers in those provinces.

In order to strengthen our business relationship with existing customers and broaden our customer base, we intend to increase our marketing efforts by strategically establishing sales centres in certain target regions for our business expansion, namely Shanghai Municipality, Yunnan Province and Henan Province (collectively, the "**Target Regions**"). We also plan to recruit additional marketing staff who will be stationed at our sales centres in the respective Target Regions.

Reasons for establishing sales centres in the Target Regions

In the course of selecting the regions for establishing our sales centres, our Directors have considered, among other factors, the geographical location of our existing customers, market size and growth of the cigarette packaging paper manufacturing industry in different geographical regions, number and scale of potential customers available and transportation networks in the regions. Our marketing department has conducted research on the principal place of business of our existing and potential customers in the Target Regions. Based on the research results, we have strategically decided to establish sales centres in those locations which are in proximity to the principal place of business of our existing as well as potential customers in the Target Regions so as to increase our accessibility to them. Our Directors consider that the establishment of sales centres is conducive to our geographical expansion as they will considerably strengthen our market presence in the Target Regions. Set forth below is a detailed analysis of the reasons for establishing sales centres in the respective Target Regions:

(I) Shanghai Municipality

According to the Industry Report, the cigarette packaging paper manufacturing industry in Shanghai Municipality is relatively concentrated, with around 10 cigarette packaging paper manufacturers in the industry. In FY2019, our Group established business relationship with a cigarette package manufacturer, being a state-owned enterprise, with its headquarters in Shanghai

Municipality (the "**Shanghai New Customer**"). The Shanghai New Customer is owned as to 60% by a cigarette manufacturer based in Shanghai Municipality (the "**Shanghai New Customer Holdco**") and 40% by a PRC investment company. Both of the holding companies of the Shanghai New Customer are wholly owned by a state-owned enterprise, which controls cigarette manufacturing and sales in the PRC and is ranked as the largest cigarette manufacturer in the world. The Shanghai New Customer Holdco is a cigarette manufacturer which has launched over 10 cigarette brands in the PRC, including at least two of the "Dual 15 cigarette brands (雙十五煙草品牌)" recognised by the STMA. The Shanghai New Customer is principally engaged in cigarette package manufacturing. The Shanghai New Customer was ranked as one of the top thirty printing and packaging manufacturers in the PRC in 2020 and is renowned for the production of cigarette packages for mid-to-high-end cigarettes. According to the Industry Report, cigarette manufacturers (e.g. the Shanghai New Customer Holdco) generally prefer to engage their fellow group members, being cigarette package manufacturers (e.g. the Shanghai New Customer), to supply cigarette packages.

We have established stable business relationship with the Shanghai New Customer since FY2019. Part of the cigarette packaging paper products supplied by us to the Shanghai New Customer was used as cigarette packaging materials for one of the "Dual 15 cigarette brands". Our revenue generated from the Shanghai New Customer increased from approximately RMB5.7 million for FY2019 to approximately RMB8.4 million for FY2020, and further increased to approximately RMB17.5 million for FY2021. Our Directors consider that the stable increase in our revenue generated from the Shanghai New Customer is a recognition of our ability in supplying cigarette packaging paper products which fulfill the quality standards of the Shanghai New Customer as well as its customers.

Taking into consideration (i) the scale and market standing of the Shanghai New Customer in the Shanghai cigarette package manufacturing industry; (ii) the constant demand for cigarette packaging paper from the Shanghai New Customer given it is a preferred cigarette packaging manufacturer of its holding company (i.e. a cigarette manufacturer); (iii) our growing business relationship with the Shanghai New Customer as demonstrated by the continuous increase in revenue derived from it; and (iv) the prospect, potential business opportunities and positive effect on our Group's reputation resulting from strengthening our business relationship with the Shanghai New Customer, our Directors consider it is essential for us to ensure sufficient resources to cater to any requests or enquiries from the Shanghai New Customer on a timely basis. By stationing marketing staff and establishing sales centre in Shanghai Municipality, our Directors believe that we will be able to attend to the Shanghai New Customer more swiftly and efficiently and thereby further strengthening our business relationship with them.

Further, our Group intends to use our sales centre to be established in Shanghai Municipality as a stepping stone to further strengthen our presence and increase our market share in East China. Our Group recorded a significant increase in the amount of revenue contributed by customers from East China, which includes Shanghai Municipality, from approximately RMB11.3 million for FY2019 to approximately RMB33.3 million for FY2021. Our Group strives to strengthen our presence in East China and establish business relationship with more cigarette package manufacturers located in Shanghai Municipality. According to the Industry Report, there are around five cigarette package manufacturers in Shanghai Municipality. As at the Latest Practicable Date, our Group had established business relationship with two of these five cigarette package manufacturers in Shanghai Municipality. Our Directors intend to explore for potential business opportunities from those cigarette package manufacturers who had no prior business engagements or connections with us. Our marketing department has conducted research on the principal place of business of these cigarette package manufacturers and tentatively decided that our sales centre shall be established in proximity to their principal place of business so as to increase our accessibility to them and strengthen our market presence in Shanghai Municipality. Under our tentative plan, the sales centre in Shanghai Municipality will be located in Jiading District. Upon the establishment of our sales centre in Shanghai Municipality, our marketing staff stationed in the region will be able to approach those cigarette package manufacturers with whom we had no prior business engagements and promote our corporate profile and product portfolio to them in a more organised and effective manner.

(II) Yunnan Province

According to the Industry Report, Yunnan Province is one of the largest production bases of cigarettes in the PRC. The cigarette packaging paper manufacturing industry in Yunnan Province is relatively concentrated with over 20 cigarette packaging paper manufacturers in the industry. In FY2020, our Group commenced business relationship with a new customer located in Yunnan Province (the "**Yunnan New Customer**"), which is a subsidiary of a state-owned cigarette manufacturer. Our Group had submitted tender to the Yunnan New Customer in November 2020 and became its approved supplier of cigarette packaging paper products. As at the Latest Practicable Date, we had submitted a prototype to the Yunnan New Customer for its approval. The Yunnan New Customer is principally engaged in printing and packaging manufacturing which includes manufacturing of cigarette packages for mid-to-high-end cigarettes. The Yunnan New Customer is wholly owned by a cigarette manufacturer based in Yunnan (the "**Yunnan New Customer Holdco**"). The Yunnan New Customer Holdco is a cigarette manufacturer which focuses on manufacturing four cigarette brands in the PRC, including three of the "Dual 15 cigarette brands (雙十五煙草品牌)" recognised by the STMA. The Yunnan New Customer Holdco is ultimately owned by a state-owned enterprise which controls cigarette manufacturing and sales in the PRC and is ranked as the largest cigarette manufacturer in the world. According to the Industry Report, cigarette manufacturers (e.g. the Yunnan New Customer Holdco) generally prefer to engage their fellow group members, being cigarette package manufacturers (e.g. the Yunnan New Customer), to supply cigarette packages.

Our Directors consider that our success in obtaining tender from the Yunnan New Customer is conducive to enhancing our market presence in and expansion to Yunnan Province. Given we had no previous business engagements with the Yunnan New Customer, our Directors consider that it is vital for us to work closely with it in order to familiarise ourselves with its product quality requirements and specifications. By establishing sales centre and stationing marketing staff in Yunnan Province, we can conduct more frequent site visits to the production facility of the Yunnan New Customer so as to better understand its production needs and address its product requests or enquiries more expediently.

According to the Industry Report, there are around 20 cigarette package manufacturers in Yunnan Province. As at the Latest Practicable Date, our Group had established business relationship with three of these cigarette package manufacturers in Yunnan Province. In view of the large potential customer base in Yunnan Province, our Directors consider that we could increase our market presence and further expand our market share by establishing a sales centre in Yunnan Province. Under our tentative plan, the sales centre in Yunnan Province will be located in Kunming City.

(III) Henan Province

According to the Industry Report, Henan Province is one of the largest production bases of cigarettes in the PRC. The cigarette packaging paper manufacturing industry in Henan Province is relatively fragmented, with over 30 cigarette packaging paper manufacturers in the industry. There are at least 15 cigarette package manufacturers in Henan Province. As at the Latest Practicable Date, our Group had established business relationship with nine cigarette package manufacturers in Henan Province. In terms of geographical location of our customers, Henan Province was our second largest market in terms of revenue during the Track Record Period. Our Group recorded a significant increase in the amount of revenue contributed by customers from Henan Province from approximately RMB63.9 million for FY2019 to approximately RMB121.2 million for FY2021.

Our Directors consider that our Group was able to compete successfully in the fragmented market in Henan Province due to the following factors: (i) Henan Province is located in close geographical proximity to Hubei Province in which our Group is headquartered, thereby facilitating us in effectively conducting marketing activities and building up business relationship with customers in Henan Province. In recent years, we have continued placing our business focus on Hubei Province and Henan Province while enhancing our market presence in North-east China, East China and South China. We have been actively approaching leading players in the cigarette packaging manufacturing industry which included state-owned enterprises and listed companies. Leveraging our long-standing and stable business relationship with Customer E (being one of our top customers during the Track Record Period and a renowned cigarette package manufacturer headquartered in Henan Province), we have further penetrated into the Henan market by establishing business relationship with Changge Dayang in 2018. In 2021, our Group commenced business relationship with a new customer in Henan Province, which is a subsidiary of a state-owned cigarette manufacturer. During the Track Record Period, three of our marketing staff, including two marketing directors and one marketing manager, were assigned to travel constantly to Henan Province for the purpose of (a) promoting our corporate profile and product portfolio to our existing and potential customers; (b) liaising with our customers for potential business opportunities and new product development; and (c) collecting feedbacks from and providing after-sales services to our customers, which we believed have contributed to the close working relationships between us and our customers based in Henan Province; (ii) the extensive transportation networks of Henan Province and Hubei Province has lowered the transportation costs and facilitated the delivery efficiency of our products to customers in Henan Province; (iii) our marketing staff monitors tender notices published by cigarette package manufacturers from different provinces in the PRC on various tendering platforms on a regular basis. This has in turn enabled us to promptly identify available market opportunities from potential customers whenever they arise. Out of our nine cigarette package manufacturer customers located in Henan Province as at the Latest Practicable Date, our Group had established business relationship with four of them through tender selection process; (iv) we place strong emphasis on research and development to cater to the evolving demand of our customers. In 2021, we entered into non-binding letters of intent with Changge Dayang and a customer in Henan Province, pursuant to which we would develop and supply certain types of cigarette packaging paper to them. Our Directors consider that our commitments to develop cigarette packaging paper tailored to our customers' needs are fundamental to our success in solidifying our market position in Henan Province; and (v) our customers in Henan Province are cigarette package manufacturers which generally supply cigarette packaging materials to cigarette manufacturers which manufacture mid-to-high-end cigarettes. In particular, all of our customers from Henan Province have supplied cigarette packaging materials to the "Dual 15 cigarette brands". According to the Industry Report, during the supplier selection process, cigarette package manufacturers generally place more emphasis on the research and development capability of the cigarette packaging paper manufacturers and their ability in fulfilling the quality standards and technical requirements over the geographical location of their production bases. Therefore, our Directors believe that our Group's established track record, experience and technical know-how in fulfilling the stringent quality and technical requirements of various cigarette package manufacturers and well-known cigarette brands, especially the "Dual 15 cigarette brands (雙十五煙草品牌)", are recognised by and readily transferrable to serving those customers in Henan Province.

In light of (i) our growing presence in Henan Province as demonstrated by the continuous increase in amount of our revenue derived therefrom; (ii) our number of customers located in Henan Province; (iii) Henan Province being our second largest market in terms of revenue during the Track Record Period; and (iv) the needs for conducting regular marketing and customer relationship management activities including site visits to our customers in Henan Province, our Directors consider that it is commercially justifiable for us to establish a sales centre and station marketing staff in Henan Province. Under our tentative plan, the sales centre in Henan Province will be located in Zhengzhou City.

Functions of the sales centres

We currently intend to set up a showroom in each of the sales centre where we will display and showcase samples of our products. We will prepare product brochure which sets forth the features, functions, size and colour of all products offered by us for customers' selection. We will also present corporate video to our customers to demonstrate our production facility, production process and quality control measures, with the aid of projection equipment and virtual reality headsets. With the aim of maintaining regular communication with our customers and keeping ourselves abreast of the latest industry trend, our marketing staff stationed at the sales centres will invite cigarette package manufacturers and cigarette manufacturers in the Target Regions to attend customer relationship management events held at our sales centre on a regular basis.

Further, we plan to expand our marketing department by recruiting six additional staff members. Some of the new staff will be stationed at our sales centres to conduct marketing activities including (i) promotion of our products; (ii) maintaining regular communication with our customers on product development and enhancement in our production process; (iii) providing after-sales services and technical support to our customers; (iv) collecting feedbacks from our customers on our products; and (v) maintaining regular communication and interaction with our customers so as to stay abreast of the latest trend and development of our customers' products requirements The marketing staff who will be stationed at our sales centres will be recruited locally and preferably with past working experience in the cigarette packaging paper manufacturing industry so as to ensure their familiarity with the local industry and proficiency in local dialect.

During the Track Record Period, our marketing staff conducted site visits to the production facility of our customers regularly for the purpose of (i) better understanding their production needs so as to facilitate us in making suitable recommendations or making necessary adjustment or modifications to our products so as to enhance their compatibility with our customers' cigarette package production; and (ii) providing technical support and assistance to our customers regarding problems they may encounter during application of our products in their production. Given our Group had not stationed any staff in regions beyond Hubei Province during the Track Record Period, our marketing staff had to travel constantly from region to region to conduct visit to our customers. Our Directors consider that by establishing sales centres and stationing marketing staff in the Target Regions, we will be able to save time spent on travelling and attend to our customers' enquiries more efficiently and expediently.

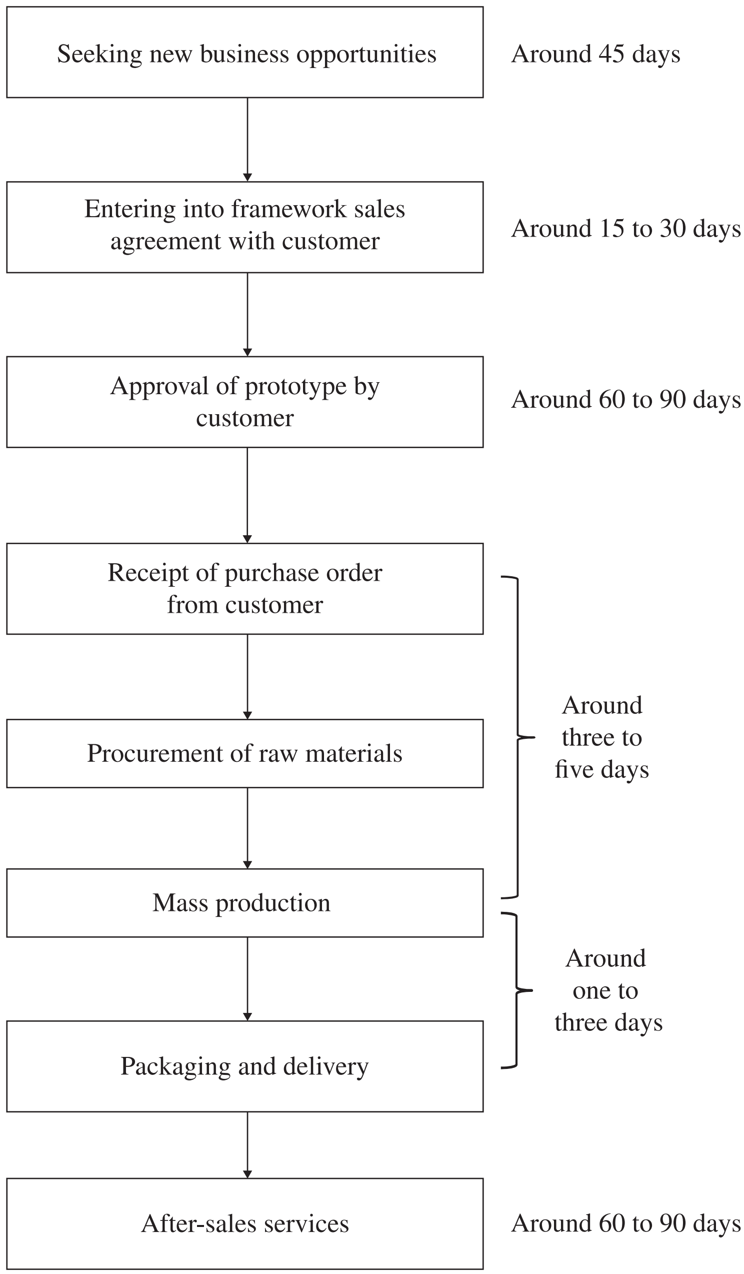
As at the Latest Practicable Date, our Group owned a motor vehicle for transporting our marketing staff to conduct regular visit to our customers. As we plan to further strengthen our marketing activities in various provinces in the PRC, we intend to purchase three additional motor vehicles to facilitate the travelling of our marketing staff in their respective regions.

Implementation of business strategies

For further details on the implementation of the abovementioned business strategies, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

OPERATION FLOW

Set out below is a flowchart summarising the principal steps of our workflow for the manufacture of cigarette packaging paper and the typical time frame for such steps:



Note: The timeframe is calculated on an approximate basis and may vary depending on the volume of products purchased, our available production capacity and our customers' request on the delivery date.

Seeking new business opportunities

Our Group seeks new business opportunities mainly through (i) incoming enquiries from new and existing customers; (ii) referrals from existing customers; (iii) identification of tender opportunities by regularly monitoring tender notices published by cigarette package manufacturers on various tendering platforms; and (iv) marketing and promotion activities carried out by our marketing department. For further information, please refer to the paragraph headed "Marketing" below in this section.

In general, our customers will provide us the requirements and specifications of the products, such as size, colour, materials, texture and cuttings. Our marketing department, together with our production department, will work closely with our customers to familiarise themselves with the product requirements and specifications and evaluate the scope, technical requirements, complexity and feasibility of production.

If we decide to pursue a potential engagement after our assessment, we will prepare an internal production cost plan and a bill of material detailing the raw materials to be used. We will then submit to our customer a quotation or tender, which sets out, among others, the types and specifications of the products to be sold by us, the unit price for each product, our corporate profile and track record.

Entering into framework sales agreement with customer

If our quotation or tender is accepted by our customer, our customer will typically confirm our engagement by entering into a framework sales agreement with us. For further details, please refer to the paragraph headed "Our customers — Principal terms of engagement" below in this section.

Approval of prototype by customer

After confirming the major specifications of the product with our customer, our production department will produce prototypes for the product according to the specifications and submit to our customers for approval.

Receipt of purchase order from customer

Once we receive a purchase order from our customer, our production department will assess the production requirements and delivery time and plan for our production schedule. The required quantity and the arrangement of delivery may vary from order to order. Our marketing department will then confirm the purchase order with the customer.

Procurement of raw materials

Our procurement department will procure the required raw materials from our approved suppliers based on our production needs and inventory level. For further details, please refer to the paragraph headed "Our suppliers" below in this section.

Mass production

After ensuring our production schedule and required raw materials are in order, we will proceed to mass production. For details of our production process, please refer to the paragraph headed "Production facility and capacity — Production process" below in this section.

Throughout the entire production process, we have implemented quality control measures to ensure that our product meets the requirements and specifications of our customers. For details of our quality control procedures, please refer to the paragraph headed "Quality control" below in this section.

Packaging and delivery

Our finished products will be packaged carefully to avoid wear and tear during delivery. After inspection and packaging, the finished products are stored in our warehouse and we will engage third party logistics service providers to deliver our finished products to the destinations specified by our customers.

After-sales services

We strive to provide quality and effective after-sales services and technical support to our customers and collect feedbacks on the quality of our products for future improvement. In the event that a defect is identified, our customers may request for product return within a prescribed time under our product return policy. For details of our product return policy, please refer to the paragraph headed "Our customers — Principal terms of engagement" below in this section.

OUR PRODUCTS AND SERVICES

We manufacture cigarette packaging paper as our principal products. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. Our products are customised in accordance with the specifications prescribed by our customers.

To a much lesser extent, we also provide cigarette packaging paper processing services to cigarette package manufacturers, of which the work flow and process are largely similar to the production of our cigarette packaging paper. In respect of our cigarette packaging paper processing services, our customers are responsible for the procurement of raw materials which they will provide us for further processing. In general, our customers provide us the requirements and specifications of the cigarette packaging paper processing services required, which primarily involve enhancing the eco-friendliness, elasticity, smoothness and abrasion resistance of the cigarette packaging paper.

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

	FY2019				FY2020				FY2021			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*
Sale of cigarette packaging paper												
— Transfer paper	246,017	78.6	16,162	15,200	253,250	79.6	17,326	14,600	312,741	84.5	20,357	15,400
— Laminated paper	61,414	19.6	5,517	11,100	59,616	18.7	5,553	10,700	55,889	15.1	5,137	10,900
— Frame paper	2,328	0.8	312	7,500	1,486	0.4	175	8,500	1,594	0.3	180	8,800
Sub-total	309,759	99.0	21,991		314,352	98.7	23,054		370,224	99.9	25,674	
Provision of cigarette packaging paper processing services	3,041	1.0			3,994	1.3			87	0.1		
Total	312,800	100.0			318,346	100.0			370,311	100.0		

Our revenue generated from the sales of transfer paper increased from approximately RMB253.3 million for FY2020 to approximately RMB312.7 million for FY2021 mainly due to the increase in sales volume of transfer paper. The sales volume of transfer paper increased from approximately 17,326 tonnes for FY2020 to approximately 20,357 tonnes for FY2021. Such increase was mainly attributable to the increase in demand for transfer paper from some of our existing customers. In particular, (i) the sales volume of transfer paper attributable to Harbin Shixiang increased from approximately 1,010 tonnes for FY2020 to 2,717 tonnes for FY2021, mainly due to the increase in sales of a transfer paper product newly developed by our Group in FY2021; (ii) the sales volume of transfer paper attributable to Customer E increased from approximately 1,677 tonnes for FY2020 to 2,970 tonnes, mainly due to the increase in sales volume of three new transfer paper products newly developed in late-2020 for the use in the manufacture of cigarette packages for a "Dual 15 cigarette brand (雙十五煙草品牌)"; and (iii) the sales volume of transfer paper attributable to Changge Dayang increased from approximately 2,248 tonnes to 2,882 tonnes mainly due to the award of tender to Changge Dayang for the supply of cigarette packages for a "Dual 15 cigarette brand (雙十五煙草品牌)", which resulted in Changge Dayang's increase in demand for our Group's transfer paper products which is to be used in the production of cigarette packages for such "Dual 15 cigarette brand (雙十五煙草品牌)".

Our revenue generated from the sales of laminated paper decreased from approximately RMB59.6 million for FY2020 to RMB55.9 million for FY2021 mainly due to the decrease in sales volume of laminated paper. The sales volume of laminated paper decreased from approximately 5,553 tonnes for FY2020 to 5,137 tonnes for FY2021. Such decrease was mainly due to the decrease in demand for laminated paper from some of our existing customers. In particular, the sales volume of laminated paper attributable to Hubei Golden Three Gorges decreased from approximately 534 tonnes for FY2020 to 242 tonnes for FY2021, mainly due to the loss of tender of Hubei Golden Three Gorges in the supply of cigarette packages for a cigarette brand. The loss of tender of Hubei Golden Three Gorges resulted in a decrease in demand for our laminated paper which was to be used by Hubei Golden Three Gorges in the production of cigarette packages for the cigarette brand.

Our revenue generated from the sales of frame paper decreased from approximately RMB2.3 million for FY2019 to approximately RMB1.5 million for FY2020 mainly due to the decrease in sales volume of frame paper. The sales volume of frame paper decreased from approximately 312 tonnes for FY2019 to approximately 175 tonnes for FY2020. Such decrease was mainly because of our strategy in allocating more of our production capacity for transfer paper and laminated paper, which are our major types of products, in light of the constraint in our production facility as evidenced by our utilisation rate of 97.4% in FY2020.

The average selling price of transfer paper decreased slightly from approximately RMB15,200 per tonne in FY2019 to RMB14,600 per tonne in FY2020. Such decrease was mainly attributable to the increase in sales volume of two types of transfer paper products that we sold to Changge Dayang for one of the ‘‘Dual 15 cigarette brands’’. In particular, (i) the sales volume of one of the aforesaid products, with an average selling price of approximately RMB13,100 per tonne, increased from approximately 255 tonnes in FY2019 to approximately 862 tonnes in FY2020; and (ii) the sales volume of the other product, with an average selling price of approximately RMB13,900 per tonne, increased from approximately 373 tonnes in FY2019 to approximately 843 tonnes in FY2020.

The average selling price of transfer paper increased slightly from approximately RMB14,600 per tonne in FY2020 to approximately RMB15,400 per tonne in FY2021. Such increase was mainly attributable to the sales of a number of new transfer paper products that we sold to Hubei Golden Three Gorges in FY2021, which contributed a sales volume of approximately 939 tonnes. The average selling price of these new products was approximately RMB20,300 per tonne in FY2021.

The average selling price of laminated paper decreased slightly from approximately RMB11,100 per tonne in FY2019 to RMB10,700 per tonne in FY2020. Such decrease was mainly attributable to the sales of two types of new laminated paper products that we sold to Hubei Xinjiarui in FY2020, which contributed a sales volume of approximately 712 tonnes. The average selling price of these two types of products was approximately RMB10,200 per tonne in FY2020.

The average selling price of frame paper increased from approximately RMB7,500 per tonne in FY2019 to approximately RMB8,500 per tonne in FY2020, and further increased to approximately RMB8,800 per tonne in FY2021. Such increase was mainly because of change of product mix with more frame paper of higher price.

Breakdown of our product sales by the categories of cigarettes

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

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

Notes:

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

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

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

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

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

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

Breakdown of our product sales by cigarette brands

During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. The table below sets forth a breakdown of our revenue by the cigarette brands that our products were applied for during the Track Record Period:

	FY2019		**FY2020**		**FY2021**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Dual 15 cigarette brands						
—Brand A *(Note 2)*	71,635	23.1	100,834	32.1	157,085	42.4
—Brand B *(Note 3)*	62,891	20.3	77,718	24.7	57,260	15.5
—Brand C *(Note 4)*	39,321	12.7	38,707	12.3	29,523	8.0
—Brand D *(Note 5)*	16,798	5.4	3,351	1.1	61	Negligible
—Brand E *(Note 6)*	152	0.1	171	0.1	97	Negligible
—Brand F *(Note 7)*	4,201	1.4	1,474	0.5	2,133	0.6
—Brand G *(Note 8)*	—	—	1,351	0.4	31,073	8.4
—Brand H *(Note 9)*	4,131	1.3	20,506	6.5	5,486	1.5
—Brand I *(Note 10)*	935	0.3	867	0.3	—	—
Sub-total	200,064	64.6	244,979	78.0	282,718	76.4
Other brands	109,695	35.4	69,373	22.0	87,506	23.6
Total	309,759	100.0	314,352	100.0	370,224	100.0

Notes:

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

2. Brand A is a cigarette brand based in Henan Province and was first manufactured in the 1950s. Brand A was recognised as one of the top ten best-selling brands by the National Bureau of Statistics of China in 1999 and was recognised as one of China's well-known trademarks (中國馳名商標) in 2006. According to the Industry Report, the sales value of Brand A cigarettes was approximately RMB63.5 billion, RMB69.6 billion and RMB77.4 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand A cigarettes was approximately RMB12.8 per box for the three years ended 31 December 2021.

3. Brand B is a cigarette brand based in Hubei Province and was first manufactured in the 1930s. According to the Industry Report, the sales value of Brand B cigarettes was approximately RMB103.2 billion, RMB107.5 billion and RMB117.2 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand B cigarettes was approximately RMB20.1 per box for the three years ended 31 December 2021.

4. Brand C is a cigarette brand based in Yunnan Province and was first manufactured in the 1950s. Brand C was included in the Hurun Most Valuable China Brands 2020 (2020胡潤品牌榜) published by Hurun Report (胡潤百富) in 2021. According to the Industry Report, the sales value of Brand C cigarettes was approximately RMB111.0 billion, RMB114.2 billion and RMB118.7 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand C cigarettes was approximately RMB13.0 per box for the three years ended 31 December 2021.

5. Brand D is a cigarette brand based in Yunnan Province and was first manufactured in the 1950s. According to the Industry Report, the sales value of Brand D cigarettes was approximately RMB75.5 billion, RMB73.7 billion and RMB77.0 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand D cigarettes was approximately RMB20.9 per box for the three years ended 31 December 2021.

6. Brand E is a cigarette brand based in Guangdong Province and was first manufactured in the 1900s. Brand E was recognised as one of China famous brand products (中國名牌產品) by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC in 2005 and was recognised as one of China's well-known trademarks (中國馳名商標) in 2008. According to the Industry Report, the sales value of Brand E cigarettes was approximately RMB66.1 billion, RMB64.5 billion and RMB66.9 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand E cigarettes was approximately RMB11.0 per box for the three years ended 31 December 2021.

7. Brand F is a cigarette brand based in Hunan Province and was first manufactured in the 1970s. According to the Industry Report, the sales value of Brand F cigarettes was approximately RMB56.8 billion, RMB56.5 billion and RMB56.7 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand F cigarettes was approximately RMB11.6 per box for the three years ended 31 December 2021.

8. Brand G is a cigarette brand based in Jiangsu Province and was first manufactured in the 1950s. Brand G was recognised as a major cigarette brand in the PRC (全國性捲煙重點骨幹品牌) in 2008. According to the Industry Report, the sales value of Brand G cigarettes was approximately RMB91.5 billion, RMB95.3 billion and RMB102.4 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand G cigarettes was approximately RMB16.2 per box for the three years ended 31 December 2021.

9. Brand H is a cigarette brand based in Yunnan Province and was first manufactured in the 1950s. Brand H was recognised as one of China's well-known trademarks (中國馳名商標) in 1997 and was recognised as one of China's 500 Most Valuable Brands (中國品牌500強) published by World Brand Lab in 2010. According to the Industry Report, the sales value of Brand H cigarettes was approximately RMB48.0 billion, RMB48.7 billion and RMB47.7 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand H cigarettes was approximately RMB7.6 per box for the three years ended 31 December 2021.

10. Brand I is a cigarette brand based in Hunan and was first manufactured in the 1950s. Brand I was recognised as one of the best-selling brands in the PRC (全國暢銷品牌) by the STMA in 1996. According to the Industry Report, the sales value of Brand I cigarettes was approximately RMB107.7 billion, RMB109.7 billion and RMB114.1 billion for FY2019, FY2020 and FY2021, respectively, while the average selling price of Brand I cigarettes was approximately RMB22.6 per box for the three years ended 31 December 2021.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand A cigarette packages was mainly attributable to Hubei Golden Three Gorges, Harbin Shixiang, Customer E, Changge Dayang and 13 other customers. Our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand A cigarette packages increased from approximately RMB71.6 million for FY2019 to approximately RMB100.8 million for FY2020 and further to approximately RMB157.1 million for FY2021. Such increase was mainly driven by (i) the increase in sales value of Brand A cigarettes. According to the Industry Report, the sales value of Brand A cigarettes increased from approximately RMB60.9 billion for FY2018 to approximately RMB63.5 billion for FY2019 and further to approximately RMB69.6 billion for FY2020; (ii) the increase in our revenue derived from the sales of cigarette packaging paper for the use in the manufacture of Brand A cigarette packages to Customer E from approximately RMB19.8 million in FY2019 to approximately RMB32.1 million in FY2020 and further to approximately RMB55.6 million for FY2021; and (iii) the increase in our revenue derived from the sales of cigarette packaging paper for the use in the manufacture of Brand A cigarette packages to Changge Dayang from approximately RMB12.2 million in FY2019 to approximately RMB34.3 million in FY2020 and further to approximately RMB50.4 million for FY2021.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand B cigarette packages was mainly attributable to Hubei Golden Three Gorges, Customer Group C and 11 other customers. Our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand B cigarettes increased from approximately RMB62.9 million for FY2019 to approximately RMB77.7 million for FY2020. Such increase was mainly driven by (i) the increase in sales value of Brand B cigarettes. According to the Industry Report, the sales value of Brand B cigarettes increased from approximately RMB100.3 billion for FY2018 to approximately RMB103.2 billion for FY2019 and further to approximately RMB107.5 billion for FY2020; (ii) the increase in our revenue derived from the sales of cigarette packaging paper for the use in the manufacture of Brand B cigarette packages to Customer Group C from approximately RMB30.4 million for FY2019 to approximately RMB42.8 million for FY2020; and (iii) the increase in our revenue derived from the sales of cigarette packaging paper for the use in the manufacture of Brand B cigarette packages to a cigarette packager manufacturer, being a subsidiary of a state-owned enterprise in the PRC with its headquarters in Shanghai Municipality, from approximately RMB5.7 million in FY2019 to approximately RMB8.4 million in FY2020.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand G cigarette packages was mainly attributable to Harbin Shixiang and three other customers. Our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of Brand G cigarette packages increased from approximately RMB1.4 million for FY2020 to approximately RMB31.1 million for FY2021. Such increase was mainly driven by the increase in our revenue derived from Harbin Shixiang from the sales of cigarette packaging paper for the use in the manufacture of Brand G cigarette packages from nil for FY2020 to approximately RMB29.3 million for FY2021.

Movement in the volume of our cigarette packaging paper products

The table below sets forth the movement in the volume of our cigarette packaging paper products produced and used/sold during the Track Record Period:

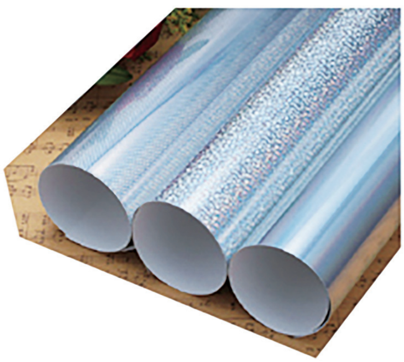
	FY2019	**FY2020**	**FY2021**
	tonnes	*tonnes*	*tonnes*
Inventory of finished goods as at the beginning of the year (by volume)	1,437	2,666	2,201
Add: Actual production volume during the year	23,352	22,749	26,733
Less: Sales volume during the year	(21,991)	(23,054)*(Note)*	(25,674)
Less: Finished goods used for research and development during the year	(132)	(160)	(274)
Inventory of finished goods to be carried forward to the next year (by volume)	2,666	2,201	2,986

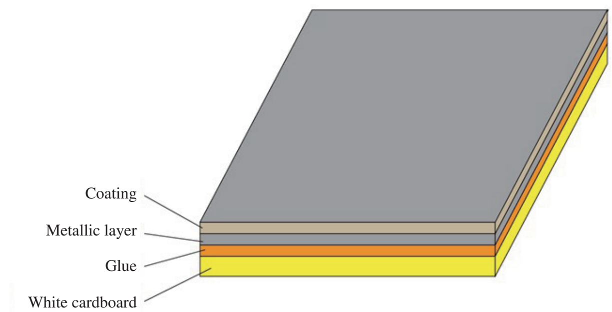
Note: As we plan for our production during FY2020, our management had taken into account the forecasted demand for our cigarette packaging paper products as well as the inventory of finished goods carried forward from FY2019, resulting in the sales volume for FY2020 exceeding our actual production volume for the corresponding year.

Transfer paper

Transfer paper is packaging paper which is glossy and shinny and has a laser effect. By using various processing techniques including curing, a transfer film is first laminated onto a white cardboard. Upon lamination, the plastic transparent layer of the transfer film is then stripped from the laminated sheet, leaving only the metallic layer on the white cardboard. Therefore the metallic layer is transferred from the transfer film onto the white cardboard to form transfer paper.

Transfer paper is more eco-friendly compared to laminated paper as the plastic transparent layer of the transfer film is removed after lamination. Transfer paper is therefore bio-degradable and recyclable.

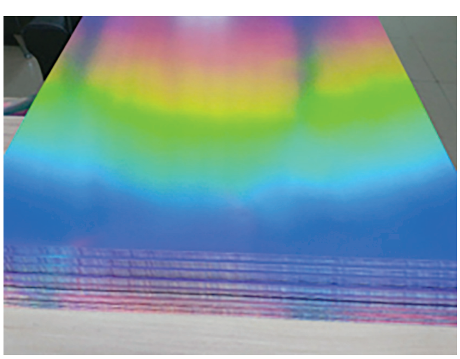


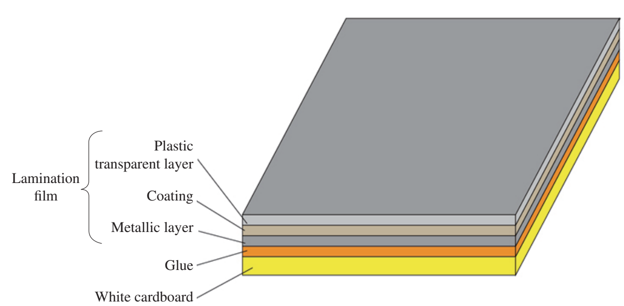


Transfer paper

Laminated paper

Laminated paper possess similar appearance as transfer paper. It also uses similar processing techniques to laminate a lamination film onto a white cardboard. However, unlike transfer paper, the entire lamination film stays on the laminated sheet to form laminated paper without removing any layer of the lamination film. Laminated paper therefore consists of a plastic transparent layer in its final product.





Laminated paper

Both transfer paper and laminated paper are used as external packaging paper in the manufacture of cigarette packages and boxes. According to our customers' requests, our packaging paper may be printed with the names and logos of cigarette brands in the PRC for the purpose of identification. The surface of our packaging paper is waterproof and non-absorbent and may carry anti-counterfeit features.

Frame paper

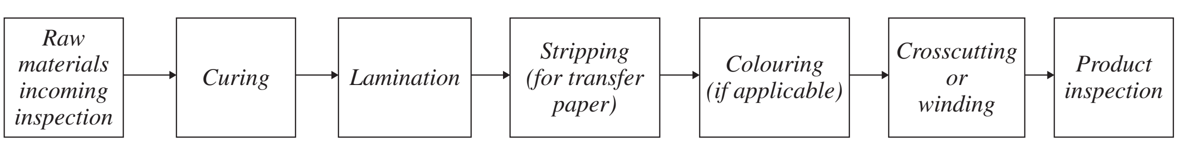
Our frame paper is used as the paper which forms part of the hard box for packing and carrying of cigarettes. The purpose of including the frame paper in the cigarette box is to prevent the cigarette box from collapsing.

Frame paper

PRODUCTION FACILITY AND CAPACITY

Production process

The following chart illustrates the major production process of our cigarette packaging paper:



Step 1 — Raw materials incoming inspection

The raw materials used in our production process mainly include white cardboard, film, ink and glue. If any defects are detected, the raw materials will be returned to suppliers.

Step 2 — Curing

During the curing process, the white cardboard is back coated, stabilised and hardened.

Step 3 — Lamination

At the lamination stage, the white cardboard and film are bonded together by pressing between the rollers under pressure conditions to form a laminated sheet.

Step 4 — Stripping (for transfer paper)

For transfer paper, the plastic transparent layer of the transfer film is then separated and removed from the laminated sheet. This stripping process results in leaving only the metallic layer of the transfer film attached to the white cardboard.

Step 5 — Colouring (if applicable)

Depending on the product specification, colours may be added to the laminated sheet after the lamination stage.

Step 6 — Crosscutting or winding

Depending on the requirements of the customer, the processed sheet is crosscut into flat sheets or wound into rollers.

Step 7 — Product inspection

After inspection by various departments including the production department and quality control department, the final product is packaged and stored in the warehouse for delivery.

Production facility

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

We are committed to investing in our machinery to enhance our production efficiency and ensure our product quality. Our principal machinery includes laminating machine, crosscutting machine and winding machine. We also possess various testing equipment to conduct measurement on the colour shading, temperature resistance and chemical compositions of our products. Our machinery is well-equipped to be used for producing products with different specifications. For FY2019, FY2020 and FY2021, our capital expenditure on acquiring production machinery amounted to approximately RMB0.1 million, RMB25,000 and RMB1.2 million, respectively. We purchase our machinery principally from local machinery vendors in the PRC. Our production department liaise with the machinery vendors to ensure the relevant production machinery fulfils our production requirements. Our production department is responsible for overseeing the installation of our production lines with a view to optimising our entire production process.

As at the Latest Practicable Date, the principal machinery that was owned and used by our Group at our production facility are set out below:

Type of machinery	**Principal functions**	**Number of unit(s)**
 *Laminating machine*	Laminating machines are mainly used for (i) back coating, stabilising, hardening and gluing of white cardboard; and (ii) bonding the white cardboard and film together	7
 *Crosscutting machine*	Crosscutting machines are mainly used for (i) stripping the plastic transparent layer of transfer film; and (ii) crosscutting the processed sheets according to the requirements of the customer	4
 *Winding machine*	Winding machines are mainly used for (i) stripping the plastic transparent layer of transfer film; and (ii) winding the processed sheets into rollers	4

In line with our strategy to expand our production capacity, we plan to acquire four sets of laminating machine to facilitate the replacement of an existing production line and set up three new production lines. For further information, please refer to the paragraph headed ''Business strategies'' above in this section and the paragraph headed ''Future plans and use of proceeds — Use of proceeds'' in this prospectus.

Utilisation rate

The table below sets forth the maximum production capacity, actual production volume and utilisation rate of our production facility during the Track Record Period:

	FY2019	FY2020	FY2021
Maximum production capacity *(tonnes)* *(Notes 1 and 2)*	28,028	23,357 *(Note 3)*	28,028
Actual production volume *(tonnes)*	23,352	22,749	26,733
Utilisation rate *(%)* *(Note 4)*	83.3	97.4	95.4

Notes:

1. Maximum production capacity is determined and calculated by multiplying the daily capacity of the machine with the applicable number of days of operation and the number of machine during the year.

2. We assume the daily operating hours for our machinery to be 14 hours, operating 260 days per year (except for FY2020), taking into account staff holidays, public holidays and seasonal factors.

3. We assume that our machinery operated for 217 days for FY2020, taken into account the suspension of our business operations for approximately two months between late-January 2020 to late-March 2020 when the PRC Government imposed a lockdown in Huanggang, Hubei Province due to the outbreak of COVID-19, staff holidays, public holidays and seasonal factors.

4. Utilisation rate is calculated by dividing actual production volume by maximum production capacity for the relevant year.

Our Directors consider that the utilisation rates of our production facility are affected by a number of factors including the volume of purchase orders, product type, technical requirements and specifications, status of repair and maintenance of our machinery and production schedule.

The maximum production capacity of our production facility increased from approximately 19,019 tonnes for FY2018 to approximately 28,028 tonnes for FY2019. The substantial increase in our maximum production capacity from FY2018 to FY2019 was mainly attributable to the expansion in our production scale following the addition of three new production lines and replacement of two of our then existing production lines in FY2018. The aforesaid expansion was mainly implemented during the second half of FY2018 and thereafter, our Group spent months on the installation, adjustment and testing of the newly acquired machinery and arranged trainings for our staff on the safe operation of the newly acquired machinery. Therefore, the increase in production capacity arising from the acquisition of machinery in FY2018 was only fully reflected in FY2019, resulting in the substantial increase in maximum production capacity of our production facility from FY2018 to FY2019.

In FY2020, our maximum production volume experienced a decrease due to the ad-hoc scenario that our business operations were suspended for approximately two months between late-January 2020 to late-March 2020 when the PRC Government imposed a lockdown in Huanggang, Hubei Province due to the outbreak of COVID-19. Meanwhile, the purchase orders that we received during FY2020 remained relatively stable as compared to FY2019. As such, our production facility was operated at a high utilisation level to fulfill the purchase orders in the remaining period of the year after the lockdown.

The utilisation rate of our production facility remained at a relatively high level for FY2021 primarily due to the increase in purchase orders placed by our major customers during the period.

Repair and maintenance

We have implemented a maintenance system for our machinery, which includes regular inspection and regular repair and maintenance of machinery. This allows us to operate our production lines at optimal levels. We carry out routine cleaning and maintenance of our machinery to enhance its useful life. We also conduct major annual maintenance work and engage external mechanics to carry out repair and maintenance on our machinery on an as-needed basis. Our maintenance system aims to maintain operational efficiency and high-quality control standards. For FY2019, FY2020 FY2021, we incurred repair and maintenance expenses of approximately RMB1.0 million, RMB0.7 million and RMB0.4 million, respectively. We did not experience any material or prolonged interruptions to our production process due to machinery failure or breakdown during the Track Record Period and up to the Latest Practicable Date.

Production department

We devote significant resources to improve the capacity and capability of our production department. As at the Latest Practicable Date, we employed a total of 47 personnel under our production department. We provide induction training and on-going technical training to the production staff on, among others, safe operation and maintenance of machinery. Moreover, we provide training to our production staff from time to time in order to update them on production techniques. We also regularly update our production staff on any quality issues arising from our inspection during the production process and feedback from our customers.

MARKETING

Our Group seeks new business opportunities mainly through (i) incoming enquiries from new and existing customers; (ii) referrals from existing customers; (iii) identification of tender opportunities by regularly monitoring tender notices published by cigarette package manufacturers on various tendering platforms; and (iv) marketing and promotion activities carried out by our marketing department. Our Directors are of the view that our success is largely attributable to our reputation and stable relationship with our customers. As at the Latest Practicable Date, our marketing department consisted a total of 14 staff members. Our marketing staff make regular visit to our customers across China in order to be able to attend to customers' queries as soon as possible. As our products are customised to customers' product specifications, we seek to maintain close contacts with our customers to understand their business and production needs, while at the same time keep them informed of our latest product offerings and development activities. Moreover, through regular visits to our customers and obtaining feedback from them, we can stay abreast of the latest trend and development of our customers' products requirements and to ensure that our products fulfil their production schedule and expectations.

Our sales representatives have engaged in business development and marketing activities in various provinces in the PRC. They are responsible for (i) enhancing our promotion and sales efforts; (ii) actively approaching and liaising with our existing and potential customers; and (iii) collecting feedbacks and handling any queries on our products from customers in those provinces.

We believe our strategy enables us to promptly respond to market developments and provide customised products to our customers. When customers require new product development, our marketing department and production department will strive to ascertain their needs promptly. Our marketing department reports customers' feedback to our management team and also conducts internal market analysis from time to time on latest industry trends.

Supplier selection process of our customers

According to the Industry Report, cigarette package manufacturers generally select new suppliers through (i) direct negotiations with potential suppliers; or (ii) inviting potential suppliers to participate in tenders for sales of cigarette packaging paper.

Direct negotiation

We have secured the engagements with the majority of our customers through direct negotiations with them. We made acquaintances with these customers mainly through (i) their incoming enquiries; (ii) referrals from existing customers; and (iii) marketing and promotion activities carried out by our marketing department. If a customer accepts our quotation, it will generally enter into a framework sales agreement with us.

Tender selection process

Our marketing department regularly monitors tender notices published by cigarette package manufacturers on various online tendering platforms for potential new business opportunities. We also receive customers' invitations from time to time to submit tenders. The tender documents provided by potential customers generally contain the eligibility of the tenderers, description of the products required, documentary requirements on tender submissions and timeframe for submitting tenders. If our tender submission is successful, the customer will enter into a framework sales agreement with us.

Pricing strategy

We determine our pricing on a case-by-case basis by adopting a cost-plus pricing approach. After estimating our production costs, which mainly include (i) the estimated material costs; (ii) our direct labour cost; and (iii) our other production costs, our management team will proceed to determine the additional profit margin, taking into account factors including (i) the technical requirements and specifications; (ii) the relationship with the customers; (iii) the market standing and position of the customers; and (iv) the credit history and financial track record of the customers. For customers which engage suppliers through tender selection process, the tender documents will generally specify the maximum tender unit price for the products to be supplied and potential suppliers (including our Group) are required to submit a unit price at or below the specified maximum price in the tender submissions. There is no such restriction on our pricing for those customers who engaged us through direct negotiations.

The purchase orders placed by the customers are charged according to the pre-agreed unit price as stated in the framework sales agreements, which are generally valid for one year to two years. Upon renewal of the framework sales agreements, we will review and adjust the unit price for our products if necessary.

Seasonality and potential market development of cigarette packaging in the PRC

Our business is in the upstream sector within the cigarette industry value chain where cigarette sales to consumers are at the end of the value chain. For further information, please refer to the paragraph headed "Industry overview — Overview of the cigarette packaging paper manufacturing industry in the PRC, Hubei and other regions" in this prospectus for the overview of our industry's value chain. Our sales largely correspond to the fluctuations in the sales of the cigarette industry in the PRC. Demand for cigarettes in the PRC is generally higher during Chinese New Year as the practice of gifting cigarettes is common in Chinese culture. Some of our customers may place more purchase orders with us prior to the Chinese New Year to cope with their production schedule. We may therefore record higher sales before Chinese New Year.

According to the Industry Report, "plain packaging" is a way of cigarette packaging without any branding, colour, imagery, corporate logo, or trademark. "Plain packaging" could only include the brand name of the cigarette in a specified size, font, and place on the cigarette pack, in addition to health warnings and any other legally mandated information such as toxic constituents and tax-paid stamps. There are around 15 overseas countries adopting "plain packaging" in their cigarette industries until 2021.

According to our PRC Legal Advisers, the State Tobacco Monopoly Administration has enacted various cigarette labeling laws, rules, and regulations that set forth specific requirements on the text, size, colour, and background of cigarette packaging in the PRC. Warnings in relation to the potentially harmful effects of smoking on health must be printed in Chinese and cover at least 35 percent of the front side of the cigarette package. Changes to these regulations may further hamper the growth of the cigarette packaging paper manufacturing industry in the PRC. As at the Latest Practicable Date, no laws, rules or regulations that require plain packaging on cigarette in effective or to be effective.

According to the State Tobacco Monopoly Administration, the current cigarette packaging regulations in the PRC have complied with the requirements of the Framework Convention on Tobacco Control (《煙草控制框架公約》) issued by the World Health Organization, and the health warnings on the cigarette packages are effective to the consumers. According to the Industry Report, in the future, the State Tobacco Monopoly Administration will continue to focus on the research of strengthening the health warnings on cigarette packages, and there is no indication that the PRC Government intends to adopt "plain packaging" on cigarette as a measure of tobacco control.

There is no guarantee that the PRC Government will not adopt "plain packaging" on cigarette as a measure of tobacco control in the future. Should "plain packaging" be adopted by the PRC Government and depending on the scope of restrictions which may be implemented thereunder, cigarette packaging paper manufacturers, such as our Group, will be adversely affected. Taking into consideration (i) as advised by our PRC Legal Advisers, as at the Latest Practicable Date, no laws, rules or regulations that require plain packaging on cigarette in effective or to be effective; and (ii) according to the Industry Report, there is no indication that the PRC Government intends to adopt "plain packaging" on cigarette as a measure of tobacco control, our Directors do not foresee any material adverse impact arising from "plain packaging" on our Group's business and financial performance in the near future.

OUR CUSTOMERS

Characteristics of our customers

For FY2019, FY2020 and FY2021, we had generated sales from 37, 40 and 34*(Note)* customers, respectively. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC. For FY2019, FY2020 and FY2021, our direct sales to cigarette package manufacturers contributed approximately 87.1%, 89.6% and 85.6% of our total revenue, respectively. To a much lesser extent, some of our customers are trading companies in the PRC which on-sell our products to cigarette package manufacturers. Leveraging the distribution channels and sales network of these trading companies, our Directors consider that we can further diversify our customer base and expand our reach to different cigarette package manufacturers. For FY2019, FY2020 and FY2021, our sales to trading companies contributed approximately 12.9%, 10.4% and 14.4% of our total revenue, respectively. The table below sets forth a breakdown of our revenue by customer types during the Track Record Period:

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

Note: Our Group allocated a significant amount of resources in fulfilling the purchase orders placed by our top five customers for FY2021 which in aggregate generated revenue of approximately RMB279.1 million to our Group for FY2021, representing approximately 75.4% of our total revenue for the corresponding year. Our Group is committed to accommodate the demand from our major customers to the extent our resources allow. Being limited by our then production capacity, our Group had placed more focus and allocated a substantial portion of our production capacity on serving our top five customers for FY2021.

Cigarette package manufacturers

During the Track Record Period, a majority of our revenue was derived from cigarette package manufacturers in the PRC. For FY2019, FY2020 and FY2021, we derived revenue of approximately RMB272.4 million, RMB285.2 million and RMB316.9 million from cigarette package manufacturers, representing approximately 87.1%, 89.6% and 85.6% of our total revenue, respectively. The products sold by us to cigarette package manufacturers are used in the manufacture of cigarette packages for various cigarette brands in the PRC.

Some of our top customers are established market players in the cigarette package manufacturing industry. For instance, Hubei Golden Three Gorges is a subsidiary of a company listed on the Stock Exchange, whereas Customer Group C are subsidiaries of state-owned enterprises in the PRC. For further details on our top customers, please refer to the paragraph headed "Top customers" below in this section.

Trading companies

To a much lesser extent, we also sell our products to trading companies in the PRC which on-sell our products to cigarette package manufacturers. According to the Industry Report, it is not uncommon for cigarette package manufacturers in the PRC to purchase packaging materials through trading companies in view of their network in sourcing quality products from various packaging materials manufacturers. Leveraging the distribution channels and sales network of these trading companies, our Directors consider that we can further diversify our customer base and expand our reach to different cigarette package manufacturers. For FY2019, FY2020 and FY2021, we derived revenue of approximately RMB40.4 million, RMB33.2 million and RMB53.4 million from trading company customers, representing approximately 12.9%, 10.4% and 14.4% of our total revenue, respectively. During the Track Record Period, we had a total of three trading company customers including Harbin Shixiang and two other trading companies, namely "**Trading Co. A**" and "**Trading Co. B**". The table below sets forth a breakdown of our revenue derived from trading company customers during the Track Record Period:

	FY2019		**FY2020**		**FY2021**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Harbin Shixiang	34,910	86.3	15,264	46.0	42,821	80.2
Trading Co. A	5,522	13.7	8,488	25.6	5,133	9.6
Trading Co. B	—	—	9,442	28.4	5,426	10.2
Total	40,432	100.0	33,194	100.0	53,380	100.0

Background of our trading company customers

Harbin Shixiang is a limited liability company established in the Heilongjiang Province in the PRC on 2 April 2007. Harbin Shixiang is principally engaged in the distribution of paper and other products. According to publicly available information, Harbin Shixiang is owned equally by two independent third parties.

Trading Co. A is a limited liability company established in Henan Province in the PRC on 17 January 2014. Trading Co. A is principally engaged in the distribution of paper products and packaging materials. According to publicly available information, Trading Co. A is owned by two independent third parties as to 60% and 40%.

Trading Co. B is a limited liability company established in Hubei Province in the PRC on 25 November 2009. Trading Co. B is principally engaged in the distribution of paper products and packaging materials. According to publicly available information, Trading Co. B is owned equally by two independent third parties.

Commercial arrangements with our trading company customers

Our relationship with trading company customers, being independent third parties, is a seller/ buyer relationship. We do not set sales or expansion target or minimum purchase commitment for our trading company customers. We also do not impose any control over the pricing policy of our trading company customers on our products. Similar to our other customers, we generally enter into a framework sales agreement with our trading company customers. The principal terms of the framework sales agreement with our trading company customers are similar to those with our cigarette package manufacturer customers. For further details, please refer to the paragraph headed "Our customers — Principal terms of engagement" below in this section. During the contract term of the framework sales agreement, our trading company customers are entitled to place purchase orders with us. Save as the principal terms set forth in the framework sales agreement, we do not exert any other specific control on our trading company customers.

(i) Product returns arrangement

We do not accept any product return from our customers, including trading company customers, except due to product defects caused by us. We did not experience any material product return during the Track Record Period. For details of our product return policy, please refer to the paragraph headed "Our customers — Principal terms of engagement" in this section.

(ii) No geographical exclusivity

We do not impose any geographical exclusivity to our customers, including trading company customers. Our Directors believe that the risk of cannibalisation, if any, among our trading company customers is low taking into consideration (i) our Group only had three trading company customers during the Track Record Period, each of which is located in a different regions in the PRC; (ii) save and except for Harbin Shixiang, our revenue derived from other trading company customers, namely Trading Co. A and Trading Co. B, accounted for a small portion of our total revenue during the Track Record Period. For FY2019, FY2020 and FY2021, our revenue derived from Trading Co. A accounted for approximately 1.8%, 2.7% and 1.4% of our total revenue, respectively; whereas our Group only derived revenue from Trading Co. B in FY2020 and FY2021 which accounted for approximately 3.0% and 1.5% of our total revenue in the corresponding year, respectively; and (iii) similar to our other customers, our trading company customers place purchase orders with us on a case-by-case basis. Given we do not accept return or exchange of obsolete products from our customers, our Directors consider that our trading company customers are likely to place purchase orders with us only after they have ascertained the demand for our products from downstream customers.

Based on our internal records and information provided by our trading company customers, Trading Co. A and Trading Co. B did not on sell our products to any of our direct customers or their affiliates during the Track Record Period; whereas Harbin Shixiang had on sold our products to one of our direct customers (the "**Direct Customer**"), being a cigarette package manufacturer in the PRC, during the Track Record Period. For FY2019, FY2020 and FY2021, our Group generated revenue of approximately RMB9,000, RMB86,000 and nil from the Direct Customer, respectively.

According to the Industry Report, cigarette package manufacturers generally select new suppliers through (i) direct negotiations with potential suppliers; or (ii) inviting potential suppliers to participate in tenders for sales of cigarette packaging paper. In this regard, our trading company customer confirmed with us that they have been awarded with the tender of certain cigarette package manufacturers which had no prior business relationship with our Group for the supply of cigarette packaging paper products. Given our Group has not established business relationship with or obtained tender from these cigarette package manufacturers, we could not supply cigarette packaging paper products directly to them. In this regard, our trading company customer had procured cigarette packaging paper products from us and on sold to these cigarette package manufacturers. In addition, our trading company customers also confirmed that the Direct Customer purchased our Group's products through them partly because they were able to offer more favourable credit terms, which allowed financing flexibility to the Direct Customer.

(iii) Internal control measures to monitor inventory risks

We do not accept any product return from our customers, including trading company customers, except due to product defects caused by us. For details of our product return policy, please refer to the paragraph headed "Our customers — Principal terms of engagement" in this section. We believe that the risk of inventory accumulation by our customers is insignificant as (i) we do not retain the risk of ownership of our products once the legal title of our products has been passed to them; (ii) our customers do not have a legal right to return products to us except for product defects caused by us; (iii) we are not contractually required to repurchase our products if they remain unsold by the trading companies; and (iv) we do not guarantee a minimum resale value of our products.

Sales by geographical locations of our customers

Our customers are all situated in China, and a majority of them are situated in Hubei Province and Henan Province. The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

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

Notes:

1. North-east China mainly include Liaoning Province, Jilin Province and Heilongjiang Province.

2. East China mainly include Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

3. Others mainly include Guangdong Province, Shaanxi Province and Chongqing Municipality.

Our revenue generated from Henan Province increased substantially from approximately RMB63.9 million for FY2019 to approximately RMB94.5 million for FY2020 and further increased to approximately RMB121.2 million for FY2021, which was mainly attributable to the increase in revenue generated from two customers, namely Customer E and Changge Dayang, which are located in Henan Province. Our revenue generated from Customer E increased from approximately RMB19.8 million for FY2019 to RMB32.1 million for FY2020 and further increased to approximately RMB55.6 million for FY2021; whereas our revenue generated from Changge Dayang increased from approximately RMB26.2 million for FY2019 to approximately RMB34.2 million for FY2020 and further increased to approximately RMB50.7 million for FY2021.

Our revenue generated from North-east China decreased from approximately RMB34.9 million for FY2019 to approximately RMB17.0 million for FY2020, which was mainly attributable to the decrease in our revenue generated from Harbin Shixiang, which is located in Heilongjiang Province, from approximately RMB34.9 million for FY2019 to approximately RMB15.3 million for FY2020, representing a decrease of approximately 56.2%. Such decrease was mainly attributable to (i) changes to the package design of two cigarette brands in 2020, which substituted the use of transfer paper with white cardboard and hence resulted in a decrease in revenue of approximately RMB13.3 million; and (ii) loss of sales opportunities due to suspension of business operations from late-January 2020 to late-March 2020 due to the outbreak of COVID-19. Our revenue generated from North-east China increased from approximately RMB17.0 million for FY2020 to approximately RMB44.2 million for FY2021, which was mainly attributable to the increase in our revenue generated from Harbin Shixiang from approximately RMB15.3 million for FY2020 to RMB42.8 million for FY2021. Such increase was mainly attributable to the increase in sales of cigarette packaging paper to Harbin Shixiang for the use in the manufacture of cigarette packages for two "Dual 15 cigarette brands" namely, Brand A and Brand G. For further details, please refer to the paragraph headed "Our products and services — Breakdown of our product sales by cigarette brands" in this section.

Our revenue generated from East China increased from approximately RMB13.1 million for FY2020 to approximately RMB33.3 million for FY2021, which was mainly attributable to (i) the increase in our revenue generated from a state-owned enterprise with its headquarters in Shanghai from approximately RMB8.4 million for FY2020 to approximately RMB17.5 million for FY2021; and (ii) the revenue generated from a new cigarette package manufacturer customer based in Anhui Province, being a subsidiary of a company listed on the Stock Exchange, of approximately RMB12.8 million for FY2021.

Our revenue generated from other regions in the PRC decreased from approximately RMB36.7 million for FY2019 to approximately RMB7.7 million for FY2020 which was mainly attributable to the decrease in number of our customers from other regions from 14 for FY2019 to nine for FY2020.

Top customers

For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top customer amounted to approximately 27.1%, 28.8% and 25.4%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively.

The following tables set out information of our top five customers during the Track Record Period:

FY2019

Rank	Customer	Principal business activities	Type of product(s)/ service provided to our customers	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
						RMB'000	*%*
1	Hubei Golden Three Gorges *(Note 1)*	A subsidiary of a company listed on the Stock Exchange principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper, laminated paper and provision of cigarette packaging paper processing services	Since 2017	90 days; by bank acceptance bills	84,918	27.1
2	Harbin Shixiang *(Note 2)*	A limited company principally engaged in distribution of paper and other products with its headquarters in Heilongjiang Province	Transfer paper and frame paper	Since 2017	60 days; by bank acceptance bills	34,910	11.2
3	Customer Group C *(Note 3)*	A group of companies owned by a state-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper	Since 2018	60 days; by bank transfer	30,377	9.7
4	Changge Dayang *(Notes 4 and 5)*	A limited company principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2018	60 days; by bank acceptance bills	26,161	8.4
5	Customer E *(Note 6)*	A collectively-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2014	120 days; by bank acceptance bills	19,847	6.3
				Total five customers combined		196,213	62.7
				All other customers		116,587	37.3
				Total revenue		312,800	100.0

FY2020

Rank	Customer	Principal business activities	Type of product(s)/ service provided to our customers	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
						RMB'000	*%*
1	Hubei Golden Three Gorges *(Note 1)*	A subsidiary of a company listed on the Stock Exchange principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper, laminated paper and provision of cigarette packaging paper processing services	Since 2017	90 days; by bank acceptance bills	91,766	28.8
2	Customer Group C *(Note 3)*	A group of companies owned by a state-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper	Since 2018	60 days; by bank transfer	42,780	13.4
3	Changge Dayang *(Note 4)*	A limited company principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2018	60 to 90 days; by bank acceptance bills	34,162	10.7
4	Customer E *(Note 6)*	A collectively-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2014	120 days; by bank acceptance bills	32,092	10.1
5	Hubei Xinjiarui *(Note 7)*	A limited company principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper and laminated paper	Since 2019	60 days; by bank transfer	17,845	5.6
				Total five customers combined		218,645	68.6
				All other customers		99,701	31.4
				Total revenue		318,346	100.0

FY2021

Rank	Customer	Principal business activities	Type of product(s)/ service provided to our customers	Year of commencement of business relationship	Typical credit terms and payment method	Revenue derived from the customer	
						RMB'000	*%*
1	Hubei Golden Three Gorges *(Note 1)*	A subsidiary of a company listed on the Stock Exchange principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper and laminated paper	Since 2017	90 days; by bank acceptance bills	94,173	25.4
2	Customer E *(Note 6)*	A collectively-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2014	120 to 180 days; by bank acceptance bills	55,617	15.0
3	Changge Dayang *(Note 4)*	A limited company principally engaged in manufacture of cigarette package with its headquarters in Henan Province	Transfer paper and laminated paper	Since 2018	60 to 120 days; by bank acceptance bills	50,659	13.7
4	Harbin Shixiang *(Note 2)*	A limited company principally engaged in distribution of paper and other products with its headquarters in Heilongjiang Province	Transfer paper and frame paper	Since 2017	120 days; by bank acceptance bills	42,821	11.6
5	Customer Group C *(Note 3)*	A group of companies owned by a state-owned enterprise principally engaged in manufacture of cigarette package with its headquarters in Hubei Province	Transfer paper	Since 2018	60 days; by bank transfer	35,809	9.7
				Total five customers combined		279,079	75.4
				All other customers		91,232	24.6
				Total revenue		370,311	100.0

Notes:

1. Hubei Golden Three Gorges was established in 1992. Hubei Golden Three Gorges is a subsidiary of Jia Yao Holdings Limited (stock code: 1626), a company listed on the Main Board of the Stock Exchange. Based on the latest annual report of Jia Yao Holdings Limited, its revenue amounted to over RMB570 million for the year ended 31 December 2020.

2. Harbin Shixiang was established in 2007. Harbin Shixiang has a registered capital of RMB1 million.

3. Customer Group C consists of two companies which were established in 1992 and 1994, respectively. Customer Group C has a total registered capital of approximately RMB300 million.

4. Changge Dayang was established in 2003. Changge Dayang has a registered capital of RMB80 million.

5. In FY2019, our Group generated revenue of approximately RMB26.2 million from the sales of 1,293 tonnes of cigarette packaging paper to Changge Dayang. The average selling price of our cigarette packaging paper products sold to Changge Dayang in FY2019 was approximately RMB20,200 per tonne, which was generally higher than the range of average selling price of all our product types ranging from approximately RMB7,500 to RMB15,200 per tonne. The relatively higher average selling price of our cigarette packaging paper products sold to Changge Dayang in FY2019 was mainly attributable to the sales of approximately 351 tonnes of low grammage transfer paper (the "**Low Grammage Transfer Paper**") with an average selling price of approximately RMB39,500 per tonne, which generated revenue of approximately RMB13.9 million to our Group for FY2019, representing approximately 53.1% of our total revenue generated from Changge Dayang for the corresponding year. During the Track Record Period, our Group only sold the Low Grammage Transfer Paper to Changge Dayang. According to the Industry Report, grammage is a measurement that describes the area density of a paper product, which is expressed in terms of grams per square meter regardless of its thickness. With lower grammage, the total surface area of a paper product per tonne will be higher. The Low Grammage Transfer Paper sold to Changge Dayang represents the lowest grammage product manufactured by our Group during the Track Record Period. The larger surface area of the Low Grammage Transfer Paper per tonne generally involves higher production cost due to the (i) increase in raw materials such as film, ink and glue used for production; (ii) increase in utilities and labour costs owing to increased processing time; and (iii) higher technical difficulties and meticulous craftsmanship required for the Low Grammage Transfer Paper.

   According to the Industry Report, low grammage transfer paper is normally used for mid-to-high-end cigarettes packaging, and the price generally ranged from approximately RMB28,000 per tonne to approximately RMB80,000 per tonne. Such price range could be attributed to various factors such as (i) different transfer paper types (e.g. laser beam transfer paper, gold/silver card transfer paper, cross-grained light column transfer paper, laser holographic transfer paper, platinum embossed transfer paper, etc.) involve different levels of complications in production and product designs, as well as raw materials used; (ii) different specifications might be customised per order depending on the customer's requirement in terms of product color, design, production complexity and product application, etc.; and (iii) different source of raw materials, e.g. the regions and sourcing. According to the Industry Report, the average selling price of the Low Grammage Transfer Paper of approximately RMB39,500 per tonne sold by our Group to Changge Dayang is generally in line with the market price of low grammage transfer paper.

For illustrative purpose, the following table sets forth a breakdown of the average selling price of our transfer paper, laminated paper and frame paper by grammage during the Track Record Period:

Grammage	FY2019 Average selling price *RMB per tonne*	FY2020 Average selling price *RMB per tonne*	FY2021 Average selling price *RMB per tonne*
Transfer paper			
— Low grammage	39,500 *(Note d)*	25,400	25,000
— Medium grammage	20,500	15,900	17,400
— High grammage	14,500	14,600	15,200
Laminated paper			
— Medium grammage	14,700	14,200	15,100
— High grammage	11,100	10,700	10,900
Frame paper			
— Medium grammage	8,400	—	—
— High grammage	7,400	8,500	8,800

Notes:

a. Low grammage refers to products with grammage under 100 gram per square meter.

b. Medium grammage refers to products with grammage between 100 gram and 200 gram per square meter.

c. High grammage refers to products with grammage above 200 gram per square meter.

d. The relatively higher average selling price of our low grammage transfer paper of approximately RMB39,500 per tonne for FY2019 was mainly attributable to the sales of approximately 351 tonnes of the Low Grammage Transfer Paper, which represented the lowest grammage product manufactured by our Group during the Track Record Period, to Changge Dayang as aforementioned.

6. Customer E was established in 1995. Customer E has a registered capital of RMB10 million.

7. Hubei Xinjiarui was established in 2019. Hubei Xinjiarui has a registered capital of RMB6 million.

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period.

Customer concentration

For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top customer amounted to approximately 27.1%, 28.8% and 25.4%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively. In particular, a significant portion of our revenue during the Track Record Period was derived from Hubei Golden Three Gorges, Customer Group C, Changge Dayang and Customer E, which have been our top five customers throughout the Track Record Period. Our Directors consider that our Group's business model is sustainable despite such customer concentration due to the following factors:

Established relationship with major customers

- As at the Latest Practicable Date, our Group has established business relationship for seven years with one of our major customers during the Track Record Period (Customer E, as referred to in the paragraph headed "Our customers — Top customers" above in this section). Therefore, we will endeavor to accommodate their demand for our products to the extent our resources allow, resulting in them being our top customers. We also communicate regularly with our customers to obtain feedback on the quality standards of our products.

Mutual and complementary reliance

- Leveraging our business relationship with our major customers, we have developed a mutual and complementary business relationship with our major customers. We place significant emphasis on customer relationship management. Our marketing staff conducts regular visits to our customers to stay abreast of the latest trend and development of our customers' products requirements and to ensure that our products fulfil their production schedule and expectations.

- According to the Industry Report, cigarette brand companies generally place emphasis on the consistency and standardisation of their cigarette packages as these are crucial to their brand recognition and product appeal. As such, consistency in the supply and quality of cigarette packaging papers is highly regarded by cigarette package manufacturers as well as cigarette manufacturers. Our Directors consider that our ability to consistently comply with applicable national and industrial standards has assisted our customers in fulfilling the cigarette packaging requirements and specifications of their customers (i.e. cigarette manufacturers), thereby resulting in the establishment of mutual and complementary reliance between our Group and our major customers.

- Our solid production capacity and research and development capabilities allow us to schedule our production flexibly, promptly respond to our customers' requirements, ensure timely delivery of products at the required volume and supply customised products to our customers.

Industry landscape

- According to the Industry Report, cigarette manufacturers generally source cigarette packaging from a limited number of cigarette package manufacturers. Hence, it is not uncommon for cigarette packaging paper manufacturers to rely and focus on serving a limited number of cigarette package manufacturers. The established relationship between cigarette packaging paper manufacturers and cigarette package manufacturers have become a barrier for new entrants to capture shares in the cigarette packaging paper manufacturing industry. Based on the industry experience of our executive Directors, and having made reference to comparable company in similar industry, our Directors consider that it is an industry norm for cigarette packaging paper manufacturers to place reliance on a limited number of customers and the risk of reliance is not specific to our Group.

- Our Directors believe that we have established significant market presence in the PRC cigarette packaging paper manufacturing industry. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of approximately 14.9% in Hubei Province.

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

Diversification of customer base

- Our Group has made consistent effort in geographic expansion and diversifying our customer base. For instance, the percentage of revenue derived by our Group from regions other than Hubei Province (i.e. Henan Province, North-east China, East China and other regions), has increased from approximately 46.9% for FY2019 to 55.1% for FY2021. Further, our Group has demonstrated a reduction in our reliance on Hubei Golden Three Gorges during the Track Record Period, as evidenced by the decrease in percentage of our revenue attributable to Hubei Golden Three Gorges from approximately 27.1% for FY2019 to approximately 25.4% for FY2021.

- Our sales representatives have engaged in business development and marketing activities in various provinces in the PRC. They are responsible for (i) enhancing our promotion and sales efforts; (ii) actively approaching and liaising with our existing and potential customers; and (iii) collecting feedbacks and handling any queries on our products from customers, in those provinces.

- While our customers are mainly located in Hubei Province and Henan Province, we strive to expand our reach to customers located at different provinces in the PRC. For example, our Group has established business relationship with (i) a cigarette package manufacturer, being a subsidiary of a state-owned enterprise in the PRC, with its headquarters in Shanghai Municipality in FY2019; (ii) a cigarette package manufacturer (being listed on the Shanghai

Stock Exchange) with its headquarters in Anhui Province in FY2020; and (iii) a cigarette package manufacturer located in Yunnan Province, which is a subsidiary of a state-owned cigarette manufacturer, in FY2020.

Transferrable skills in broadening our customer base

- During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands (雙十五煙草品牌)" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. Our Directors believe that our manufacturing capability and ability in fulfilling the stringent requirements of various cigarette package manufacturers and well-known cigarette brands in the PRC can be readily transferred to serve new customers.

No material adverse change in business relationship with major customers

- Our customers generally enter into framework sales agreements with us for a term ranging from one year to two years. During the contract term, the customers are entitled to place purchase orders with us based on the unit price as stated in the framework sales agreements. As at the Latest Practicable Date, our Group had entered into framework sales agreement with all our major customers.

- Out of the 40 customers which generated revenue to our Group in FY2020, 27 customers, which contributed revenue of approximately RMB305.4 million, representing approximately 95.9% of our total revenue for FY2020, had continued to place purchase orders with us in FY2021.

- Based on preliminary enquiries with our major customers, our Directors understand that our major customers were in general satisfied with the products and services supplied by our Group and such customers do not foresee any material reduction in the amount of purchase from our Group in the foreseeable future.

Based on the factors aforementioned, in particular taking into consideration the followings, the Directors consider that the likelihood of termination of business relationship between our Group and our major customers is relatively low and the Sponsor is not aware of any material circumstances which would result in material adverse change or termination of relationship between our Group and our major customers:

(i) our customers generally engage us through direct negotiation or tender selection process. If our quotation or tender is accepted by our customers, they will typically confirm our engagement by entering into a framework sales agreement with us. If our customers are satisfied with the quality of our products, they would likely renew the framework sales agreement with us upon its expiry under a new unit price for the products with similar terms and conditions. Our Group had entered into framework sales agreement with each of our major customers for each financial year during the Track Record Period which serves as an indication of our Group's capability in fulfilling the product quality requirements and specifications of our major customers. Further, based on preliminary enquiries with the major customers, the Sponsor understands that our Group has been one of the approved and major suppliers of our Group's major customers and there had not been any instance of early termination of framework sales agreements with our major customers during the Track Record Period and up to the Latest Practicable Date;

(ii) each of our major customers had made purchases from our Group in each financial year during the Track Record Period. In particular, each of Hubei Golden Three Gorges, Customer Group C, Changge Dayang and Customer E, had been our top five customers throughout the Track Record Period. Each of our major customers has continued to place purchase orders with our Group subsequent to the Track Record Period and up to the Latest Practicable Date;

(iii) based on preliminary enquiries with our Group's major customers, the Sponsor understands that (i) our major customers had not experienced any material quality issues, product return or delay in delivery in relation to the products supplied by our Group; (ii) our major customers are in general satisfied with the products and services supplied by our Group; and (iii) there has not been any material dispute, claim or litigation between our Group and our major customers;

(iv) as confirmed by our Directors, our Group had not received any material claims or complaints from our major customers in relation to the quality of our products during the Track Record Period and up to the Latest Practicable Date. According to the Industry Report, cigarette brand companies generally place emphasis on the consistency and standardisation of their cigarette packages as these are crucial to their brand recognition and product appeal. As such, consistency in the supply and quality of cigarette packaging papers is highly regarded by cigarette package manufacturers as well as cigarette manufacturers. Our Directors consider that our ability to consistently comply with applicable national and industrial standards has assisted our customers in fulfilling the cigarette packaging requirements and specifications of their customers (i.e. cigarette manufacturers), thereby resulting in the establishment of mutual and complementary reliance between our Group and our major customers;

(v) the majority of our major customers are principally engaged in the manufacture of cigarette package with established operating history of over 15 years. In particular, some of our major cigarette package manufacturer customers are subsidiaries of cigarette manufacturing group in the PRC. According to the Industry Report, cigarette manufacturers generally prefer to engage their fellow group members, being cigarette package manufacturers, to supply cigarette packages. In light of the established business operation and market position of our major customers in the cigarette package industry, it is believed that our major customers will continue to have a stable demand for our cigarette packaging paper products which are to be used in their manufacture of cigarette packages; and

(vi) to the best of our Directors' knowledge, each of our major cigarette package manufacturer customers is engaged in the manufacture of cigarette packages for the "Dual 15 cigarette brands (雙十五煙草品牌)". During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)". It is believed that our Group's established track record, experience and technical know-how in fulfilling the stringent quality and technical requirements of various cigarette package manufacturers and well-known cigarette brands, especially the "Dual 15 cigarette brands (雙十五煙草品牌)" are readily transferrable to serving our major customers.

Overlapping customers and suppliers

During the Track Record Period, we occasionally made purchases of certain types of raw materials from our customers for our own use and we also occasionally sold our products to our suppliers (the "**Overlapping Customers/Suppliers**"). During the Track Record Period, we had in total 20 Overlapping Customers/Suppliers.

Our group generally procured raw materials from our customers under the circumstances when we were required to source certain raw materials to produce cigarette packaging paper products on an urgent basis, and such raw materials were not then readily available from our suppliers. Meanwhile, our group generally sold our products to our suppliers upon their requests when they were unable or did not have the manufacturing capacity to perform certain processing to satisfy the demands of their customers.

The following table sets forth the details of our transactions with our Overlapping Customers/Suppliers that were either (i) our top customers/suppliers during the Track Record Period; or (ii) our customers/suppliers with procurement amount/sales amount representing over 1.0% of our total purchases/revenue for any financial year during the Track Record Period:

	Nature of the product(s) or service involved	**FY2019**		**FY2020**		**FY2021**	
		RMB'000	%	*RMB'000*	%	*RMB'000*	%
Hubei Golden Three Gorges							
Revenue derived and approximate % of our total revenue	Transfer paper, laminated paper and provision of cigarette packaging paper processing services	84,918	27.1	91,766	28.8	94,173	25.4
Procurement amounts and approximate % of our total purchases	Other accessory materials	111	Negligible	6	Negligible	3	Negligible
Gross profit margin			32.6		29.9		34.4

	Nature of the product(s) or service involved	FY2019		FY2020		FY2021	
		RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Changge Dayang							
Revenue derived and approximate % of our total revenue	Transfer paper and laminated paper	26,161	8.4	34,162	10.7	50,659	13.7
Procurement amounts and approximate % of our total purchases	White cardboard	—	—	—	—	307	0.1
Gross profit margin			22.2		14.0		17.2
Hubei Xinjiarui							
Revenue derived and approximate % of our total revenue	Transfer paper and laminated paper	15,488	5.0	17,845	5.6	15,573	4.2
Procurement amounts and approximate % of our total purchases	White cardboard	2	Negligible	—	—	—	—
Gross profit margin			33.2		32.4		22.9
Supplier D							
Revenue derived and approximate % of our total revenue	Transfer paper	2,443	0.8	1,482	0.5	1,913	0.5
Procurement amounts and approximate % of our total purchases	Film	20,038	8.3	18,400	7.6	19,628	6.5
Gross profit margin			10.1		11.0		14.0
Supplier F							
Revenue derived and approximate % of our total revenue	Transfer paper and laminated paper	2,102	0.7	4,858	1.5	3,659	1.0
Procurement amounts and approximate % of our total purchases	White cardboard	7,026	2.9	19,246	7.9	17,809	5.9
Gross profit margin			19.5		9.3		9.0
Company A *(Note 1)*							
Revenue derived and approximate % of our total revenue	Transfer paper and laminated paper	2,680	0.9	4,335	1.4	5,534	1.5
Procurement amounts and approximate % of our total purchases	White cardboard	6,186	2.6	1,862	0.8	828	0.3
Gross profit margin			10.7		13.9		14.0

	Nature of the product(s) or service involved	FY2019		FY2020		FY2021	
		RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Company B *(Note 2)*							
Revenue derived and approximate % of our total revenue	Transfer paper and laminated paper	9,669	3.1	2,516	0.8	838	0.2
Procurement amounts and approximate % of our total purchases	White cardboard	6,854	2.8	80	Negligible	1,317	0.4
Gross profit margin			9.5		82.7 *(Note 3)*		5.6
Remaining eight customers							
Revenue derived and approximate & of total revenue	Transfer paper and laminated paper	28,153	9.0	19,404	6.1	16,657	4.5
Procurement amounts and approximate % of our total purchases	Film and other accessory materials	344	0.1	1,270	0.5	3,452	1.1
Gross profit margin			17.0		20.4		19.5
Remaining five suppliers							
Revenue derived and approximate & of total revenue	Transfer paper and laminated paper	3,105	1.0	745	0.2	513	0.1
Procurement amounts and approximate % of our total purchases	Film and other accessory materials	22,160	9.2	15,338	6.3	12,224	4.0
Gross profit margin			7.8		18.1		22.1

Notes:

1. Company A, being one of our Group's customers, is a limited liability company established in Hubei, the PRC. Meanwhile, our Group has on occasions procured white cardboard from Company A when our Group's production capacity was close to being fully utilised during the Track Record Period. In addition, our Group had made purchase for a type of white cardboard in the amount of approximately RMB6.0 million from Company A in FY2019 because, at the material time, we needed a relatively large quantity of white cardboard within a tight timeframe to meet our production schedule, while through our communication with Company A, we learnt that Company A happened to have some spare white cardboard which could readily match our needs.

2. Company B, being one of our Group's customers, is a subsidiary of a company listed on the Stock Exchange. Meanwhile, our Group has on occasions procured white cardboard from Company B when our Group's production capacity was close to being fully utilised during the Track Record Period. Given certain processing works had already been performed by Company B on the white cardboard supplied to our Group, we could save our production capacity from performing such processing works.

3. The gross profit margin of Company B was approximately 82.7% in FY2020. Such higher gross profit margin was mainly attributable to the revenue generated from the provision of cigarette packaging paper processing services. The revenue generated from the provision of cigarette packaging paper processing services accounted for approximately 99.5% of our revenue derived from such customer for FY2020. As the customers are responsible for the procurement of raw materials which they will provide us for further processing, we incurred labour costs, depreciation and utilities costs, thereby leading to high gross profit margin for our cigarette packaging paper processing services.

4. Our gross profit margin of customers/suppliers may vary depending on the types of products ordered/procured by the customers/suppliers during the year. In particular, a product's selling price and production cost are affected by (i) its product features and technical requirements (e.g. anti-counterfeiting, laser, seamless, eco-friendliness); (ii) product specifications (e.g. grammage, texture); (iii) quality (e.g. folding endurance, surface evenness); and (iv) whether the production of the product involves the use of patents owned by us.

Principal terms of engagement

The salient terms of the framework sales agreements between us and our customers are as follows:

Product description

The framework sales agreements set out the type of products to be supplied by us and other product specifications and requirements, such as size, colour, materials, texture and cuttings.

Pricing

The framework sales agreements set out the unit price for each of our products to be supplied, which is typically agreed at a fixed price per tonne. Customers are not bound by any minimum purchase commitment under the framework sales agreements. The actual volume of products supplied by us are subject to the purchase orders made by the customers during the contract period, which are charged according to the unit price as stated in the framework sales agreements.

Contract term

The contract term of our framework sales agreements normally ranges from one year to two years. During the contract term, the customers are entitled to place purchase orders with us. In general, if the customers intend to continue our engagements upon expiry of the contract term, they may renew the framework sales agreements with us under a new unit price for the products with similar terms and conditions.

Payment term

We generally grant our customers a credit term of 60 to 180 days from the date of billing. Our customers generally settle their payments by bank transfer or bank acceptance bills.

Delivery arrangements

In general, we are responsible for the transportation of products to the destination specified by our customers on or before the date as stipulated in the purchase orders. The transportation costs and other related expenses are borne by us.

Quality requirements

Our products shall comply with the quality, technical and packaging requirements as specified in the framework sales agreements. Inspection will be conducted by our customers, on a sampling basis, on the quality and technical standards of our products. For each batch of product delivery, we are required to provide delivery notes and our outgoing quality inspection reports. If so requested by our customers, we may have to issue an undertaking to our customers on the quality and safety standards of our products. Our customers are generally entitled to return defective or substandard products to us.

We may be liable to pay damages to our customers if we are unable to deliver the ordered products within the specified time, or our products fail to meet our customers' requirements and/or specifications which results in damages suffered by our customers. Such damages are generally calculated on the basis of a fixed sum per day or according to a pre-agreed damages calculating mechanism. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, no damages had been claimed by our customers against us.

Performance guarantee

Depending on the contract terms of the framework sales agreement, we may be required to deposit a specified amount with our customer as performance guarantee to secure our compliance with the framework sales agreement. The amount of performance guarantee is generally a fixed sum or based on a certain percentage, generally equivalent to 5%, of the estimated contract sum of the framework sales agreement. During the Track Record Period, the amount of performance guarantee provided by us generally ranged from approximately RMB50,000 to RMB0.4 million. If we fail to comply with the framework sales agreement, our customer would be entitled to guaranteed compensation for any monetary loss up to the amount of the performance guarantee. The performance guarantee will be released generally 30 days after the expiry of the framework sales agreement.

Anti-corruption

Depending on the contract terms of the framework sales agreement, we may be specifically required to strictly abide by the PRC laws and regulations related to anti- bribery and corruption. For instance, we may be strictly prohibited from (i) malicious collusion or bribery such as provision or acceptance of gifts or other improper benefits to/from the staff of our customers; (ii) provision of false information in our tender submission or for our customers' inspection; and (iii) disclosing commercial sensitive information in relation to the framework sales agreement.

Safety management

Depending on the contract terms of the framework sales agreement, we may be required by our customers to adhere to their safety management policies. For instance, our staff is (i) required to attend safety education and training before carrying out repair and maintenance activities at our production facility; and (ii) is strictly prohibited from smoking at our production facility.

Termination

Our customers are entitled to terminate our framework sales agreement if, among others, our performance ratings fall below the specified standards, we repeatedly fail to comply with the specified quality standards or repeatedly delay in our product delivery. During the Track Record Period and up to the Latest Practicable Date, none of our framework sales agreements with customers were terminated pursuant to the termination clause.

Credit policy

Our marketing staff generally perform sales reconciliation with our customers after our products are delivered and accepted by our customer or our customer acknowledges acceptance after being satisfied with the results of its quality inspection and testing on the products. We generally perform sales reconciliation with our customers at the end of each month in respect of those products delivered within the same month. On occasions where the products are delivered close to the end of a month, the sales reconciliation for the same would be performed in the following month.

Once the sales reconciliation is completed, our marketing staff would submit application together with the sales reconciliation schedule to our finance department for issue of invoice. Our finance department would then cross-check the details set forth in the sales reconciliation schedule, including unit price, sales amount and sales volume, with our internal record. Should the details set forth in the reconciliation schedule conform with our internal record, the application will then be passed to our accountant and finance manager for approval. After our accountant and finance manager signs on the application as approval, our finance department will issue the invoice which will then be passed to the responsible marketing staff for handing over to the relevant customers. Our marketing staff is responsible for returning the acknowledgement of receipt of invoice from our customers to our finance department on a monthly basis.

Further, we would monitor the status of invoicing process in respect of our delivered products. In particular, by the end of each quarter, we would conduct analysis on those products which had been delivered but yet to be invoiced. Where necessary, internal meetings would be held to discuss and address any issue identified in our analysis.

We determine the credit period for our customers based on business relationship, the background, financial condition and credit records of the customers and current market conditions. We generally grant our customers a credit term of 60 to 180 days from the date of billing. Our customers generally settle their payments by bank transfer or bank acceptance bills. During the Track Record Period, all of our revenue was dominated in the Renminbi.

Our marketing department is responsible for the initial assessment of credit limits subject to the approval of our management and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. We periodically review the credit terms and our customer's payment track record and, if appropriate, we will revise the credit terms granted to our customers.

Product return policy

We have implemented procedures to ensure that feedbacks from our customers are handled in a timely and appropriate manner. As a general policy, we accept product returns due to defects caused by us and bear the costs of having such products returned to us after our investigation on the cause of the defects. Our customers are required to report any quality issue to us within a prescribed time, normally three to ten days, upon their receipt or use of our products. We do not accept any product return unless it is related to quality issue. We did not experience any material product return during the Track Record Period.

OUR SUPPLIERS

Raw materials

The principal types of raw materials for our production process include white cardboard, film and other accessory materials such as glue and ink. We source raw materials from various suppliers in the PRC. We generally enter into framework supply agreements with our suppliers for a specified term of one year in general. During the contract term of the framework supply agreement, we are entitled to place purchase orders with the supplier for procurement of raw materials at the specified pre-agreed unit price. This allows us to mitigate the risk arising from abrupt increase in market price of raw materials. Further, we generally source each type of raw materials from various suppliers. In the event of an abrupt increase in price of materials charged by a particular supplier, we are generally able to procure raw materials from other suppliers at commercially acceptable price.

Save as disclosed in the paragraph headed ‘‘Impact of the outbreak of COVID-19 on our operations’’ below in this section, our Group did not experience any material shortage or delay in the supply of raw materials during the Track Record Period and up to the Latest Practicable Date.

Top suppliers

For FY2019, FY2020 and FY2021, the percentage of our total purchases attributable from our top supplier amounted to approximately 15.4%, 21.9% and 22.6%, respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 52.3%, 59.0% and 54.0%, respectively.

The following tables set out information of our top five suppliers during the Track Record Period:

FY2019

Rank	Supplier	Principal business activities	Type of product(s) provided by our suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						RMB'000	*%*
1	Supplier A	A limited company engaged in, among others, supply of white cardboard with its headquarters in Shanghai Municipality	White cardboard	Since 2017	90 days; by bank acceptance bills	37,143	15.4
2	Supplier B *(Note 1)*	A limited company engaged in, among others, supply of white cardboard with its headquarters in Hubei Province	White cardboard	Since 2019	90 days; by bank acceptance bills	25,064	10.4
3	Supplier C *(Notes 2)*	A limited company engaged in, among others, supply of white cardboard with its headquarters in Hubei Province	White cardboard	Since 2014	90 days; by bank acceptance bills	24,185	10.0
4	Supplier D	A company listed on the Shenzhen Stock Exchange which is principally engaged in supply of film with its headquarters in Zhejiang Province	Film	Since 2017	90 days; by bank acceptance bills	20,038	8.3
5	Wuhan Jinfengda Paper Co., Ltd.* (武漢金豐達紙業有限公司)	A limited company engaged in, among others, supply of white cardboard with its headquarters in Hubei Province	White cardboard	Since 2017	90 days; by bank acceptance bills	19,659	8.2
				Total five suppliers combined		126,089	52.3
				All other suppliers		114,593	47.7
				Total purchase		240,682	100.0

FY2020

Rank	Supplier	Principal business activities	Type of product(s) provided by our suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						RMB'000	*%*
1	Supplier B *(Note 1)*	A limited company engaged in, among others, supply of white cardboard with its headquarters in Hubei Province	White cardboard	Since 2019	90 days; by bank acceptance bills	53,196	21.9
2	Supplier A	A limited company engaged in, among others, supply of white cardboard with its headquarters in Shanghai Municipality	White cardboard	Since 2017	90 days; by bank acceptance bills	35,210	14.5
3	Supplier F	A limited company engaged in, among others, supply of white cardboard with its headquarters in Henan Province	White cardboard	Since 2019	90 days; by bank acceptance bills	19,246	7.9
4	Supplier D	A company listed on the Shenzhen Stock Exchange which is principally engaged in supply of film with its headquarters in Zhejiang Province	Film	Since 2017	90 days; by bank acceptance bills	18,400	7.6
5	Shenzhen Bolida Paper Industry Co., Ltd.* (深圳市博立達紙業有限公司)	A limited company engaged in, among others, supply of white cardboard with its headquarters in Guangdong Province	White cardboard	Since 2017	90 days; by bank acceptance bills	17,286	7.1
				Total five suppliers combined		143,338	59.0
				All other suppliers		99,983	41.0
				Total purchase		243,321	100.0

FY2021

Rank	Supplier	Principal business activities	Type of product(s) provided by our suppliers	Year of commencement of business relationship	Typical credit terms and payment method	Purchase by us from the suppliers	
						RMB'000	*%*
1	Supplier B *(Note 1)*	A limited company engaged in, among others, supply of white cardboard with its headquarters in Hubei Province	White cardboard	Since 2019	60 to 90 days; by bank acceptance bills	68,446	22.6
2	Supplier A	A limited company engaged in, among others, supply of white cardboard with its headquarters in Shanghai Municipality	White cardboard	Since 2017	60 to 90 days; by bank acceptance bills	42,564	14.1
3	Supplier D	A company listed on the Shenzhen Stock Exchange which is principally engaged in supply of film with its headquarters in Zhejiang Province	Film	Since 2017	60 to 90 days; by bank acceptance bills	19,628	6.5
4	Supplier F	A limited company engaged in, among others, supply of white cardboard with its headquarters in Henan Province	White cardboard	Since 2019	90 to 120 days; by bank acceptance bills	17,809	5.9
5	Supplier H	A limited company engaged in, among others, supply of film with its headquarters in Guangdong Province	Film	Since 2020	120 days; by bank acceptance bills	14,796	4.9
				Total five suppliers combined		163,243	54.0
				All other suppliers		139,414	46.0
				Total purchase		302,657	100.0

Notes:

1. According to publicly available information, as at the Latest Practicable Date, Supplier B was owned as to 60% and 40% by an independent third party ("**Independent Third Party A**") and another independent third party, respectively. Independent Third Party A has become the majority shareholder, holding 60% of the equity interests in Supplier B, since June 2021. Independent Third Party A has also been a supervisor of Supplier B since June 2021 until the Latest Practicable Date. The overall management and business operations of Supplier B has been overseen by an independent third party ("**Independent Third Party B**") who joined Supplier B since 2019. Independent Third Party B previously owned 40% equity interest in Supplier C since its incorporation in August 2003 and he ceased to be a shareholder following the disposal of all of his equity interests in Supplier C in November 2018. Independent Third Party B had worked as a sales manager at Supplier C and was primarily responsible for the daily business operation of Supplier C since its incorporation in August 2003 up to November 2018, then subsequently left Supplier C and joined Supplier B in 2019.

2. According to publicly available information, Supplier C was deregistered on 28 June 2020. Prior to its deregistration, Supplier C was owned as to 60% and 40% by Independent Third Party A and another independent third party, respectively. Since its incorporation in August 2003 up to its dissolution, Independent Third Party A owned 60% equity interest in Supplier C and had been the executive director and general manager of Supplier C. Independent Third Party A then subsequently became a supervisor and majority shareholder of Supplier B in June 2021 as mentioned in note 1 above.

None of our Directors, their close associates or any Shareholders who owned more than 5% of the number of issued shares of our Company as at the Latest Practicable Date had any interest in any of our top five suppliers during the Track Record Period.

Selection and evaluation of suppliers

We maintain an internal list of approved suppliers which is updated on a continual basis. As at 31 December 2021, we had more than 120 approved suppliers on our internal list. To ensure our product quality, our raw materials procurement policy is to make procurement from those approved suppliers who have passed our quality control assessment and have a satisfactory record of quality and on-time delivery.

Our procurement department is responsible for procuring raw materials based on our production needs and inventory level. We have maintained a set of internal manual on the procedures and standards for procurement of raw materials. Our procurement department generally invites our approved suppliers to submit tender or quotation for supply of materials. In selecting our suppliers, we take into account various factors, including pricing, product quality, production capacity, timeliness of delivery, after-sales service and ability to comply with our requirements and specifications. Depending on the volume of our purchase, once a supplier is selected, we typically enter into a framework supply agreement with the supplier. During the contract term of the framework supply agreement, we are entitled to place purchase orders with the supplier for procurement of raw materials at the specified pre-agreed unit price. Where the volume of our purchase is relatively insignificant, we may directly place purchase orders with the suppliers without entering into a framework supply agreement with them.

Principal terms of engagement

The salient terms of the framework supply agreements between us and our suppliers are as follows:

Product description

The framework supply agreements set out the type of products to be provided by our suppliers and other product specifications and requirements, such as size, colour, materials, texture and cuttings.

Pricing

The framework supply agreements set out the unit price for each type of product, which is typically agreed at a fixed price. We are not bound by any minimum purchase commitment under the framework supply agreements. The actual volume of raw materials purchased is subject to the purchase orders placed by us during the contract period, which are charged according to the unit price as stated in the framework supply agreements.

Contract term

The contract term of framework supply agreements is one year in general. During the contract term, we may make procurement by placing purchase orders with our suppliers. Upon expiry of the contract term, we may (i) enter into negotiation with our existing suppliers for renewing the framework supply agreement with similar terms and conditions; or (ii) invite our approved suppliers to submit tender or quotation for our selection.

Delivery arrangements

Our suppliers are responsible for the transportation of products to our warehouse on or before the date as stipulated in the purchase orders. The transportation costs and other related expenses are borne by our suppliers.

Quality requirements

The products provided by our suppliers shall comply with the quality, technical, environmental and packaging requirements as specified in the framework supply agreements. For each batch of product delivery, we require our suppliers to provide us the delivery notes, outgoing quality inspection reports and environmental inspection report to ensure the quality of raw materials. We shall be entitled to return to the suppliers any defective raw materials which do not meet the agreed quality standard.

Termination

We are entitled to terminate the framework supply agreement if, among others, the performance ratings of our suppliers fall below the specified standards, our suppliers repeatedly fail to comply with our specified quality standards or deliver the products on or before the date as stipulated in the purchase orders.

INVENTORY CONTROL

Our inventories mainly comprise raw materials, finished goods and packaging materials and others. Our inventories are stored at the warehouse in our production facility under a suitable environment to maintain their quality. As at 31 December 2019, 2020 and 2021, our inventories amounted to approximately RMB40.7 million, RMB37.4 million and RMB50.1 million, respectively. For FY2019, FY2020 and FY2021, our inventory turnover days were approximately 62.2 days, 57.4 days and 55.4 days, respectively. For further details on our inventory analysis, please refer to the paragraph headed "Financial information — Discussion on selected financial position items — Inventories" in this prospectus.

Our Group has implemented inventory management policies to monitor and control our inventory level so as to facilitate our production in a timely manner and control our inventory at an optimal level to avoid obsolescence. We maintain an inventory register which clearly records each inflow and outflow of our inventory. Periodic stock-take is conducted to ensure the accuracy of stock-in and stock-out information on record. Throughout the year, our Group reviews the stock-take records and performs inventory ageing analysis to ensure that inventory is properly used and there is no unnecessary accumulation of aged inventory.

We generally maintain inventory of raw materials such as white cardboard and film based on our estimated production needs. For other raw materials, such as glue and ink, we generally maintain certain inventory level to ensure stable operations.

LOGISTICS

We engage third party logistics service providers for the delivery of our finished goods to the destination specified by our customers. The logistics service providers are responsible for the risks associated with the delivery of finished goods and have to bear any losses or other liabilities should the finished goods be damaged during delivery. For FY2019, FY2020 and FY2021, we incurred freight charges of approximately RMB4.6 million, RMB4.1 million and RMB5.3 million to third party logistics service providers, respectively.

QUALITY CONTROL

We place significant emphasis on product quality and safety by implementing stringent and comprehensive quality control measures covering all stages of our operations. Our quality management system has been certified to be in compliance with ISO 9001 certification. As at the Latest Practicable Date, our quality control department comprises 11 staff members who are responsible for conducting inspection and quality control tests throughout the production process. We are committed to achieving a low product defect rate and ensuring our products meet the requirements and specifications of our customers. Our quality control staff would conduct sample testing on our goods using our testing equipment throughout the production process. Our quality control department reports regularly in writing any quality issues arising from our production process and any defective products identified by our in-house inspectors or returned by our customers. We also communicate regularly with our customers to obtain feedback on the quality standards of our products.

Our Directors confirm that we had not experienced any material sales return during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirmed that we had not experienced any cancellation of orders due to product quality issues and we had not been subject to any material product liability claim during the Track Record Period and up to the Latest Practicable Date.

Quality control on raw materials

To ensure our product quality, our raw materials procurement policy is to make procurement from those approved suppliers who have passed our quality control assessment and have a satisfactory record of quality and on-time delivery. Our internal list of approved suppliers is reviewed on a continuous basis based on factors such as pricing, product quality, production capacity, timeliness of delivery, after-sales service and ability to comply with our requirements and specifications.

We generally require our suppliers to provide outgoing quality inspection report and environmental inspection report for each batch of product delivery to ensure the quality of raw materials. Our quality control department conducts inspection and testing on raw materials on a sampling basis when they are delivered to our production facility. Our suppliers are responsible for replacing any materials which do not meet the relevant standards and bear any associated costs incurred. Furthermore, we would conduct site visits at our suppliers' production facilities and conduct periodic evaluation on our suppliers' performance.

Quality control on the production process

Our quality control department closely monitors our production process to ensure strict compliance with our standard operating procedures. Our quality control department conducts various quality control measures throughout the production process including sample-testing on our goods based on their size, appearance, colour shading, temperature resistance and chemical compositions with the use of our testing equipment. We maintain a daily record of the number of defective products as an internal quality control measure to identify any malfunctioning production lines. If any defective raw material comes to light during our production process, we are generally entitled to request for product return.

We have implemented a maintenance system for our machinery, which includes regular inspection and regular repair and maintenance of machinery. Our production department is responsible for conducting management, examination, repair and maintenance of our production machinery from time to time in order to ensure their proper functioning and safe operation, thus enhancing our productivity and product quality. For further details on the repair and maintenance of our machinery, please refer to the paragraph headed "Production facility and capacity — Repair and maintenance" above in this section.

Quality control on finished goods

We perform in-house inspections on each batch of finished goods to ensure our products comply with applicable national and industrial standards, including, amongst others, *YC 263–2008 Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (卷煙條與盒包裝紙中揮發性有機化合物的限量), YC/T 195–2005 Standard System of Material for Cigarette (煙用材料標準體系) and YC/T 273–2014 Requirements for Design of Cigarette Package (卷煙包裝設計要求).* We are generally required to provide outgoing quality inspection reports to our customers for each batch of product delivery.

Any defective products identified will not be delivered to our customers. Our quality control inspectors will identify the causes for any product defects and follow up closely with our quality control department to confirm any deficiencies in our production process. Our quality control department is also responsible for identifying quality issues on returned products which do not meet our customers' quality specifications.

RESEARCH AND DEVELOPMENT

Our Directors believe that research and development is crucial to maintaining our competitiveness in offering products that match with the evolving requirements and specifications of our customers. During the Track Record Period, the expenses incurred by us on research and development amounted to approximately RMB10.7 million, RMB10.4 million and RMB13.1 million for FY2019, FY2020 and FY2021, respectively. Our research and development department comprised 18 personnel as at the Latest Practicable Date and 17 of them have worked with us for over three years. Approximately half of our research and development personnel have possessed university degrees. Moreover, as at the Latest Practicable Date, we possessed more than ten sets of equipment for performing testing in the process of research and development. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture. In 2018, we have collaborated with a university in Xi'an (the "**University**") in the development of new products and fine-tuning of our production process. We entered into a research and development collaboration agreement with the University (the "**First R&D Collaboration**"). The table below sets forth the salient terms of the First R&D Collaboration agreement:

Term	:	from January 2018 to December 2020
Principal objectives	:	(i) improving the anti-counterfeiting feature of holographic laser cigarette packaging paper; and (ii) formulation of high-gloss coating on cigarette packaging paper.
Obligations of our Group	:	Our Group shall: (i) provide the required production machinery and testing equipment for the First R&D Collaboration; (ii) provide funding and latest market information for the First R&D Collaboration; (iii) designate the specified number of personnel to participate in the First R&D Collaboration;

		(iv) give priority to recruiting graduates of the University who participated in the First R&D Collaboration; and (v) allow lecturers of the University to conduct site visit and practice at our production facility.
Obligations of the University	:	the University shall: (i) assist our Group in developing and enhancing our products, technologies, craftsmanship, materials and application of new machinery and equipment; (ii) give priority to sharing with our Group any technological advancement in production developed by the University; (iii) assign the specified number of professional designers to participate in designing the structure and appearance of cigarette packaging paper; and (iv) assist our Group in providing trainings to our employees.
Intellectual property rights	:	Each of our Group and the University shall have the right to use and transfer the intellectual properties arising from the First R&D Collaboration (the "**Intellectual Properties**"). Either party shall obtain prior written approval from the other party before any transfer of the Intellectual Properties.

In 2021, we have further collaborated with the University in the advancement of our technological innovation capacity by entering into a second research and development collaboration agreement with the University (the "**Second R&D Collaboration**"). The table below sets forth the salient terms of the Second R&D Collaboration.

Term	:	from October 2021 to December 2023
Principal objectives	:	improving our technological innovation capacity through collaboration with the University to achieve joint development in academic and production.

Obligations of our Group : our Group shall:

(i) provide the required production machinery and testing equipment for the Second R&D Collaboration;

(ii) provide funding and latest market information for the Second R&D Collaboration;

(iii) give priority to recruiting graduates of the University; and

(iv) allow lecturers of the University to conduct site visit and practice at our production facility.

Obligations of the University : the University shall:

(i) provide technological support to the long-term development, strategic positioning and advancement of innovation of our Group;

(ii) assist our Group in developing and enhancing our products, technologies, craftsmanship, materials and application of new machinery and equipment;

(iii) give priority to sharing with our Group any technological advancement in production developed by the University; and

(iv) assist our Group in providing trainings to our employees.

During the Track Record Period, we undertook a total of 37 research and development projects. Set forth below are the scope of some of our research and development projects undertaken during the Track Record Period:

- research, development and application of a glue to be used for gravure printing;
- research and development of a colour tuning method;
- research on anti-dilution of ink used for anti-counterfeiting purpose;
- further research on the production method of transfer paper;
- research on eco-friendly coating as a substitute for solvent coating;
- use of eco-friendly water system for cooling in production process;

- utilisation of hot air discharged from laminating machines for heating;
- research on expediting the drying process of back coating;
- research on the anti-counterfeiting feature of cigarette boxes for one of the "Dual 15 cigarette brand"; and
- research on reducing paper dust generated from winding machines.

As at the Latest Practicable Date, our Group had registered 24 patents in the PRC which are, in the opinion of our Directors, material to our business. For further details on our intellectual property rights, please refer to the paragraph headed "Statutory and general information — B. Further information about the business of our Group — 2. Intellectual property rights" set out in Appendix IV to this prospectus.

CERTIFICATION AND RECOGNITIONS

Awards and recognitions

The following table summarises the major awards and recognitions obtained by us during our operating history:

Issuance date	Recognitions	Awarding authorities
November 2017	High and New Technology Enterprise (高新技術企業)	Department of Science and Technology of Hubei Province (湖北省科學技術廳), Department of Finance of Hubei Province (湖北省財政廳) and Hubei Provincial Tax Service, State Taxation Administration (國家税務總局湖北省税務局)
December 2018	Hong'an County 2015–2017 Outstanding Enterprises in Scientific and Technological Innovation Work (紅安縣2015–2017年度科技創新工作成果突出企業)	Hong'an County People's Government (紅安縣人民政府)
May 2019	The 2019 (7th) Huanggang City Excellent Enterprise (Golden Eagle Award) (2019年(第七屆)黃岡市優秀企業(金鷹獎))	Huanggang City Entrepreneurs Association of Hubei Province* (湖北省黃岡市企業家協會) and Huanggang City Enterprise Confederation* (黃岡市企業聯合會)

Certifications

The following table summarises the major certifications obtained by us during our operating history:

Certification	Issuing authority	Expiry date
ISO 9001:2015	China International Certification & Assessment (Beijing) Co., Ltd	22 September 2022
ISO 14001:2015	China International Certification & Assessment (Beijing) Co., Ltd	22 September 2022
ISO 45001:2018	China International Certification & Assessment (Beijing) Co., Ltd	22 September 2022
AAA-Level Enterprise Credit Rating Certificate	Beijing Zhiyunxin International Credit Evaluation Co., Ltd. (北京智雲信國際信用評價有限公司)	23 March 2024
AAA-Level Contract Abiding and Trustworthy Unit	Beijing Zhiyunxin International Credit Evaluation Co., Ltd. (北京智雲信國際信用評價有限公司)	23 March 2024
AAA-Level Quality Service Integrity Unit	Beijing Zhiyunxin International Credit Evaluation Co., Ltd. (北京智雲信國際信用評價有限公司)	23 March 2024

EMPLOYEES

Number of employees

As at the Latest Practicable Date, we had a total of 131 employees (including our two executive Directors but excluding our non-executive Director and three independent non-executive Directors). All our employees were stationed in the PRC. The following table sets out a breakdown of our employees by function:

	As at the Latest Practicable Date
General management	2
Procurement	10
Production	47
Quality control	11
Marketing	14
Research and development	18
Finance	7
Administration	22
Total	131

Recruitment

We recruit our employees based on their work experience, education background and qualifications. We recruit our employees through online recruitment platform, referral from existing employees and recruitment exhibition. We assess our available human resources on a continuous basis to determine whether additional personnel are required to cope with our business development. We have entered into employment contracts with our employees, which set out, among others, the employee's remuneration, benefits, confidentiality obligations and grounds for termination of the employment. These employment contracts either have no fixed term, or if there is a fixed term, the term is generally up to three years, after which we will evaluate renewals based on performance appraisals.

Remuneration to our employees comprises salaries and allowances and bonuses. We generally review the performance of our employees by way of annual appraisals. The results of these reviews are used for the purposes of salary adjustments and promotion. We provide various trainings including induction training for new employees, on-the-job training, team-building training and external training for our employees to keep them abreast of the latest technical development relevant to our industry.

We have established a labour union for our employees in 2017 in the PRC. We organise from time to time various social activities to create a harmonious working environment for our employees. During the Track Record Period and up to the Latest Practicable Date, we did not have any significant difficulty in recruiting employee and there had been no incidence of labour disputes, claims, litigation, administrative action or arbitration relating to labour disputes that had materially and adversely affected our operations.

Social insurance and housing provident funds contributions

Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees are required to participate in, a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and the housing provident fund. For further information, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to labor, social insurance and housing provident fund" in this prospectus.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to PRC occupational health and safety laws and regulations. For further details, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to labor, social insurance and housing provident fund" in this prospectus. We are committed to providing a safe and healthy environment for our employees. We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. Our occupational health and safety management system has been certified to be in compliance with ISO 45001 certification.

We provide safety education and training to employees and have in place safety guidelines and operating manuals for our manufacturing process. We also provide our employees with training programmes on work safety in connection with matters such as the operation of machinery with a view to enhancing occupational safety and minimising the occurrence of work-related accidents and occupational illness. Our production department carries out regular safety inspections on our production facility to ensure compliance with the safety measures. Protective devices are installed and warning signs are posted to ensure production machinery is operated safely. Our production staff are provided with regular training on the operation of production machinery and occupational safety gear.

We have established a policy in recording and handling accidents. Upon occurrence of an accident, the employees shall report to the relevant department head and the administration department. The relevant department head shall prepare a report detailing the accident, including date and time of the accident, employees involved, cause, confirmation of responsibility, suggestion on rectification, and submit to the administration department. The department shall then carry out an investigation, assess the impact of the accident and recommend appropriate measures to improve safety.

As advised by our PRC Legal Advisers, no administrative sanctions or penalties that have a material and adverse effect on our financial condition or business operations have been imposed upon us for the violation of PRC occupational health and safety laws and regulations during the Track Record Period. Further, as confirmed by our Directors, there were no material work-related injuries or fatalities at our production facility during the Track Record Period.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE MATTERS

Environmental matters

We are subject to general PRC laws and regulations on environmental protection which govern environmental matters such as air pollution, noise emissions, discharge of waste water and waste residues. For details on these regulations, please refer to the section headed "Regulatory overview — Laws and regulations relating to environmental protection" in this prospectus.

We are committed to conducting our business operations to comply with all applicable environmental laws and regulations, and endeavour to mitigate any negative effects of our operations on the environment. Our Directors believe that our production process does not generate a large amount of environmental hazards and does not impose significant adverse impact on the environment and that our environmental protection measures are adequate to comply with all applicable PRC laws and regulations on environmental protection. We have implemented various measures to ensure our compliance with the applicable environmental protection laws and regulations and our environmental management system has been certified to be in compliance with ISO 14001 certification. We engage third-party agencies to inspect, examine and evaluate environmental management system annually. For FY2019, FY2020 and FY2021, we incurred approximately RMB0.3 million, RMB0.2 million and RMB0.1 million, respectively, in relation to compliance with the applicable environmental requirements. We estimate that our annual cost of compliance with applicable PRC laws and regulations on environmental protection going forward will be consistent with our scale of operation.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements that results in prosecution or conviction being brought against us.

Governance regarding environmental, social and climate-related risks

We have established and implemented an environmental, social and governance ("**ESG**") policy, which provides guidelines to the management of our Group's ESG-related issues. Our Directors consider that the establishment and implementation of a comprehensive ESG policy will help increase the investment value of our Company and provide long term returns to our stakeholders. In particular, our policy on the management of severe weather conditions includes measures to be taken against increasing rate of extreme weather conditions such as heavy rainfall and flooding, which may damage our products in storage or during the course of delivery, resulting in delay to our product delivery schedule.

Our Board is responsible for evaluating and managing any material ESG issues and climate-related risks and opportunities of our Group. Our Board will meet regularly to discuss issues and risks that are pertinent to the business development of our Group. Our Board will keep track of the latest policies implemented by the PRC Government in tackling climate change. For better identification of the risks and opportunities, our Board and senior management will attend to discussion on sustainability of the cigarette packaging paper manufacturing industry and low-carbon economy. Our Board will work closely in identifying future risks and opportunities, as well as identifying appropriate actions to cope with the ever-changing situations. Furthermore, our Board closely follows and monitors the latest requirements regarding ESG disclosure and regulatory compliance. We keep ourselves abreast of the Stock Exchange's ESG requirements and our Board will oversee the compilation of our ESG report after the Listing and shall review its content and quality before publication. We will seek advice from external professionals on enhancing our ESG compliance level where necessary.

Emissions management

Our major sources of greenhouse gas ("**GHG**") emissions generated from our production process mainly include the usage of electricity. Each of our laminating machines is equipped with overhead ventilation system which helps to filter GHG before emission. The fan blades of ventilation system are cleaned regularly and the equipment for filtering dust and smoke is maintained regularly to ensure its normal operation. In order to save energy and reduce emissions, we promote and adopt the use of energy-saving and efficient equipment, and switch off machinery and electronic appliances when they are not in use.

Wastewater management

We have obtained pollutant discharge permit to discharge industrial waste water and sewage legally. Wastewater produced during operation is mainly domestic sewage, which is processed through wastewater treatment facilities prior to being discharged to municipal wastewater system.

Waste management

In order to reduce the impact of solid waste on the environment, we have formulated clear guidelines for employees to identify, collect, store and dispose solid waste. Proper trainings are provided for our employees on waste classification. Reusable waste, such as paper and toner cartridge are handled by third-party waste management and recycling companies. Other waste which cannot be recycled are handled by waste disposal companies.

Noise management

Our machinery emanates noise during operation. To mitigate the disturbance created to the community and environment, we have implemented noise isolation at our production facility and provided hearing protection devices to our employees.

Use of resources

We implement various measures to reduce wastage and consumption levels at our production facility. Our Group has promoted various energy conservation measures, including promoting and adopting the use of energy-saving and efficient equipment and switching off machinery and electronic appliances when they are not in use. Our Group has also established water conservation measures such as conducting periodic checks and maintenance on water supply system to avoid any leakage of faucets and gaskets.

Actual and potential impact of environmental and climate-related risks on our business, strategy and financial performance

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks which can be mainly categorised into (i) physical risks; and (ii) transitional risks.

(A) Physical risks

Physical risks represent risks arising from acute weather-related events and chronic shifts in climate patterns such as global warming and extreme weather conditions that potentially cause physical impact to us. Our business operations could be susceptible to the physical damages resulting from intense precipitation and floods. For instance, Henan Province which is located in proximity to Hubei Province experienced severe flooding caused by a period of prolonged intense precipitation in July 2021, which resulted in loss of life, widespread damage to property and severe disruption to the transportation network. Properties were washed away and the downpour disrupted electricity, water supplies and internet network in some parts of the Henan Province.

Our Directors consider that physical damages resulting from intense precipitation and floods could result in material adverse effect on our business operations, financial conditions and prospects. Our Group is principally engaged in the production of cigarette packaging paper products and our products are highly susceptible to water damage. Our cigarette packaging paper products will become unusable if they are submerged by flood, resulting in material financial loss to our Group. Further, extreme weather conditions could result in damages to our production facility and machinery, resulting in increased maintenance and replacement cost. In addition, intense precipitation and floods could endanger the health and safety of our employees. In order to strengthen our protection against intense precipitation and floods, we may have to implement enhanced flood protection measures such as installation of flood gate system and improvement in the water and drainage system at our production facility, resulting in an increase in our operation costs.

(B) Transitional risks

Transitional risks represent risks arising from climate change and climate-related issues resulting in potential changes to our operational practices. Owing to the increasing public awareness on eco-friendliness and the promotion of the use of environmentally friendly cigarette packaging materials by the PRC Government, the cigarette industry is steering towards the use of cigarette packaging paper with eco-friendliness features. The increase in public awareness on eco-friendliness will likely result in a shift in consumer preferences for cigarette packages which are more environmentally friendly. Our research and development capability is crucial to the development of cigarette packaging paper products with enhanced eco-friendliness features that match with the evolving requirements and specifications of our customers. Failing to enhance our research and development capabilities to meet the evolving demand of customers may result in a loss of sales and materially and adversely affect our business, results of operations and financial conditions.

Further, our production activities in the PRC are subject to applicable laws, regulations and standards promulgated by the relevant PRC Government authorities. For FY2019, FY2020 and FY2021, we incurred approximately RMB0.3 million, RMB0.2 million and RMB0.1 million, respectively, in relation to compliance with the applicable environmental requirements. In the event of any changes in the PRC laws and/or regulations and/or government policies on environmental protection and more stringent requirements are imposed on our Group, we may have to incur additional costs and expenses to comply with such requirements. Furthermore, if we fail to comply, or are alleged to fail to comply, with the relevant laws and regulations, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities. Our reputation may also be adversely affected, resulting in a loss of business as our customers may be less inclined to purchase from manufacturers with environmental non-compliance. Regulatory development and evolution may potentially have significant impacts on our business operations and present transition risks to us.

Metrics used to assess and manage environmental and climate-related risks

We have taken into account the quantitative information that reflect our management for environmental and climate-related risks, which includes GHG emissions, resources consumption and waste production. The following table sets forth an analysis of our environmental performance during the Track Record Period:

Indicator	Unit	FY2019	FY2020	FY2021
GHG emissions				
Electricity consumption	tCO_2e	5,328	4,680	6,443
Electricity consumption intensity	tCO_2e per million RMB revenue	17.03	14.70	17.40
Resources consumption				
Freshwater consumption	m^3	8,227	9,891	10,485
Freshwater consumption intensity	m^3 per million RMB revenue	26.30	31.07	28.31
Waste production				
Solid waste	tonne	49	40	44
Solid waste intensity	tonne per million RMB revenue	0.16	0.13	0.12

We will make continuous efforts in reaching the target of maintaining the electricity consumption intensity, freshwater consumption intensity and solid waste intensity at a level of 17.40 tCO_2e per million RMB revenue, 30.00m^3 per million RMB revenue and 0.15 tonne per million RMB revenue, respectively, or below per annum in the three years ending 31 December 2024.

Social matters

Employment

We are committed to upholding the principles of equal opportunities, diversity and anti-discrimination in our workplace. Recruitment and retention of employees are based on a range of diversity parameters, including but not limited to gender, age, cultural and educational background, nationality, ethnicity, industry experience, skills and knowledge. We conduct performance appraisal to analyse our employees' personal strengths and weaknesses, and suitability for promotion or further training. Discretionary bonus and salary adjustment are given to our employees based on their performance appraisal.

Supply chain management

We have adopted a stringent policy and procedure on the selection of suppliers. We maintain an internal list of approved suppliers which is updated on a continuous basis. As at 31 December 2021, we had more than 120 approved suppliers on our internal list. To ensure our product quality, our raw materials procurement policy is to make procurement from those approved suppliers who have passed our quality control assessment and have a satisfactory record of quality and on-time delivery.

In selecting our suppliers, we take into account various factors, including pricing, product quality, production capacity, timeliness of delivery, after-sales service and ability to comply with our requirements and specifications. We carry out quality assurance checks on materials received from suppliers to ensure the quality and reliability of materials meet our requirements and specifications.

Caring for the community

We actively participate in community building and care for the disadvantaged. We will continue to promote social development and encourage employees to participate in charitable activities.

Anti-corruption

We strictly abide by the laws and regulations related to anti-corruption, including but not limited to the Anti-Unfair Competition Law of the PRC and the Criminal Law of the PRC. We uphold a high standard of integrity and have zero tolerance for corruption. We promote clear work ethics to employees, and strictly prohibit bribery, extortion, fraud, money laundering and other unethical behaviours, including gambling, misappropriation of our Group's assets, provision or acceptance of gifts or other improper benefits, etc..

ESG and climate-related risks identification, assessment and management

Based on our management's assessment and the ESG Industry Materiality Map issued by MSCI, a well-known investment research firm, we have identified the material ESG issues related to our business operation. In addition to the environment and climate-related issues as aforementioned, we have identified the following material ESG issues and their potential impacts:

Material topics	Potential risks, opportunities and impacts	Assessment and management
Increase in public awareness on eco-friendliness	In 2014, the State Tobacco Monopoly Administration for the PRC Tobacco Industry Standard issued the "Requirements for Design of Cigarette Package (卷煙包裝設計要求) YC/T 273–2014" which encouraged cigarette manufacturers to use environmentally friendly cigarette packaging materials. The more stringent requirements for cigarette packages have resulted in an increase in demand for quality cigarette packaging materials with eco-friendliness features.	We had continuously enhanced the eco-friendliness of our products through research and development. While this may potentially increase our operation costs, our capability in developing products which fulfil the evolving requirements of our customers can be strengthened.
Human capital development	Human capital development could lead to a stronger employee base and a lower turnover rate.	Our Group strives to maintain good relationship with our employees by (i) establishing direct communication channels between our employees and our senior management team; and (ii) organising regular social activities and trainings for our employees to enhance their sense of belonging and job satisfaction.
Business ethics and corporate governance	Regulatory risks in failing to maintain virtuous business ethics and corporate governance may result in compliance issues, while outstanding performance may help us yield a positive reputation.	Our Directors will constantly evaluate our corporate governance measures and business ethics, including ownership, control, diversity, remuneration and transparency.

Corporate governance matters

Our Company will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. We have established procedures for developing and maintaining internal control systems covering areas such as corporate governance, operations management, compliance matters, financial reporting, as appropriate for our business operations. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. In particular, we have adopted the following internal control measures to enhance our corporate governance:

(i) our Board includes three independent non-executive Directors, whose backgrounds and profiles are set out in the section headed "Directors and senior management" in this prospectus, to ensure transparency in management and fairness in business decisions and operations. Our independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge;

(ii) our Directors will review and provide recommendation on our risk management related policies and procedures, and review the effectiveness and adequacy of our risk management activities annually;

(iii) we have established three board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the paragraph headed "Directors and senior management — Board committees" in this prospectus;

(iv) we have strengthened our internal audit system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial controls, internal control and risk management systems. Our internal control system will be reviewed by our internal audit personnel or independent internal control consultant on an annual basis to ensure that effective internal control procedures are in place;

(v) our Directors have attended a training session on 6 July 2021 conducted by our legal advisers as to Hong Kong law on, among others, the obligations, on-going corporate governance requirements and the duties of directors of a company listed on the Stock Exchange;

(vi) our company secretary, Mr. Yu Tsz Ngo, will attend external professional training each year to keep himself abreast of the latest accounting and/or regulatory regime in Hong Kong;

(vii) we have appointed Grande Capital as our compliance adviser to advise us on compliance matters in relation to the Listing Rules;

(viii) to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed "Relationship with our Controlling Shareholders — Non-competition undertakings — 3. Corporate governance measures" in this prospectus; and

(ix) our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance reports to be included in our annual reports after Listing.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR OPERATIONS

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

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

Precautionary measures in response to the outbreak of COVID-19

To prevent any outbreak of COVID-19 in our production facility, we have established an epidemic prevention and control working group, which is led by our executive Directors, to undertake various precautionary measures such as:

- maintaining environmental hygiene and cleanliness of our production facility through regular cleaning and sanitisation;
- requiring all of our employees to undergo mandatory temperature checks before entering our production facility and those who have fever or upper respiratory tract infection symptoms shall be refrained from working and seek medical advice promptly;
- requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell;
- maintaining social distancing at our production facility and designating officers to assist in and oversee the implementation of our hygiene and social distancing measures;
- monitoring the stock of personal protection equipment (including but not limited to surgical masks and hand sanitisers) for our employees;
- placing health education materials on COVID-19 at prominent areas of our production facility; and
- if any of our staff members is requested by government authorities to be quarantined or have been confirmed to have contracted COVID-19, their respective department will be informed and requested to keep on record. The affected staff member (the "**Affected Personnel**") will be refrained from working immediately and any other staff who has close contact with the Affected Personnel shall also be quarantined.

Impact of the outbreak of COVID-19 on our business and financial performance

Our Directors believe that, based on information up to the Latest Practicable Date, the outbreak of COVID-19 would not have material impact on our business and financial performance in the long-run due to, among others, the following:

- save for the Lockdown Period and the temporary reduction in purchase orders from our customer located in Shanghai Municipality due to the Recent PRC Outbreak, we had not experienced any significant reduction in incoming enquiries or tender invitations nor any material reduction in purchase orders. Our Directors consider that the reduction in purchase orders placed by customer located in Shanghai Municipality did not result in material adverse impact on our business and financial performance taking into consideration (i) the COVID-19 lockdown restrictions in Shanghai have been lifted since 1 June 2022; (ii) based on our past experience, our Directors believe that the reduction in purchase orders from our Shanghai customer is only temporary due to the lockdown measures imposed by the Shanghai government and demand for our products from our Shanghai customer will gradually resume along with the containment of the outbreak of COVID-19 in the region; and (iii) save for our customer located in Shanghai Municipality, our Group did not experience any significant reduction in purchase orders from our other customers up to the Latest Practicable Date;

- in response to the requirements of the local government authorities, our business operations were fully suspended during the Lockdown Period. As a result of the complete suspension of all our sales and production activities, we did not generate any revenue or make any purchase of raw materials during the Lockdown Period. Meanwhile, our Group still had to incur certain costs such as staff costs, depreciation expenses and utility costs during the Lockdown Period. Our Group has resumed business operation since late-March 2020 and our Group had not experienced any material operational disruption thereafter due to the outbreak of COVID-19;

- notwithstanding our Group experienced temporary suspension of business during the Lockdown Period, our revenue increased slightly by approximately 1.8% from approximately RMB312.8 million for FY2019 to approximately RMB318.3 million for FY2020 and our gross profit margin remained relatively stable at approximately 21.0% and 22.0%, for FY2019 and FY2020, respectively. Further, our Group experienced an increase in our revenue by approximately 16.3% to approximately RMB370.3 million for FY2021;

- As a result of the complete suspension of our business operations during the Lockdown Period, our Group had delayed product delivery for certain purchase orders received prior to the Lockdown Period. In respect of these purchase orders, our Group had completed product delivery by April 2020. We did not incur any penalties or damages as a result of delay in our product delivery due to the outbreak of COVID-19 up to the Latest Practicable Date;

- we did not experience any cancellation of purchase orders or termination of framework sales agreement due to the outbreak of COVID-19 as at the Latest Practicable Date;

- our Group experienced temporary disruption to our supply of raw materials during the Lockdown Period when major transportation facilities were closed. Some of our suppliers were also required to suspend their business operations temporarily as a result of lockdown restrictions imposed by local government authorities. Our Directors consider that the temporary disruption to our supply of raw materials did not result in long-term adverse impact on our production taking into consideration (i) our Group had maintained inventory of raw materials to fulfil our production needs; and (ii) our major raw materials are primarily white cardboard and film, which are produced and readily available from suppliers in various regions of the PRC, and we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the outbreak of COVID-19. Save for the Lockdown Period, our Group did not experience any material shortage or delay in the supply of raw materials during the Track Record Period and up to the Latest Practicable Date;

- none of our employees had been tested positive for COVID-19;

- according to the Industry Report, the outbreak of COVID-19 is expected to have limited impact on the demand for PRC cigarette packaging paper manufacturing industry in the long run due to the fact that the disruption of the outbreak of COVID-19 was temporary and the production for cigarette packaging paper in the PRC as well as in Hubei have resumed normal business. According to the Industry Report, the sales value of the cigarette packaging paper manufacturing industry in the PRC was affected by the outbreak of COVID-19 in 2020 and only recorded a year-on-year growth of approximately 1.7% from 2019 to 2020. Along with the resumption of normal production and business activities, the sales value of the cigarette packaging paper manufacturing industry in the PRC recorded a year-on-year growth of approximately 5.8% from 2020 to 2021; For further details, please refer to the paragraph headed "Industry overview — Impact of COVID-19 on the cigarette packaging paper manufacturing industry in the PRC and Hubei" in this prospectus;

- based on information publicly available and reasonable enquiries by our Directors, we are not aware of any suggestion or indication that our major customers suffered from material financial difficulties as a result of the outbreak of COVID-19; and

- in the event that the outbreak of COVID-19 deteriorates and in the worst case scenario where our business operation has to be completely suspended, our Directors believe that we will have sufficient working capital to meet our cash requirements for at least 12 months based on our cashflow analysis, in particular taking into consideration factors and business assumptions such as (i) our cash and cash equivalent as at 30 April 2022; (ii) our customers will settle our trade receivables as at 30 April 2022 based on historical settlement pattern; (iii) we will settle our trade and bills payable as at 30 April 2022 based on historical settlement pattern; (iv) our restricted cash will be released upon the expiry date of the respective bank acceptance bills issued by us; (v) we will continue paying our staff at the minimum wage level permissible under the relevant PRC laws and regulations during the period of suspension of work; (vi) we will continue paying interest on our bank borrowings; and (vii) approximately RMB7.9 million, representing approximately 9.9% of our estimated net proceeds from the Share Offer, will be reserved as general working capital.

INSURANCE

In addition to the government-mandated social insurance and housing provident fund as detailed in the paragraph headed "Employees — Social insurance and housing provident funds contributions", we also maintain property insurance which covers loss and theft of, and damage to, property, plant and machinery, and inventory in our production facility and warehouse. We believe that our insurance coverage is adequate and is in line with industry practice. During the Track Record Period and as at the Latest Practicable Date, as confirmed by our Directors, we had not made and did not make or had not been subject to any material insurance claims.

Based on the assessment of the risk exposure of our operations, our Directors are of the view that our insurance coverage is adequate and in line with industry practice. Certain risks disclosed in the section headed "Risk factors" in this prospectus, such as risks in relation to our ability to obtain new contracts, our ability to retain and attract personnel, credit risk, inventory obsolescence, rising labour and raw materials costs are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks. Please refer to the paragraph headed "Risk management and internal control systems" below in this section for further details regarding how our Group manages certain uninsured risks.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group had registered a domain name and 24 patents which are, in the opinion of our Directors, material to our business. For further information, please refer to the paragraphs headed "Research and development" in this section and "Statutory and general information — B. Further information about the business of our Group — 2. Intellectual property rights" in Appendix IV to this prospectus.

As at the Latest Practicable Date, we were not aware of any material infringement of any intellectual property rights of our Group which had an adverse effect on our business nor were we aware of any pending or threatened litigation or legal proceedings against us relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

As at the Latest Practicable Date, we owned a parcel of land in Hong'an County, Huanggang, Hubei Province, the PRC with an aggregate site area of approximately 35,243 sq.m. for our production facility, on which buildings with an aggregate gross floor area of approximately 12,000 sq.m. were erected. The table below sets forth the information regarding our owned properties as at the Latest Practicable Date:

Type of property	Address	Approximate gross floor area (sq.m.)	Major usage	Description
Land	6 Zhu Shengtang Road, Hong'an New Industry Park, Hong'an County, Huanggang, Hubei Province, PRC	35,243	Industrial use	A parcel of land with a site area of approximately 35,243 sq.m.
Buildings	6 Zhu Shengtang Road, Hong'an New Industry Park, Hong'an County, Huanggang, Hubei Province, PRC	12,000	Five factory buildings, one staff dormitory and one multi-purpose building	Buildings built on the parcel of land at Hong'an County, Huanggang, Hubei Province, the PRC with an aggregate gross floor area of approximately 12,000 sq.m.

Based on the advice of our PRC Legal Advisers, save as disclosed in the paragraph headed "Legal compliance" in this section, we had obtained the necessary title documents in respect of the aforementioned land and buildings.

As at 31 December 2021, our Group had no single property with a carrying amount of 15% or more of our Group's total assets. On this basis, our Group is not required by Rule 5.01A of the Listing Rules to include any valuation report in this prospectus. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance in respect of the requirements for a valuation report with respect to interests in land or buildings.

LICENCE AND PERMIT

Our principal operating subsidiary, Hubei Qiangda, possessed the following permit as at the Latest Practicable Date:

Permit	Issuing authority	Expiry date
Pollutant discharge permit* (排污許可證)	Hong'an branch of Huanggang Ecology and Environment Bureau* (黃岡市生態環境局紅安縣分局)	20 May 2023

As advised by our PRC Legal Advisers, we had obtained all material licences, permits and approvals required for our business operation in the PRC during the Track Record Period and up to the Latest Practicable Date.

LEGAL COMPLIANCE

We strive to foster a strong compliance culture among our Group. Our Group has established a regulatory compliance manual governing, amongst others, (i) the roles and responsibilities of personnel involved in monitoring our Group's regulatory compliance; (ii) guidelines with reference to the relevant rules and regulations; (iii) types, frequency and timing of key documents to be filed or reported to regulatory authorities (if any); (iv) review and approval process; and (v) managing and responding to non-compliance and litigation issues. Depending on their roles and responsibilities, our employees are required to follow the requirements in our regulatory compliance manual. If any deviation from our regulatory compliance manual is identified, our senior management team will investigate the causes and take appropriate rectification measures.

Non-compliance incidents

Save as disclosed below, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no non-compliance incident of our Group which is material or systemic in nature:

Non-compliance incidents	Reason for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Latest status, remedial actions and measures
Failure to apply for the relevant construction permits before construction and obtain real estate certificates for five properties. During the Track Record Period, Hubei Qiangda occupied five properties (the "**Defective Properties**"), for which Hubei Qiangda failed to apply for construction land planning permit (《建設用地規劃許可證》), construction project planning permit《建設工程規劃許可證》) and construction project commencement permit《建設工程施工許可證》) prior to the commencement of construction according to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) (the "**Urban and Rural Planning Law**"), the Construction Law of the PRC (《中華人民共和國建築法》) (the "**Construction Law**"), the Measures for Construction Permission Management of Construction Projects (《建築工程施工許可管理辦法》), and other relevant laws and regulations. As at the Latest Practicable Date, Hubei Qiangda did not obtain real estate certificates for the Defective Properties pursuant to the Civil Code of the PRC (the "**Civil Code**"). The Defective Properties are currently used by us as security office, business office, reception room, solvent storage room and carpentry workshop separately, with a total aggregate floor area of approximately 483.84 sq.m..	The non-compliance was primarily due to our staff's lack of professional knowledge of the relevant laws and regulations.	Pursuant to Article 209 of the Civil Code, the establishment, alteration, transfer and elimination of the real estate right shall take effect after registration; without registration, it shall not take effect, except as otherwise provided. Therefore, the possession, use, lease, mortgage and transfer of Defective Properties may not be recognised and protected under the Civil Code and other relevant laws and regulations. According to the Urban and Rural Planning Law, the relevant authority may order Hubei Qiangda to demolish the Defective Properties within a prescribed time limit, confiscate the income from the Defective Properties and impose a fine of not more than 10% of the construction project cost of the Defective Properties for our failure to obtain the construction land planning permit and construction project planning permit prior to commencement of construction. Furthermore, in accordance with the Construction Law and the Measures for Construction Permission Management of Construction Projects, the relevant authority may order us to pay a fine of not more than 1% and less than 2% of the contractual cost for our failure to obtain construction project commencement permit prior to commencement of construction of the Defective Properties. The construction project cost of the Defective Properties is about RMB 918,000, so the maximum amount that Hubei Qiangda may be fined by the competent authorities is RMB 91,800.	We have obtained letters of confirmation dated 17 May 2021, 19 August 2021, 6 January 2022 and 8 June 2022 from Hong'an County Natural Resources and Planning Bureau (紅安縣自然資源和規劃局) and letters of confirmation dated 17 May 2021, 20 August 2021, 5 January 2022 and 8 June 2022 from Hong'an County Housing and Urban Rural Development Bureau (紅安縣住房和城鄉建設局) respectively, confirming that we had not been penalised for violating the laws and regulations relating to the construction of the Defective Properties. On 2 June 2021 and 9 July 2021, our PRC Legal Advisers have consulted Hong'an County Natural Resources and Planning Bureau and Hong'an County Housing and Urban Rural Development Bureau, which confirmed that (i) the authorities were fully aware of the production and operation situation of Hubei Qiangda and the Defective Properties; (ii) the construction of Defective Properties without the relevant construction permits was not a material violation of relevant laws and regulations; (iii) Hubei Qiangda will not be required to demolish the Defective Properties immediately or apply for the relevant real estate certificates of the Defective Properties immediately and Hubei Qiangda can continue to occupy and use the Defective Properties legally; (iv) the authorities will not impose a fine or any other form of administrative penalty on us. As advised by our PRC Legal Advisers, the aforementioned government authorities have the authorities and are competent to make the aforesaid confirmation. On 8 June 2021, Mr. Chen issued a letter of commitment, pursuant to which he undertook that if Hubei Qiangda is required to demolish the Defective Properties or apply for the real estate certificates of the Defective Properties, or bear any fine or loss due to the Defective Properties, he would make up the payment for Hubei Qiangda unconditionally and actively cooperate with the competent authorities to rectify the Defective Properties according to the requirements of the competent authorities. Our Directors confirmed that none of our key manufacturing processes has taken place in the Defective Properties and the Defective Properties were designated only for ancillary purposes including security office, business office, reception room, solvent storage room and carpentry workshop. Further, the Defective Properties represents a relatively insignificant portion of our production facility in terms of floor area. In the event that we are required to demolish the Defective Properties, our Directors confirm that it will unlikely result in any material disruption to our business operations. Based on the foregoing, our PRC Legal Advisers are of the view that (i) our failure to apply for relevant construction permits prior to commencement of construction of the Defective Properties and our failure to obtain the real estate certificates of the Defective Properties will not have a significant impact on our operations; (ii) risk of our production and operation income from the Defective Properties being confiscated is remote; and (iii) the risks of us being fined or being required to demolish the Defective Properties immediately or to apply for the real estate certificates of the Defective Properties immediately by the competent authorities are remote. Accordingly, our Directors are of the view that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole.

Furthermore, the table below sets forth the summaries of certain non-compliance incidents during the Track Record Period which our Directors believe that these non-compliance incidents, whether individually or collectively, are non-material in nature and will not have any material financial or operational impact on us:

	Non-compliance incidents	Reason for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Latest status, remedial actions and measures
1.	**Failure to make adequate social insurance contributions for all employees.** During the Track Record Period, Hubei Qiangda failed to make adequate social insurance contributions for all of its employees in accordance with provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the "**Social Insurance Law**"). The social insurance contributions paid by Hubei Qiangda for its employees have reached the minimum amount required by the local government, but less than the amount calculated based on the actual salaries of the employees. For FY2019, FY2020 and FY2021, the outstanding amount of social insurance contributions was approximately RMB1.1 million, RMB0.5 million and RMB1.2 million, respectively.	The non-compliance was primary due to (i) we made the social insurance contributions based on the local minimum wages; and (ii) some of the Hubei Qiangda's employees preferred not to make social insurance contributions at the actual salary level or at all, in particular, certain employees have made the social insurance contribution in their hometown and did not want to make additional contribution.	Pursuant to Article 86 of the Social Insurance Law, if an employer fails to pay its social insurance contributions in accordance with the Social Insurance Law, the relevant authority may demand the employer to pay all outstanding social insurance contributions within a prescribed time limit. The employer may also be subject to a surcharge at a daily rate of 0.05% on the outstanding amount, accruing from when the social insurance contribution was due. If the employer fails to make such payment within the prescribed time limit, the relevant authority may impose a further fine of one to three times the outstanding amount. According to Article 20 of the Regulation on Labour Security Supervision (《勞動保障監察條例》), if the violation of labour security laws, regulations or rules has not been discovered by the labour security administrative department within 2 years, nor has it been reported or complained, labour security administrative department shall no longer investigate and deal with it. According to the Law of the PRC on Administrative Penalty (《中華人民共和國行政處罰法》), where an illegal act is not discovered within two years of its commission, administrative penalty shall no longer be imposed. Therefore, as advised by our PRC Legal Advisers, Hubei Qiangda might be demanded to pay the outstanding social insurance contributions for a period of two years prior to the Latest Practicable Date of approximately RMB2.3 million and a late payment fee of approximately RMB0.8 million within a prescribed time limit. If Hubei Qiangda fails to make such payment within the prescribed time limit, the relevant authority may impose a maximum fine of approximately RMB6.8 million.	We have obtained letters of confirmation dated 17 May 2021, 19 August 2021, 4 January 2022 and 8 June 2022 from Hong'an County Human Resource and Social Security Bureau (紅安縣人力資源及社會保障局) and letters of confirmation dated 17 May 2021, 19 August 2021, 5 January 2022 and 8 June 2022 from Hong'an County Medical Security Bureau (紅安縣醫療保障局) respectively, confirming that we had not been penalised for violating the laws and regulations for social insurance contributions. On 2 June 2021, our PRC Legal Advisers consulted Hong'an County Human Resource and Social Security Bureau and Hong'an County Medical Security Bureau, both of which confirmed that (i) the authorities were fully aware of the production and operation situation of Hubei Qiangda and the social insurance payment; (ii) it is common in Hong'an County for labor-intensive production enterprises like Hubei Qiangda failing to pay adequate social insurance contributions for all employees based on employees' actual salaries, and our past failure to make adequate social insurance contributions is not a material violation of laws; (iii) as of the date of the consultation, the authorities had not received any complaints or reports from any individual or other government department about the payment of social insurance contributions made by Hubei Qiangda, nor found any dispute between Hubei Qiangda and its employees on the payment of social insurance contributions; (iv) the authorities have never initiated and will not initiate any proceedings including requiring us to pay all outstanding social insurance contributions, imposition of surcharge or fine against us. As advised by our PRC Legal Advisers, the aforementioned government authorities have the authority and are competent to make the aforesaid confirmations. On 7 June 2021, Mr. Chen issued a letter of commitment, pursuant to which he undertook that if Hubei Qiangda is required to pay outstanding social insurance contributions or housing provident fund contributions for its employees, or bear any fine or loss due to Hubei Qiangda's failure to fully pay social insurance contributions or housing provident fund contributions for its employees, he would make up such payment for Hubei Qiangda unconditionally and undertake responsibilities on behalf of Hubei Qiangda. During the Track Record Period and up to the Latest Practicable Date, we (i) had not received any notification from Hong'an County Human Resource nor Social Security Bureau and Hong'an County Medical Security Bureau requiring us to pay the outstanding social insurance contributions or imposing surcharge or fine against us; and (ii) were not aware of any complaint from its employees or dispute with its employees in respect of social insurance contributions. Based on the foregoing, our PRC Legal Advisers are of the view that the risk of our Group being required to pay outstanding social insurance contributions or being imposed surcharge penalties on us is remote. According to the applicable rules promulgated by Hong'an County Human Resource and Social Security Bureau and Hong'an County Medical Security Bureau, the adjustment time of payment basis of social insurance contribution is in July each year. Therefore, we plan to adjust the payment basis of social insurance contribution in July 2022. Based on the above, our Directors are of the view, and the Sponsor concurred, that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole and there is no need to make provision for such immaterial non-compliance.

	Non-compliance incidents	Reason for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Latest status, remedial actions and measures
2.	**Failure to make adequate housing provident fund contributions for all employees** During the Track Record Period, Hubei Qiangda failed to make adequate housing provident fund contributions for all of its employees in accordance with the Regulations Concerning the Administration of Housing Provident Fund (《住房公積金管理條例》). The housing provident fund contributions paid by Hubei Qiangda for its employees have reached the minimum amount required by the local government, but less than the amount calculated based on the actual salaries of the employees. For FY2019, FY2020 and FY2021, the outstanding amount of housing provident fund contributions was approximately RMB0.2 million, RMB0.2 million and RMB0.2 million, respectively.	The non-compliance was primary because (i) we made the housing provident fund contributions based on the local minimum; and (ii) some of Hubei Qiangda's employees preferred not to make housing provident fund contributions at the actual salary level or at all given that they had their own housing in Hong'an County or had made housing provident fund contributions in other cities of the PRC, and Hubei Qiangda has provided dormitory space as staff welfare for its employees.	Pursuant to Article 38 of the Regulations Concerning the Administration of Housing Provident Fund, if an employer fails to pay its housing provident fund contributions in accordance with the Regulations Concerning the Administration of Housing Provident Fund, the relevant authority has the power to order the employer to pay all outstanding housing provident fund contributions within a prescribed time limit. If the employer fails to make such payment within the prescribed time limit, an application of compulsory enforcement can be made to the People's Court of the PRC. Therefore, in respect of the outstanding housing provident fund contributions during the Track Record Period and up to the Latest Practicable Date, the maximum amount that Hubei Qiangda might be ordered to pay would be approximately RMB0.7 million.	We have obtained letters of confirmation dated 17 May 2021, 19 August 2021, 5 January 2022 and 8 June 2022 from Hong'an Office of Huanggang Housing Provident Fund Management Center (黃岡住房公積金管理中心紅安辦事處), confirming that we had not been penalised for violating the laws and regulations for housing provident fund contributions. On 2 June 2021, our PRC Legal Advisers consulted the Hong'an Office of Huanggang Housing Provident Fund Management Center, which confirmed that (i) the authority was fully aware of the production and operation situation of Hubei Qiangda and the housing provident fund contributions; (ii) it is common in Hong'an for labor-intensive production enterprises like Hubei Qiangda failing to pay adequate housing provident fund contributions based on employees' actual salaries for all employees, and our past failure to make adequate housing provident fund contributions is not a material violation of laws; (iii) as of the date of the consultation, the authority had not received any complaints or reports from any individual or other government department about the payment of housing provident fund contributions on Hubei Qiangda, nor found any dispute between Hubei Qiangda and its employees on the payment of housing provident fund contributions; (iv) the authority has never initiated and will not initiate compulsory enforcement to the court on us. As advised by our PRC Legal Advisers, the aforementioned government authority has the authority and is competent to make the aforesaid confirmation. On 7 June 2021, Mr. Chen issued a letter of commitment, pursuant to which he undertook that if Hubei Qiangda is required to pay outstanding social insurance contributions or housing provident fund contributions for its employees, or bear any fine or loss due to Hubei Qiangda's failure to fully pay social insurance contributions or housing provident fund contributions for its employees, he would make up payment for Hubei Qiangda unconditionally and undertake responsibilities on behalf of Hubei Qiangda. During the Track Record Period and up to the Latest Practicable Date, we (i) had not received any notification from Hong'an Office of Huanggang Housing Provident Fund Management Center requiring us to pay the outstanding housing provident fund contributions or about initiation of any compulsory enforcement at the court against us in relation to housing provident fund contributions; and (ii) were not aware of any complaint from its employees or dispute with its employees in respect of housing provident fund contributions. Based on the foregoing, our PRC Legal Advisers are of the view that the risk of us being required to pay outstanding housing provident fund contributions in limited time or being subject to compulsory enforcement to court is remote. According to the applicable rules promulgated by Huanggang Housing Provident Fund Management Centre, the adjustment time of payment basis of housing provident contribution is in July each year. Therefore, we plan to adjust the payment basis of housing provident contribution in July 2022. Based on the above, our Directors are of the view, and the Sponsor concurred, that this non-compliance will not have a material adverse effect on our business operations or financial condition as a whole and there is no need to make provision for such non-compliance. Further, Hubei Qiangda has provided dormitory space as staff welfare to its employees.

Our Directors consider that the abovementioned non-compliance incidents would not affect the suitability for listing of our Company under Rule 8.04 of the Listing Rules having considered: (i) the nature and reason for such non-compliance incidents; and (ii) such non-compliance incidents did not involve any fraudulent act or dishonesty on the part of our Directors and did not raise any question as to the integrity of our Directors.

The Sponsor, after considering the above, concurs with the view of our Directors that (i) the abovementioned non-compliance incidents would not affect the suitability for listing of our Company under Rule 8.04 of the Listing Rules; and (ii) the non-compliance incidents would not give rise to the concerns on the ability of our Directors to oversee our Company's operation and the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

LITIGATION AND CLAIMS

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed "Risk factors" in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control system for managing the more particular operational and financial risks relating to our business operation:

(i) Customer concentration risk

Please refer to the paragraph headed "Our customers — Customer concentration" above in this section.

(ii) Credit risk management

We are subject to risks in relation to the collectability of our trade receivables, details of which are summarised in the paragraph headed "Risk factors — We are subject to credit risk in relation to the collectability of our trade receivables from customers" in this prospectus.

For the purpose of mitigating our exposure to credit risk, our marketing staff and finance staff are responsible for conducting individual credit evaluations on our customers on a regular basis. Prior to entering into framework sales agreement with new customers, our marketing staff would check on the background of the potential customer in order to assess their credibility.

Material overdue payments are closely monitored and evaluated on a case-by-case basis in order to deduce the appropriate follow-up actions having regard to our business relationship with our customer, its history of making payments, its financial position as well as the general economic environment. During the Track Record Period, our follow-up actions for recovering long-overdue payment included active communications and conducting follow up calls with the relevant customers. We also have an internal assessment system in place to assess the credit rating of our customers.

We generally grant our customers a credit term of 60 to 180 days from the date of billing. As at 31 December 2019, 2020 and 2021, we recorded trade receivables (net of allowance for impairment) of approximately RMB148.5 million, RMB142.4 million and RMB145.1 million, respectively. For FY2019, FY2020 and FY2021, our trade receivables turnover days were approximately 158.7 days, 166.8 days and 141.7 days, respectively. To ensure timely identification of doubtful or irrecoverable debts, our finance staff would report to our chief financial officer on the collection status and ageing analysis of outstanding payments on a regular basis. Trade receivables overdue will be reviewed by our chief financial officer and, if appropriate, provisions for impairment of trade receivables will be made accordingly.

(iii) Liquidity risk management

In order to manage our liquidity position, we have adopted the following measures:

- our chief financial officer is responsible for the overall monitoring of our current and expected liquidity requirements on a monthly basis to ensure that we maintain sufficient financial resources to meet our liquidity requirements;

- as a general policy, we maintain inventory of raw materials based on our estimated production needs to prevent excessive purchases; and

- we closely monitor our working capital to ensure that our financial obligations can be fulfilled when due, by, among other things, (i) ensuring healthy bank balances and cash for payment of our short-term working capital needs; (ii) performing monthly review of our trade receivables and ageing analysis; and (iii) performing monthly review of our trade payables and ageing analysis.

(iv) Quality control risk management

Please refer to the paragraph headed "Quality control" in this section.

(v) Regulatory risk management

We keep ourselves abreast of any changes in PRC Government policies, regulations, and licensing requirements in relation to our business operations, as well as the relevant environmental and safety requirements. We will ensure that any changes of the above are closely monitored and communicated to our senior management for proper implementation and compliance.

We set out below our Group's transactions with our connected person, if carried out, will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED PERSON

As of the Latest Practicable Date, Newpage was owned by Mr. Hu and an independent third party as to 40% and 60%, respectively. Mr. Hu is a non-executive Director of our Company. Accordingly, Newpage is an associate of Mr. Hu and therefore our connected person under the Listing Rules. Newpage principally engages in the provision of financial printing services to financial institutions and listed companies in Hong Kong and it offers to its customers financial printing services ranging from typesetting, proofreading, translation, design, printing, web submitting, newspaper placement to distribution (the "**Financial Printing Services**").

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

On 7 May 2021, our Group entered into an agreement with Newpage for the provision of the Financial Printing Services to us for the Listing for a consideration of approximately HK$1.6 million. As such agreement was entered into prior to the Listing and the Financial Printing Services provided pursuant to the agreement are expected to complete upon the Listing, the transactions contemplated thereunder will not be classified as connected transactions under Chapter 14A of the Listing Rules. Accordingly, the transactions will not be subject to any of the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For each of FY2019, FY2020 and FY2021, the total amount of the services incurred amounted to nil, nil and approximately RMB0.9 million.

Upon Listing, our Company will be required to comply with on-going publication obligations required under certain laws and regulations in Hong Kong and we have to engage a financial printing services provider to fulfill our publication obligations. Accordingly, we entered into a financial printing services agreement with Newpage on 8 June 2022, pursuant to which Newpage will provide the Financial Printing Services to us for a term of not more than three years commencing from the Listing Date (the "**Financial Printing Agreement**").

Listing Rules implications

Since the expected annual transaction amount for the Financial Printing Agreement is less than HK$3 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) are less than 5% for each of FY2022, FY2023 and FY2024, the transactions contemplated thereunder constitute de minimis transactions under Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from the independent shareholders' approval, reporting, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) confirmed that the continuing connected transactions under the Financial Printing Agreement as described above has been entered into in the ordinary and usual course of business of our Group and have been based on arm's length negotiations and on normal commercial terms or better, that are fair and reasonable, and the terms of the Financial Printing Agreement are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Executive Directors						
Mr. Chen Weizhuang (陳偉莊先生)	60	Chairman of our Board and executive Director	21 April 2021	May 2017	Overall management and formulation of business strategies of our Group and serving as a member of our Remuneration Committee	Nil
Mr. Yu Tianbing (余天兵先生)	53	Chief executive officer of our Group and executive Director	19 July 2021	January 2017	Overall management and day-to-day management of the operations of our Group and serving as a member of our Nomination Committee	Nil
Non-executive Director						
Mr. Hu Haoran (胡浩然先生)	35	Non-executive Director	19 July 2021	May 2017	Providing advice on the strategy, performance and standard of conduct of our Group	Nil
Independent non-executive Directors						
Mr. Liu Yimin (劉一敏先生)	39	Independent non-executive Director	2 June 2022	June 2022	Providing independent advice to our Board and serving as the chairperson of our Nomination Committee and a member of our Audit Committee	Nil
Mr. Chen Yeung Tak (陳仰德先生)	37	Independent non-executive Director	2 June 2022	June 2022	Providing independent advice to our Board and serving as the chairperson of our Audit Committee and a member of our Remuneration Committee	Nil
Ms. Feng Yuan (馮苑女士)	40	Independent non-executive Director	2 June 2022	June 2022	Providing independent advice to our Board and serving as the chairperson of our Remuneration Committee and a member of our Audit Committee and Nomination Committee	Nil

Name	Age	Present position	Date of appointment as Director/senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Senior management						
Ms. Li Xiaoli (李小莉女士)	50	Chief financial officer	June 2015	June 2015	Overall accounting and financial management of our Group	Nil
Mr. Bao Zhigang (包志剛先生)	43	Chief technology officer	June 2011	June 2011	Overall technology development of our Group	Nil
Mr. Song Zhengmei (宋正美先生)	35	Chief product officer	June 2017	June 2017	Overall production of our Group	Nil

DIRECTORS

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Mr. Chen Weizhuang (陳偉莊先生), aged 60, was appointed as a Director on 21 April 2021 and was re-designated as an executive Director on 20 May 2021. Mr. Chen also serves as the chairman of our Board and is our Controlling Shareholder. He is primarily responsible for the overall management and formulation of business strategies of our Group. As the chairman of the board of Hubei Qiangda, in order to supervise the operation and management of our Group, Mr. Chen would travel to our production facilities from time to time. He travelled to our production facilities for around 30 times from 2019 to 2021. He is responsible for developing our customer base and maintenance of our business relationship with our major customers, whereas he liaises with some of our major customers and attends meetings regarding our sales review and planning. He is also responsible for holding shareholders' meetings and formulation of business and financial plans of our Group. He is a member of our Remuneration Committee. He is also a director of all our subsidiaries, namely Shengxi Global, Hong Kong WEIli and Hubei Qiangda.

Mr. Chen has over 25 years of experience in business management in various industries, including the paper industry in the PRC. From January 1993 to December 1998, he served as deputy general manager in a paper manufacturer located in the Hunan Province. From January 1999 to November 2009, Mr. Chen served as the executive director of Shenzhen Fuhualong Industry Co., Ltd. (深圳市富華隆實業有限公司), a company principally engaged in industrial projects and supply chain activities. From May 2002 to November 2007, he was also the vice chairman of Fuyang Gangli Real Estate Development Co., Ltd.* (阜陽港利房地產開發有限公司), a company principally engages in real estate development and management. From May 2003 to September 2006, Mr. Chen was a supervisor of Shenzhen Huanqiu Shidai Import & Export Co., Ltd. (深圳市環球時代進出口有限公司), a company principally engages in industrial projects, supply chain activities and import and export business, and he has been its executive director since September 2006. Mr. Chen joined Hubei Qiangda as director in May 2017, and has been responsible for the overall management and formulation of business strategies of Hubei Qiangda since then.

Mr. Chen completed his secondary education in the PRC in July 1978.

Mr. Yu Tianbing (余天兵先生), aged 53, was appointed as an executive Director on 19 July 2021. Mr. Yu is also the chief executive officer of our Group and a Substantial Shareholder. He is primarily responsible for the overall management and day-to-day management of the operations of our Group. He usually stations at the production facilities of our Group, and his major responsibilities include reviewing and approving production and operation related documents, supervising the daily production and operation of our Group, implementation of the decisions of the board meetings or shareholders' meetings as well as the business and financial plans of our Group. He is a member of our Nomination Committee. He is also a director of one of our subsidiaries, namely Hubei Qiangda.

Mr. Yu has over 25 years of experience in the cigarette industry, including the cigarette packaging industry. From September 1992 to December 2001, Mr. Yu worked at Hubei Jinye Yuyang Chemical Fiber Co., Ltd.* (湖北金葉玉陽化纖有限公司), which was a designated manufacturer of polypropylene tow and filter rods for cigarettes in the PRC, and he was responsible for business management. From March 2003 to December 2016, Mr. Yu worked at Hubei Golden Three Gorges Printing Industry Co.,Ltd. (湖北金三峽印務有限公司), which is principally engaged in manufacture of cigarette package, with his last position as deputy general manager. He then joined Hubei Qiangda as general manager in January 2017 and has been a director of Hubei Qiangda since May 2017.

Mr. Yu graduated from Hubei Radio and TV University (湖北廣播電視大學), majoring in political history, in July 1989. Mr. Yu also graduated from Hunan University of Technology (湖南工業大學), majoring in printing engineering, in January 2007. He was accredited as an economist by the Yichang Municipal Profession Reform Office* (宜昌市職改辦) in December 1995.

Non-executive Director

Mr. Hu Haoran (胡浩然先生), aged 35, was appointed as a non-executive Director on 19 July 2021. He is primarily responsible for providing advice on the strategy, performance and standard of conduct of our Group and has not been involved in the daily operation of our Group. Mr. Yu and the management of the Group would provide business updates to Mr. Hu from time to time, and Mr. Hu would review such information and provide advice to our Group, in particular financial performance of our Group. He is also a director of one of our subsidiaries, namely Hubei Qiangda.

Mr. Hu has over nine years of experience in business management in various industries. From March 2012 to January 2015, Mr. Hu served as an assistant to the president at Sun Century Real Estate Group Co., Ltd (太陽世紀地產集團有限公司), a company principally engages in real estate development and property leasing, and he was responsible for assisting the president in the management of the company. Since January 2015, Mr. Hu has been a director of Pacific Assets Alliance Limited (太平洋資產聯合有限公司), a company principally engages in the provision of finance, accounting, taxation and business consulting services. Since December 2017, he has been a supervisor of Shenzhen Guangxin Enterprise Management Consulting Service Co., Ltd.* (深圳市廣信企業管理諮詢服務有限公司), a company principally engages in the provision of business and investment consulting services, software development and website design. Mr. Hu joined Hubei Qiangda as a director in May 2017.

Mr. Hu was accredited as a junior accountant by the Ministry of Finance of the PRC in May 2007. He graduated from Guangzhou University Sontan College (廣州大學松田學院) majoring in finance management and practice in June 2008. He obtained a bachelor's degree of management in accounting from Dongbei University of Finance and Economics (東北財經大學) through an online course in December 2012.

Independent non-executive Directors

Mr. Liu Yimin (劉一敏先生), aged 39, was appointed as an independent non-executive Director on 2 June 2022. He is primarily responsible for providing independent advice to our Board. He is the chairperson of our Nomination Committee and a member of our Audit Committee.

Mr. Liu has over eight years of experience in business management in various industries. From October 2011 to September 2014, he served as an assistant to the chairman of the board of Brilliant Circle Holdings International Limited (stock code: 1008), a company listed on the Stock Exchange. From April 2016 to November 2017, he was a director of Shenzhen Yunshan Medical Management Co., Ltd.* (深圳市雲杉醫療管理有限公司), a company principally engages in the provision of logistics and management services to medical institutions. Since November 2017, he has been a director of Shenzhen Larnor Investment Management Co., Ltd.* (深圳拉諾投資管理有限公司), a company engages in the provision of medical and healthcare services.

Mr. Liu obtained a bachelor's degree of engineering in computer aided engineering from The University of Central Lancashire in June 2004 and a master's degree of science in mechatronic systems engineering from The University of Lancaster in November 2005.

Mr. Chen Yeung Tak (陳仰德先生), aged 37, was appointed as our independent non-executive Director on 2 June 2022. He is primarily responsible for providing independent advice to our Board. He is the chairperson of our Audit Committee and a member of our Remuneration Committee.

Mr. Chen Yeung Tak has over 15 years of experience in auditing, accounting and financial management. He worked at Fung, Yu & Co. CPA Limited from July 2006 to December 2010 with his last position as an assistant manager. He then worked at Deloitte Touche Tohmatsu as a senior auditor from January 2011 to October 2012, and PYI Corporation Limited (currently known as Blue River Holdings Limited) (stock code: 498), a company listed on the Stock Exchange, from October 2012 to February 2015 with his last position as an accounting manager. From March 2015 to May 2020, he served as a financial controller and the company secretary of Kingland Group Holdings Limited (stock code: 1751), a company listed on the Stock Exchange. He is/was a director of the following listed companies:

Period	**Company**	**Position**
December 2017 to November 2021	AV Promotions Holdings Limited (stock code: 8419), a company listed on GEM of the Stock Exchange	Independent non-executive director
January 2018 to the Latest Practicable Date	Gain Plus Holdings Limited (stock code: 9900), a company listed on the Stock Exchange	Independent non-executive director
July 2019 to the Latest Practicable Date	DT Capital Limited (stock code: 356), a company listed on the Stock Exchange	Independent non-executive director
May 2020 to the Latest Practicable Date	Kingland Group Holdings Limited (stock code: 1751), a company listed on the Stock Exchange	Executive director and company secretary
March 2022 to the Latest Practicable Date	Onion Global Limited (stock code: NYSE:OG), a company listed on the New York Stock Exchange	Independent director

Mr. Chen Yeung Tak obtained a bachelor's degree of arts in accountancy from The Hong Kong Polytechnic University in December 2006. He became member and fellow of the Hong Kong Institute of Certified Public Accountants in January 2011 and September 2021, respectively.

Ms. Feng Yuan (馮苑女士), aged 40, was appointed as our independent non-executive Director on 2 June 2022. She is primarily responsible for providing independent advice to our Board. She is the chairperson of our Remuneration Committee and a member of our Audit Committee and Nomination Committee.

Ms. Feng has over 10 years of experience in business relating to information technology. From April 2007 to July 2019, she worked at iPanel.TV Inc. (深圳市茁壯網絡股份有限公司), a company principally engages in technical development and consultation in relation to computer software, with her last positions as secretary to the board, deputy general manager and financial controller. Since August 2019, Ms. Feng has been an assistant to the chairman of Shenzhen Yiliu Technology Co., Ltd (深圳市易流科技股份有限公司), a company principally engages in the development and sale of computer software.

Ms. Feng obtained a bachelor's degree of management in information management and information system and a master's degree of management from the Sichuan Normal University (四川師範大學) in July 2004 and June 2007, respectively.

Save as disclosed above, each of our Directors 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.

DISCLOSURE REQUIRED UNDER RULE 13.51(2) OF THE LISTING RULES

Mr. Chen was an executive director of Shenzhen Fuhualong Industrial Co., Ltd.* (深圳市富華隆實業有限公司) ("**Shenzhen Fuhualong**"), which was a limited liability company established in the PRC on 6 January 1999 and was principally engaged in industrial projects and supply chain activities. As confirmed by Mr. Chen, (i) Shenzhen Fuhualong ceased its business in late 2006; (ii) the business licence of Shenzhen Fuhualong was once revoked for its failure to attend annual examination; and (iii) Shenzhen Fuhualong was solvent and inactive at the time of its business licence being revoked. Subsequently, Shenzhen Fuhualong was deregistered on 25 August 2021. Mr. Chen confirmed that the dissolution of Shenzhen Fuhualong had not resulted in any liability or obligation against him.

Mr. Liu Yimin was a director of the following companies prior to their respective dissolution. Mr. Liu confirmed that the companies were solvent and inactive at the time of their dissolution and that their dissolution had not resulted in any liability or obligation against him. The following are the details of the aforementioned dissolved companies:

Name of company	Place of establishment	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Shenzhen Yunbaobao Health Management Service Co., Ltd.* (深圳市雲寶寶健康管理服務有限公司)	PRC	Sale of children clothing and daily necessities and provision of maternal and infant healthcare services	19 February 2019	Deregistration
Shenzhen Yunbeibei Health Management Service Co., Ltd.* (深圳市雲貝貝健康管理服務有限公司)	PRC	Sale of children clothing and daily necessities and provision of maternal and infant healthcare services	19 February 2019	Deregistration
Shenzhen Yuelaiyue Meili Yuefu Maternal and Child Health Management Co., Ltd.* (深圳市月來悦美儷月府母嬰健康管理有限公司)	PRC	Sale of children clothing and daily necessities and provision of maternal and infant healthcare services	7 March 2019	Deregistration
Shenzhen Yunshanbaobao Health Management Service Co., Ltd.* (深圳市雲杉寶寶健康管理服務有限公司)	PRC	Sale of children clothing and daily necessities and provision of maternal and infant healthcare services	12 March 2019	Deregistration
Shenzhen Yunshan Baby Health Management Service Co., Ltd.* (深圳市雲杉寶貝健康管理服務有限公司)	PRC	Sale of children clothing and daily necessities and provision of maternal and infant healthcare services	14 March 2019	Deregistration

Save as disclosed above, each of our Directors confirms with respect to him/her that: (a) he/she does not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (b) he/she does not have any relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; (c) he/she does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed ''Statutory and general information — C. Further information about our Directors and Substantial Shareholders — 1. Disclosure of interests'' in Appendix IV to this prospectus; (d) he/she does not have any interest in any business which competes or is likely to compete, directly or indirectly, with our Group, which is disclosable under the Listing Rules; and (e) to the best knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company will comply with the Corporate Governance Code contained in Appendix 14 to the Listing Rules after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code for each financial year and comply with the ''comply or explain'' principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

SENIOR MANAGEMENT

Ms. Li Xiaoli (李小莉女士), aged 50, is the chief financial officer of our Group and is responsible for the overall accounting and financial management of our Group.

Ms. Li has around 30 years of experience in accounting and financial management. From June 1991 to April 2008, Ms. Li worked in the finance and audit departments of No. 4820 Factory of the People's Liberation Army* (中國人民解放軍第4820工廠) (currently known as Yichang 4820 Mechanical and Electrical Co., Ltd.* (宜昌四八二0機電有限公司)), a company principally engages in the manufacture of electrical products and sells household appliances. From May 2008 to March 2013, she worked as an auditor in an accounting firm, which is currently known as Beijing Dadi Certified Public Accountants (Special General Partnership)* (北京大地泰華會計師事務所(特殊普通合夥). From March 2013 to March 2015, Ms. Li worked as an audit consultant at Guangzhou Zengxinhongri Certified Public Accountants Co., Ltd.* (廣州市增信鴻日會計師事務所有限公司). Ms. Li joined Hubei Qiangda in June 2015 and has been the chief financial officer of Hubei Qiangda since then.

Ms. Li graduated from Yichang Teachers College* (宜昌師範專科學校) majoring in Chinese language and literature in June 1991. She also graduated from People's Liberation Army University of Navel Staff* (中國人民解放軍海軍職工大學) majoring in accounting in December 1997. Ms. Li was accredited as an intermediate accountant by the Ministry of Finance of the PRC in September 2003 and became a certified public accountant in September 2008. She also became a registered tax agent in November 2005 and was accredited as a senior management accountant by China Association of Chief Financial Officers in February 2021.

Mr. Bao Zhigang (包志剛先生), aged 43, is the chief technology officer of our Group and is responsible for the overall technology development of our Group.

Mr. Bao has over 15 years of experience in the paper industry. From December 2001 to April 2005, Mr. Bao worked as a product manager of Shantou Qiangyu Packaging Co., Limited* (汕頭市強宇包裝材料有限公司), a company principally engages in the manufacture of paper and plastic three-dimensional coating products (紙塑三維鍍膜製品). From April 2005 to April 2011, he worked as a factory manager of Hubei Qiangyu Packaging Material Co., Ltd* (湖北強宇包裝材料有限公司) (currently known as Hubei Tonghuan Trading Co., Ltd* (湖北同歡貿易有限公司)), which manufactured and sold paper products, plastic laser film and outer packaging plastic products. Mr. Bao joined Hubei Qiangda as factory manager in June 2011 and was promoted to the position of chief technology officer in April 2020.

Mr. Bao completed secondary education in the PRC in July 1996. He is studying marketing (marketing and planning stream) at Open University of China (國家開放大學) through distance learning and is expected to graduate in July 2023.

Mr. Song Zhengmei (宋正美先生), aged 35, is the chief product officer of our Group and is responsible for the overall production of our Group.

Mr. Song has over 10 years of experience in product quality control. From June 2008 to May 2017, Mr. Song worked as a quality control supervisor of Zhejiang Super Lighting Electric Appliance Co., Ltd (浙江山蒲照明電器有限公司), a company principally engages in the manufacture of lighting and electronic devices. He joined Hubei Qiangda as office manager in June 2017 and was promoted to the position of chief product officer in January 2021.

Mr. Song graduated from Wuhan Polytechnic (武漢職業技術學院) majoring in numerical control technology in June 2008. He later obtained a bachelor's degree in business management from Wuhan University of Technology (武漢理工大學) on a part-time basis through distance learning in December 2020.

Save as disclosed above, each of our senior management 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.

COMPANY SECRETARY

Mr. Yu Tsz Ngo (余子敖先生), aged 36, was appointed as the company secretary of our Company on 20 May 2021. He has over 10 years of experience in accounting and auditing fields. He worked at Deloitte Touché Tohmatsu in Hong Kong from January 2007 to February 2012 with his last position as manager of the audit department. From September 2013 to November 2020, Mr. Yu was an audit partner of CTY & Co.

From May 2015 to May 2020 and since December 2021, he was/has been a company secretary of FDB Holdings Limited (formerly known as Dafy Holdings Limited and Steering Holdings Limited) (stock code: 1826), a company listed on the Stock Exchange, and was responsible for general corporate governance affairs. He has been an executive director of Marksman Corporate Services Limited, a firm principally engaged in provision of corporate secretarial services, since June 2019, and partner of IPA CPA Limited, since January 2021. Since September 2021, Mr. Yu has been as the company secretary of Hing Ming Holdings Limited (stock code: 8425), a company listed on GEM of the Stock Exchange. Since January 2022, Mr. Yu has also been appointed as the company secretary of Palace Banquet Holdings Limited (stock code: 1703), a company listed on the Stock Exchange.

Mr. Yu obtained a bachelor's degree of commerce (accounting and finance) and a master's degree of applied finance from Monash University of Australia in December 2005 and December 2006, respectively. He is a member of the Certified Public Accountants Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Yu was not a director in any listed companies in the last three preceding years.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph D.3.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules pursuant to a resolution of our Directors passed on 2 June 2022. The primary duties of our Audit Committee are, among others, to make recommendations to our Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process of our Company and perform other duties and responsibilities assigned by our Board.

At present, our Audit Committee comprises Mr. Chen Yeung Tak, Mr. Liu Yimin and Ms. Feng Yuan, all being independent non-executive Directors. Mr. Chen Yeung Tak is the chairperson of our Audit Committee.

Remuneration Committee

Our Company established a remuneration committee on 2 June 2022 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph E.1.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our Remuneration Committee are to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors determine their own remuneration.

At present, our Remuneration Committee comprises Ms. Feng Yuan and Mr. Chen Yeung Tak, both being independent non-executive Directors, and Mr. Chen Weizhuang, an executive Director. Ms. Feng Yuan is the chairperson of our Remuneration Committee.

Nomination Committee

Our Company established a nomination committee on 2 June 2022 with written terms of reference in compliance with paragraph B.3.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our Nomination Committee are, among others, to review the structure, size, composition and diversity of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our Nomination Committee comprises Mr. Liu Yimin and Ms. Feng Yuan, both being independent non-executive Directors, and Mr. Yu Tianbing, an executive Director. Mr. Liu Yimin is the chairperson of our Nomination Committee.

BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy which sets out the approach of which our Board could achieve a higher level of diversity. Our Company recognises the benefits of having a diversified Board. In summary, our board diversity policy sets out that when considering the nomination and appointment of a director, with the assistance of our Nomination Committee, our Board would consider a number of factors, including but not limited to the skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender and diversity of perspectives that the candidate is expected to bring to our Board and what would be the candidate's potential contributions, in order to better serve the needs and development of our Company. Our board diversity policy also seeks to attract, retain and motivate our Directors and other staff from the widest pool of available talent. All Board appointments will be based on merits and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board. Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant code governing board diversity under the Corporate Governance Code. After Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy on annual basis.

COMPLIANCE ADVISER

Our Company has appointed Grande Capital as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the term commencing on the Listing Date and ending on the date on which our Company distributes annual report in respect of our financial results for the first full financial year commencing after the Listing Date. Such appointment may be subject to extension by mutual agreement.

Pursuant to Rule 3A.23 of the Listing Rules, our Company shall seek advice from the compliance adviser on a timely basis in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

- where our Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where business activities, developments or results of our Company deviate to a material extent from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to their performance. Our Group also reimburses them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by our Group from time to time or for providing services to our Group or executing their functions in relation to our Group's business and operations. Our Group regularly reviews and determines the remuneration and compensation package of our Directors and senior management by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and performance of our Group.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

For each of FY2019, FY2020 and FY2021, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to our Directors by our Group was approximately RMB271,000, RMB249,000 and RMB279,000, respectively.

For each of FY2019, FY2020 and FY2021, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to our five highest paid individuals (including our Directors) by our Group was approximately RMB1.4 million, RMB1.3 million and RMB1.6 million, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable, by our Group to our Directors and our five highest paid individuals in respect of each of FY2019, FY2020 and FY2021.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for FY2022 will be approximately HK$0.7 million. Upon completion of the Listing, our Remuneration Committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

During the Track Record Period, no remuneration was paid by our Group to, or received by, our Directors or our five highest individuals as an inducement to join or upon joining our Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on our Directors' remuneration during the Track Record Period as well as information on our five highest paid individuals, please refer to the Accountant's Report set out in Appendix I to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), our Company will be owned as to 42.38% by City Ease. City Ease is an investment holding company incorporated in the BVI and is wholly owned by Mr. Chen. As Mr. Chen through City Ease controls more than 30% of voting rights at general meetings of our Company, Mr. Chen and City Ease are regarded as our Controlling Shareholders within the meaning of the Listing Rules.

City Ease is an investment vehicle. Mr. Chen is the chairman of our Board and an executive Director. For details of his background and experience, please refer to the paragraph headed "Directors and senior management — Directors" in this prospectus.

RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders, Directors and their respective close associates does not have any interest apart from the business of our Group which competes or is likely to compete, directly or indirectly with the business of our Group and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

In addition, each of our Controlling Shareholders has given certain non-competition undertakings in favour of our Group. For details, please refer to the paragraph headed "Non-competition undertakings" in this section below.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transaction between our Group and our Controlling Shareholders upon or shortly after the Listing.

Our Directors believe that our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

Our Group has an independent management team comprising our executive Directors and senior management who have substantial experience in the business of our Group. Our management team is able to implement the policies and strategies of our Group and performs its roles in our Company independently.

Our Group aims at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Our three independent non-executive Directors have extensive experience in different areas or professions. The main functions of our Board include the approval of our Group's overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Our Company will have a common director with City Ease, namely Mr. Chen. Despite the common directorship, our Company believes that the management independence between our Company and City Ease will be maintained as City Ease is only an investment holding company.

Further, each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and does not allow any conflict between his or her duties as a Director and his or her personal interest to exist. 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 Board meetings in respect of such transactions and shall not be counted in the quorum. In case Mr. Chen is required to abstain from voting at Board meetings due to potential conflict(s) of interest, our other executive Director, non-executive Director and independent non-executive Directors will be able to form a quorum and ensure that the decisions of our Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that our Group is capable of managing our business independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational independence

Our Group has established our own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, and marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, our Group holds all relevant licences necessary to carry on businesses and has sufficient capital, equipment and employees to operate our businesses independently. Our Group has also established various internal controls procedures to facilitate the effective operation of our business.

We have not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

Our Group has our own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. Our Group makes financial decisions according to our own business needs.

The accounting and finance department of our Group will be responsible for the financial reporting, liaising with our auditors, reviewing our cash position and negotiating and monitoring our credit facilities and drawdowns.

During the Track Record Period, Mr. Chen, Mr. Yu and his spouse, as well as Mr. Hu had provided personal guarantees for the banking borrowings of our Group, and Mr. Yu had provided personal guarantees for the bills payables of our Group. All such personal guarantees were released as at the Latest Practicable Date.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in the business operations of our Group and our Group is able to obtain external financing on market terms and conditions for our business operations as and when required.

Independence from major suppliers

Our Directors have confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, had any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.

Independence from major customers

Our Directors have confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, had any relationship with the major customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period and up to the Latest Practicable Date.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) and confirm that none of them nor any of their close associates (other than any member of our Group) is engaged in any business which directly or indirectly, competes or is likely to compete with the business of our Group, or has any interest, in such business.

In accordance with the Deed of Non-competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (a) the date on which our Shares cease to be listed on the Stock Exchange; (b) the date on which the Covenantors cease to be a Controlling Shareholder; or (c) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued capital of our Company:

1. Non-competition

He/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (excluding any member of our Group) (the "**Controlled Company**") not to, either on his/its own or in conjunction with any person, body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, be interested in, acquire or operate (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise), or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business or activity which, directly or indirectly, competes or is likely to compete with the business carried on or contemplated to be carried on by our Company or any of our subsidiaries in the PRC and such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including manufacture of cigarette packaging paper in the PRC (the "**Restricted Business**").

The Deed of Non-competition does not apply if the Controlled Person(s) and Controlled Company(ies) in aggregate own any interest not exceeding 5% of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and the Relevant Company is listed on any recognised stock exchange, notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Company or any of our subsidiaries, provided that:

(a) the shareholding of any one holder (and his/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Person(s) and the Controlled Company(ies) in aggregate at any time;

(b) the total number of the relevant Covenantors' representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company; and

(c) the Covenantors and/or their respective close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of the Relevant Company or otherwise participate in or be involved in the management of the Relevant Company.

2. New business opportunity

If any Covenantor and/or any Controlled Company(ies) is offered or becomes aware of any business opportunity which directly or indirectly engages in or owns a Restricted Business (the "**New Business Opportunity**"):

(a) He/it shall within 10 days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable our Company to make an informed assessment of such opportunity; and

(b) He/it shall not, and shall procure that his/its Controlled Person(s) or Controlled Company(ies) not to, invest or participate in any project or New Business Opportunity, unless such project or New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/its Controlled Person(s) or Controlled Company(ies) invest or participate in are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (a) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the "**Non-acceptance Notice**"); or (b) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless his/its attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our Board (including our independent non-executive Directors) will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company(ies) or whether or not the New Business Opportunity constitutes competition with the Restricted Business. The factors that will be taken into consideration by our Board in making the decision include whether it is in line with the overall interests of our Shareholders.

3. Corporate governance measures

In order to resolve actual or potential conflicts of interests between our Company and our Controlling Shareholders and to ensure the performance of the above non-competition undertakings, the Covenantors will:

(a) in case of any actual or potential conflict of interest, abstain from attending and voting at any meeting or part of any meeting convened to consider any New Business Opportunity (unless their attendance is specifically requested by the non-interested Directors) and shall not be counted towards the quorum for such meeting;

(b) as required by our Company, provide all information necessary for our independent non-executive Directors to conduct an annual review on the compliance with the terms of the Deed of Non-competition and the enforcement of it;

(c) procure our Company to disclose to the public either in the annual report of our Company or issue an announcement in relation to any decision and where applicable the reasons for such decision made by our independent non-executive Directors to pursue or decline the New Business Opportunity, together with the reasons in case of decline with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it;

(d) disclose the decision(s) and related basis on matters reviewed by our independent non-executive Directors in relation to our Company's compliance with and enforcement of the Deed of Non-competition and make a declaration in relation to the compliance with and enforcement of the Deed of Non-competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with and enforcement of the Deed of Non-competition are in accordance with the requirements of the Listing Rules;

(e) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company and/or our subsidiaries against any loss, liability, damage, cost, fee and expense as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under the Deed of Non-competition; and

(f) our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter(s) relating to the non-competition undertaking or connected transaction(s) at the cost of our Company.

The Deed of Non-competition and the rights and obligations thereunder are conditional upon (a) the Stock Exchange granting the listing of, and the permission to deal in, our Shares; and (b) the Listing and dealings in our Shares on the Stock Exchange taking place.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or may compete with the business of our Group, our Directors are of the view that our Group is capable of carrying on our Group's business independently of the Covenantors after the Listing.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive of our Company, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group:

Person/corporation	Capacity/ nature of interest	Number of Shares interested in as at the date of submission of application for the Listing	Number of Shares interested in immediately after completion of the Capitalisation Issue and the Share Offer *(Note 1)*	Percentage of interests in our Company immediately after completion of the Capitalisation Issue and the Share Offer
City Ease	Beneficial owner *(Note 2)*	565 Shares	339,040,000 (L)	42.38%
Mr. Chen	Interest in controlled corporation *(Notes 2 and 3)*	565 Shares	339,040,000 (L)	42.38%
Enlighten East	Beneficial owner *(Note 4)*	245 Shares	146,960,000 (L)	18.37%
Yong Ning	Beneficial owner *(Note 5)*	160 Shares	96,000,000 (L)	12.00%
Mr. Yu	Interest in controlled corporation *(Notes 5 and 6)*	160 Shares	96,000,000 (L)	12.00%

Notes:

1. The letter "L" denotes a person's/corporation's "long position" (as defined under Part XV of the SFO) in such Shares.

2. Our Company will be owned as to 42.38% by City Ease immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option and the option that may be granted under the Share Option Scheme). City Ease is wholly-owned by Mr. Chen. By virtue of the SFO, Mr. Chen is deemed to be interested in the same number of Shares held by City Ease.

3. Ms. Liu Yuezhu (劉月珠) is the spouse of Mr. Chen. Under the SFO, Ms. Liu Yuezhu is deemed to be interested in the Shares in which Mr. Chen is interested.

4. Our Company will be owned as to 18.37% by Enlighten East immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option and the option that may be granted under the Share Option Scheme). Enlighten East is owned as to 32.66%, 28.57%, 22.44% and 16.33% by Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin, respectively, and none of them, together with his respective close associates, controls one-third or more of the voting power at the general meetings of Enlighten East.

5. Our Company will be owned as to 12.00% by Yong Ning immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option and the option that may be granted under the Share Option Scheme). Yong Ning is wholly-owned by Mr. Yu. By virtue of the SFO, Mr. Yu is deemed to be interested in the same number of Shares held by Yong Ning.

6. Ms. Zhou Huaqin (周華琴) is the spouse of Mr. Yu. Under the SFO, Ms. Zhou Huaqin is deemed to be interested in the Shares in which Mr. Yu is interested.

Save as disclosed above, our Directors are not aware of any person/corporation who/which will, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Capitalisation Issue and the Share Offer.

Authorised share capital:		*HK$*
10,000,000,000	Shares of HK$0.01 each	100,000,000

Assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
1,000	Shares in issue as at the Latest Practicable Date	10
599,999,000	Shares to be issued pursuant to the Capitalisation Issue	5,999,990
200,000,000	Shares to be issued pursuant to the Share Offer	2,000,000
800,000,000	Shares in total	8,000,000

Assuming the Over-allotment Option is exercised in full and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares		*HK$*
1,000	Shares in issue as at the Latest Practicable Date	10
599,999,000	Shares to be issued pursuant to the Capitalisation Issue	5,999,990
200,000,000	Shares to be issued pursuant to the Share Offer	2,000,000
30,000,000	Shares to be issued upon exercise of the Over-allotment Option	300,000
830,000,000	Shares in total	8,300,000

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It does not take into account of any Share that may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total number of issued Shares in the hands of the public.

RANKING

The Offer Shares are ordinary Shares and will rank equally with all Shares in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, paid or made on our Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

Our Company did not have any outstanding share option, warrant, convertible instrument or similar right convertible into our Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in aggregate not exceeding:

(a) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme); and

(b) the aggregate number of issued Shares which may be repurchased by our Company (if any) under the mandate to repurchase Shares referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attaching to any warrant of our Company, scrip dividends or similar arrangements or options providing for the allotment and issue of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held; or

(c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking or varying the authority granted to our Directors.

Further details of this general mandate are set out in the paragraph headed "A. Further Information about our Group — 5. Written resolutions of our Shareholders passed on 2 June 2022" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in the number not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose in accordance with the applicable laws and requirements of the Stock Exchange (or such other stock exchange). A summary of the relevant Listing Rules is set out in the paragraph headed "A. Further information about our Group — 6. Repurchase of our Shares" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held; or

(c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking or varying the authority granted to our Directors.

Further details of this repurchase mandate are set out in the paragraph headed "A. Further information about our Group — 6. Repurchase of our Shares" in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Act, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix III to this prospectus.

The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's consolidated financial statements as at the end of and for each of FY2019, FY2020 and FY2021, including the notes thereto, included in Appendix I to this prospectus. The consolidated financial statements have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

We are a PRC-based cigarette packaging paper manufacturer with research and development capabilities to supply customised products to our customers. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the "Dual 15 cigarette brands (雙十五煙草品牌)" by the STMA. The "Dual 15 cigarette brands (雙十五煙草品牌)" represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of revenue) in Hubei Province in 2020, with a market share of approximately 14.9% in Hubei Province. For further details of our business, please refer to the paragraph headed "Business — Business overview" in this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below and in the section headed "Risk factors" in this prospectus.

Our sales of cigarette packaging paper are dependent on the PRC legislative and regulatory control on cigarette consumption and awareness of health concerns

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

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016 and 26 December 2017, prohibits smoking in indoor public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;

- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect on 1 January 2006, requires, amongst others, the warning statement of "Smoking is harmful (吸煙有害健康)" to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement "Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)" issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;

- The Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), which was last amended by the Standing Committee of the National People's Congress on 29 April 2021, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;

- The "Healthy China 2030" Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20% by 2030;

- The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People's Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

There is no assurance that the PRC Government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, cigarette consumption and the size of the overall PRC cigarette market may further shrink, as a result of which the demand for cigarette packaging paper may also be negatively affected. If cigarette consumption and demand for cigarette packaging paper decrease, our business and results of operations could be materially and adversely affected.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in the PRC and our sales of cigarette packaging paper. As our revenue was derived from business relating to the sales of cigarette packaging paper during the Track Record Period, in the event that cigarette demand in the PRC shrinks significantly and we are unable to promptly shift our product mix and customer base to other end markets, our business, results of operations, financial conditions and future prospects could be adversely affected.

Our competitiveness depends, to a larger extent, on our ability to expand production capacity and product range

Our competitiveness depends, to a larger extent, on our ability to expand production capacity and product range, in order to increase our market share. We manufactured our products in our production facility located in Hubei Province, the PRC. The actual production volumes of our production facility were approximately 23,352 tonnes, 22,749 tonnes and 26,733 tonnes and the effective utilisation rates were approximately 83.3%, 97.4% and 95.4% for FY2019, FY2020 and FY2021, respectively. For more information about our production capacity and utilisation rates, please refer to the paragraph headed ''Business — Production facility and capacity'' in this prospectus. Given the utilisation rates of our production facility have reached a relatively high level as mentioned above, our Directors believe that it is critical to expand our production capacity in order to capture the expected growth in sales volume and sales value of cigarette packaging paper in the PRC as stated in the Industry Report.

We will continue to expand our production capacity and product range to capture market opportunities. For details of our future expansion plans, please refer to the section headed ''Future plans and use of proceeds'' in this prospectus.

Our business strategies are subject to significant business, economic and competitive uncertainties and contingencies in the market, many of which are beyond our control and may delay or increase the costs of implementation. Such uncertainties and contingencies may include, inability to finance or obtain capital to finance our expansion plans, delays in the delivery and installation of machinery and equipment, labour shortage and related issues, raw materials and other cost increases or the promulgation of new laws and regulations related to environmental protection, delays or failure in securing the necessary governmental approvals and downturn in the economy. If we are unable to further expand our production capacity and product range, we may lose our competitiveness in the market, which could materially and adversely affect our financial condition and results of operations, as well as the growth of our revenue and profits.

The demand for our cigarette packaging paper is affected by the demand for cigarettes in the PRC, which in turn is subject to the prices of cigarettes and economic conditions in the PRC

We supply our products mainly to cigarette package manufacturers which operate in different provinces of the PRC. To a much lesser extent, some of our customers are trading companies which on-sell our products to cigarette package manufacturers. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. Therefore, demand for our cigarette packaging paper is highly associated with the demand for cigarettes in the PRC.

Demand for cigarettes is dependent on, amongst other factors, prices of cigarettes and economic conditions in the PRC. For instance, increase in tobacco tax imposed by the PRC Government may result in an increase in retail prices of cigarettes and adversely affect the demand for cigarettes. Likewise, the demand for cigarettes is influenced by the purchasing power and preferences of consumers which is dependent on the PRC economic conditions. Any downturn in the PRC economic conditions or outlook may adversely affect the demand for cigarettes.

Any potential decline in the demand for cigarettes due to increase in cigarette prices or downturn in the PRC economic conditions may have a material adverse impact on our business, financial conditions, results of operations and growth prospects.

Fluctuation in our cost of sales

Our cost of sales mainly comprised of raw materials and goods used, direct labour, utilities and depreciation. We source raw materials such as white cardboard, film and other accessory materials such as glue and ink from various suppliers in the PRC. Please refer to the paragraph headed "Business — Our suppliers" in this prospectus for more information.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of the major component of our cost of sales, namely, costs of raw materials and goods used, on our profit before income tax during the Track Record Period. The hypothetical fluctuation rate for white cardboard and film (as represented by its key raw materials including BOPP, PET and aluminum foil) which are the major raw materials used in our production, is set at 0.2% and 4.2%, respectively, which correspond to the approximate minimum and maximum CAGR percentage changes in the average price of such raw materials in the PRC from 2016 to 2021 as stated in the Industry Report, and are therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our raw materials and goods used	-0.2%	-4.2%	+0.2%	+4.2%
Increase/(decrease) in profit before income tax *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
FY2019	469	9,864	(469)	(9,864)
FY2020	475	9,965	(475)	(9,965)
FY2021	553	11,615	(553)	(11,615)

Note: Our profit before income tax was approximately RMB39.0 million, RMB48.4 million and RMB42.1 million for FY2019, FY2020 and FY2021, respectively.

BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Please refer to note 1.3 and 2.1 of the Accountant's Report as set out in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The financial information of our Group has been prepared in accordance with accounting policies which conform with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 2 to the Accountant's Report as set out in Appendix I to this prospectus, while the critical accounting estimates and judgements adopted by our Group are set forth in note 4 to the Accountant's Report as set out in Appendix I to this prospectus.

Impairment of trade and bills receivables

Our Group's management determines the provision for impairment of trade and bills receivables and the expected lifetime losses are recognised from initial recognition of the assets. For trade receivables, the expected credit losses are determined based on our Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. In making the judgement, our Group's management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers or issuing financial institutions, actual or expected significant adverse changes in business and customers or issuing financial institutions' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers or issuing financial institutions and the regions in which they operate. At every reporting date, historical observed default rates and market credit loss rate are updated (for trade receivables) and the credit rating for issuing financial institutions (for bills receivable) and changes in the forward-looking estimates are analysed by our Group's management. For details, please refer to note 3.1.2 of the Accountant's Report in Appendix I to this prospectus.

Net realisable value of inventories

Our Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

Estimated useful lives of property, plant and equipment

Our Group's management determines the estimated useful lives, and related depreciation charges for our property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Our management will increase the depreciation charges where useful lives are less than previously estimated lives. We will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

Current and deferred income tax

Our Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when our management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimates are changed.

SUMMARY OF RESULTS OF OPERATIONS

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

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

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We generated our revenue mainly from the sale of cigarette packaging paper during the Track Record Period, and our products are categorised into (i) transfer paper; (ii) laminated paper; and (iii) frame paper. To a much lesser extent, we also provide cigarette packaging paper processing services to our customers. We generated revenue of approximately RMB312.8 million, RMB318.3 million and RMB370.3 million for FY2019, FY2020 and FY2021, respectively. Our revenue is generally affected by the selling price and sales volume of our products. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of the change in our revenue during the Track Record Period.

Revenue breakdown by product and service type

The following table sets forth a breakdown of (i) our revenue, sales volume and average selling price by type of our cigarette packaging paper; and (ii) revenue generated from the provision of cigarette packaging paper processing services during the Track Record Period:

	FY2019				FY2020				FY2021			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*
Sale of cigarette packaging paper												
— Transfer paper	246,017	78.6	16,162	15,200	253,250	79.6	17,326	14,600	312,741	84.5	20,357	15,400
— Laminated paper	61,414	19.6	5,517	11,100	59,616	18.7	5,553	10,700	55,889	15.1	5,137	10,900
— Frame paper	2,328	0.8	312	7,500	1,486	0.4	175	8,500	1,594	0.3	180	8,800
Sub-total	309,759	99.0	21,991		314,352	98.7	23,054		370,224	99.9	25,674	
Provision of cigarette packaging paper processing services	3,041	1.0			3,994	1.3			87	0.1		
Total	312,800	100.0			318,346	100.0			370,311	100.0		

Revenue generated from sale of transfer paper accounted for approximately 78.6%, 79.6% and 84.5% of our total revenue for FY2019, FY2020 and FY2021, respectively, being the product type with the largest revenue contribution. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our revenue during the Track Record Period.

Our revenue generated from the provision of cigarette packaging paper processing services increased from approximately RMB3.0 million for FY2019 to approximately RMB4.0 million for FY2020 and decreased to approximately RMB87,000 for FY2021, which mainly depends on the demand from customers such as Hubei Golden Three Gorges from time to time during the Track Record Period.

Revenue breakdown of our product sales by the categories of cigarettes

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

	FY2019		**FY2020**		**FY2021**	
	Revenue		**Revenue**		**Revenue**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Mid-to-high-end cigarettes *(Note 2)*	292,787	94.5	296,881	94.4	358,652	96.9
Low-end cigarettes *(Note 3)*	16,972	5.5	17,471	5.6	11,572	3.1
Total	309,759	100.0	314,352	100.0	370,224	100.0

Notes:

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

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of mid-to-high-end cigarettes increased from approximately RMB292.8 million for FY2019 to approximately RMB296.9 million for FY2020, and further increased to approximately RMB358.7 million for FY2021. The significant increase in the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes in FY2021 was mainly due to the increase in demand for mid-to-high-end cigarettes as a result of the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes with government's policy on promoting mid-to-high-end cigarette as discussed under the paragraph headed "Industry Overview — Industry drivers and opportunities" in this prospectus. Our Directors believe that we are well-positioned to capture the growing demand for mid-to-high-end cigarette packaging paper in the PRC mainly because of our production capability and ability in manufacturing quality cigarette packaging paper for the use by mid-to-high-end cigarette brands.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of low-end cigarettes slightly increased from approximately RMB17.0 million for FY2019 to approximately RMB17.5 million for FY2020, then decreased to approximately RMB11.6 million for FY2021. The decrease in the sales of cigarette packaging paper products applied for low-end cigarettes in FY2021 was mainly due to (i) the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to Hubei Xinjiarui by approximately RMB3.4 million in FY2021 due to the loss of tender of Hubei Xinjiarui in the supply of cigarette packages for such brand; (ii) the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to three different customers by approximately RMB1.7 million in FY2021; and (iii) the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes packaging paper products as discussed above.

Revenue breakdown by geographical locations of our customers

Our customers are all situated in China, and a majority of them are situated in Hubei Province and Henan Province. The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

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

Notes:

1. North-east China mainly include Liaoning Province, Jilin Province and Heilongjiang Province.

2. East China mainly include Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

3. Others mainly include Guangdong Province, Shaanxi Province and Chongqing Municipality.

Please refer to the paragraph headed "Business — Our customers — Sales by geographical locations of our customers" in this prospectus for the reasons of fluctuations in revenue by geographical locations.

Cost of sales

Our cost of sales consisted of raw materials and goods used, direct labour, utilities, depreciation and other cost of sales. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Raw materials and goods used	234,430	94.9	237,253	95.6	276,548	95.8
Direct labour	4,753	1.9	4,068	1.6	4,153	1.4
Utilities	3,193	1.3	2,905	1.2	4,022	1.4
Depreciation	2,392	1.0	2,452	1.0	2,479	0.9
Others	2,282	0.9	1,558	0.6	1,320	0.5
Total	247,050	100.0	248,236	100.0	288,522	100.0

Our cost of sales during the Track Record Period comprised:

(a) raw materials and goods used, which included white cardboard, film and other raw materials such as ink and glue used in our production;

(b) direct labour costs consisted of salaries, wages and benefits of our workers directly engaged in production;

(c) utilities, which mainly represented the electricity costs for our production facility.

(d) depreciation, which mainly represented the depreciation expenses of our buildings and machinery; and

(e) others, which mainly include maintenance fees and other overheads incurred in our production.

Please refer to the paragraph headed"Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our cost of sales during the Track Record Period.

Gross profit and gross profit margin

Our gross profit was approximately RMB65.8 million, RMB70.1 million and RMB81.8 million for FY2019, FY2020 and FY2021, respectively. Our gross profit margin was approximately 21.0%, 22.0% and 22.1% for FY2019, FY2020 and FY2021, respectively. For the fluctuations of our gross profit and gross profit margin during the Track Record Period, please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section.

Gross profit and gross profit margin by product and service type

Our gross profit and gross profit margin by product and service type during the Track Record Period are set out below:

	FY2019		FY2020		FY2021	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cigarette packaging paper						
— Transfer paper	49,818	20.2	54,713	21.6	74,572	23.8
— Laminated paper	12,735	20.7	11,732	19.7	6,952	12.4
— Frame paper	438	18.8	426	28.7	190	11.9
Sub-total	62,991	20.3	66,871	21.3	81,714	22.1
Cigarette packaging paper processing services	2,759	90.7	3,239	81.1	75	86.2
Total	65,750	21.0	70,110	22.0	81,789	22.1

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our gross profit and gross profit margin by product type during the Track Record Period.

Our gross profit of cigarette packaging paper processing services increased from approximately RMB2.8 million for FY2019 to approximately RMB3.2 million for FY2020 and decreased to approximately RMB75,000 for FY2021, which was mainly due to the fluctuation in the revenue generated from the provision of cigarette packaging paper processing services during the Track Record Period. Our gross profit margin of cigarette packaging paper processing service was approximately 90.7%, 81.1% and 86.2% for FY2019, FY2020 and FY2021, respectively. As the customers are responsible for the procurement of raw materials which they will provide us for further processing, we incurred labour costs, depreciation and utilities costs, thereby leading to high gross profit margin for our cigarette packaging paper processing services. The relatively lower gross profit margin for FY2020 was mainly due to the higher depreciation and utilities costs allocated as a result of higher utilisation of machinery for the production of the cigarette packaging paper processing services during certain months of FY2020.

Gross profit and gross profit margin of our product sales by the categories of cigarettes

The table below sets forth a breakdown of gross profit and gross profit margin of our sales of cigarette packaging paper products by the categories of cigarettes during the Track Record Period:

	FY2019		FY2020		FY2021	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Mid-to-high-end cigarettes *(Note 2)*	59,187	20.2	62,583	21.1	79,860	22.3
Low-end cigarettes *(Note 3)*	3,804	22.4	4,288	24.5	1,854	16.0
Total	62,991	20.3	66,871	21.3	81,714	22.1

Notes:

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

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

During the Track Record Period, the gross profit of the sales of cigarette packaging paper for the use in the manufacture of mid-to-high-end cigarettes increased from approximately RMB59.2 million for FY2019 to approximately RMB62.6 million for FY2020, and further increased to approximately RMB79.9 million for FY2021, while the gross profit margin remained relatively stable at approximately 20.2%, 21.1% and 22.3% for FY2019, FY2020 and FY2021, respectively. The increase in gross profit from approximately RMB62.6 million for FY2020 to approximately RMB79.9 million for FY2021 was mainly due to the increase in revenue as discussed above.

During the Track Record Period, the gross profit of the sales of cigarette packaging paper for the use in the manufacture of low-end cigarettes increased from approximately RMB3.8 million for FY2019 to approximately RMB4.3 million for FY2020 and decreased to approximately RMB1.9 million for FY2021, which was generally in line with the fluctuation in revenue as discussed above. The gross profit margin remained relatively stable at approximately 22.4% for FY2019 and approximately 24.5% for FY2020, and decreased to approximately 16.0% for FY2021. Such decrease in FY2021 was mainly attributable to the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to Hubei Xinjiarui in FY2021 as discussed above.

Selling expenses

The following table sets forth a breakdown of our selling expenses during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Freight charges	4,645	57.1	4,105	57.4	5,302	52.4
Salaries and benefits	1,948	24.0	1,626	22.7	2,632	26.0
Travelling and entertainment expenses	1,350	16.6	1,202	16.8	1,948	19.2
Others	190	2.3	220	3.1	241	2.4
Total	8,133	100.0	7,153	100.0	10,123	100.0

Our selling expenses during the Track Record Period mainly comprised of:

(a) freight charges, which was the costs incurred in relation to the delivery of our cigarette packaging paper to our customers;

(b) salaries and benefits, which represented the salaries, benefits and contributions to defined contribution retirement benefit plans for our marketing staff;

(c) travelling and entertainment expenses, which was the costs incurred for our marketing activities; and

(d) others, which mainly represented motor vehicles expenses incurred by our marketing staff.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our selling expenses during the Track Record Period.

Administrative expenses

The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Research and development expenses	10,713	63.1	10,394	66.2	13,115	40.5
Staff costs, including directors' emolument	3,585	21.1	2,839	18.1	3,676	11.3
Travelling and entertainment expenses	916	5.4	795	5.1	893	2.8
Depreciation	649	3.8	663	4.2	668	2.1
Costs of security and cleaning	274	1.6	175	1.1	130	0.4
Tax surcharges	256	1.5	173	1.1	298	0.9
Office expense	174	1.0	164	1.0	205	0.6
Listing expenses	—	—	—	—	12,700	39.2
Others	418	2.5	497	3.2	704	2.2
Total	16,985	100.0	15,700	100.0	32,389	100.0

Our administrative expenses during the Track Record Period mainly comprised of:

(a) research and development expenses, which mainly represented our costs incurred on improving our production efficiency and expanding our product offerings, including raw materials consumed in our research and development and staff costs. Please refer to the paragraph headed "Business — Research and development" in this prospectus for more information in relation to our research and development projects.

(b) staff costs, including directors' emolument, which represented salaries, benefits and contribution to defined contribution retirement benefit plans for our Directors and finance and administration staff;

(c) travelling and entertainment expenses, which represented the transportation expenses incurred by our administration staff for our Group's daily business operations and expenses in relation to internal company functions;

(d) depreciation, which mainly represented the depreciation expenses of our buildings, motor vehicles, leasehold land use right and electronic and other equipments, etc.;

(e) costs of security and cleaning, which represented the security and cleaning expenses for the daily operations of our Group generally;

(f) tax surcharges, which represented tax expenses including stamp duty, property tax and land tax;

(g) office expense, which mainly represented the expenses for printing, stationary and telecommunication, etc;

(h) listing expenses, which represented the expenses in relation to the Listing; and

(i) others, which mainly represented expenses for utilities, office maintenance fees and other miscellaneous expenses.

Net impairment (losses)/reversal of impairment on financial assets

Our net impairment losses/reversal of impairment on financial assets mainly represented the provision for/reversal of loss allowances for trade and bills receivables. Our net impairment losses on financial assets decreased slightly form approximately RMB2.0 million for FY2019 to approximately RMB1.8 million for FY2020 mainly attributable to the decrease in the gross carrying amount of our trade and bills receivables from approximately RMB184.8 million as at 31 December 2019 to approximately RMB157.0 million as at 31 December 2020.

We recorded a reversal of impairment on financial assets of approximately RMB0.5 million mainly due to the decrease in the gross carrying amount of our trade and bills receivables from approximately RMB157.0 million as at 31 December 2020 to approximately RMB150.0 million as at 31 December 2021. For details, please refer to note 3.1.2 of the Accountant's Report as set out in Appendix I to this prospectus.

Other income

The table below sets forth a breakdown of our other income during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to income	276	148	242
Sales of raw and waste materials, net	1,204	3,058	1,561
Amortisation of deferred income	22	42	42
Others	47	99	127
	1,549	3,347	1,972

Our other income during the Track Record Period mainly comprised of:

(a) government grants related to income, which mainly represented the grants received by our Group from the PRC Government to reward our Group's contribution to the local economic growth, and all government grants received by our Group during the Track Record Period were one-off in nature;

(b) sales of raw and waste materials, net, which represented the net income generated from (i) the sales of raw materials; and (ii) the sales of waste materials in relation to the leftover materials scrapped from our finished goods as a result of customising the sizes of our cigarette packaging paper according to our customers' requirements; and

(c) amortisation of deferred income, which represented the amortisation of the government grants received by our Group in relation to the purchase of land use right.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our other income.

Other gains — net

The table below sets forth a breakdown of our other gains during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Other gains			
— Dividend income from financial assets at fair value through profit or loss ("**FVPL**")	22	448	308
— Gain on disposal of property, plant and equipment	12	—	4
— Exchange gains	—	—	54
— Others	10	3	75
	44	451	441
Other losses			
— Bank charges on bills receivable discounted to banks	—	—	(339)
— Others	—	—	(2)
	—	—	(341)
Other gains — net	44	451	100

Our other gains during the Track Record Period mainly comprised of:

(a) dividend income from financial assets at FVPL, which represented dividend income derived from our Group's financial assets at FVPL consisting of certain non-capital protected wealth management products denominated in RMB and issued by reputable banks in the PRC, which primarily invested in listed or unlisted securities and bonds;

(b) gain on disposal of property, plant and equipment, which represented our gain on the disposal of laminating machine to an independent third party trading company; and

(c) bank charges on bills receivable discounted to banks, which represented the bank charges for discounting bills to banks prior to the maturity dates.

Finance (costs)/income — net

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income on bank deposits and restricted cash	214	236	1,070
Finance costs			
— Interest expenses on bank borrowings	(1,359)	(1,170)	(825)
— Interest expenses on lease liabilities	(2)	(1)	—
	(1,361)	(1,171)	(825)
Finance (costs)/income — net	(1,147)	(935)	245

We recorded a net finance income of approximately RMB0.2 million for FY2021, and we recorded a net finance costs of approximately RMB1.1 million and RMB0.9 million for FY2019 and FY2020 respectively.

Our finance income mainly comprised of interest income on bank deposits and restricted cash, which amounted to approximately RMB0.2 million, RMB0.2 million and RMB1.1 million for FY2019, FY2020 and FY2021, respectively.

Our finance costs mainly comprised of interest expenses on bank borrowings and interest expenses on lease liabilities, which amounted to approximately RMB1.4 million, RMB1.2 million and RMB0.8 million for FY2019, FY2020 and FY2021, respectively.

Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for details of our bank borrowings and the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our finance income and finance costs during the Track Record Period.

Income tax expense

The income tax expense for the period is the tax paid or payable by us on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Cayman Islands and BVI profits tax

Our Group is incorporated in the Cayman Islands as an exempted company and is not liable for taxation in the Cayman Islands. Our Group's subsidiary incorporated in the BVI is also an exempted company and is not liable for taxation in the BVI.

Hong Kong profits tax

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as our Group did not have estimated assessable profit in Hong Kong during the Track Record Period.

The PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding tax rates of our Group in Hong Kong is 10% after the completion of the Reorganisation.

The PRC Enterprise Income Tax

Our Group's subsidiary incorporated in the PRC has obtained the approvals to become a new and high-technology enterprise and is entitled to a preferential income tax rate of 15% on the estimated assessable profits for the Track Record Period.

The following table sets forth the breakdown of our income tax expense of our Group during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— The PRC income tax	4,717	6,443	6,313
Deferred income tax	23	(249)	68
Income tax expense	4,740	6,194	6,381

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The additional tax deducting amount of the qualified research and development expenses has been increased from 175% to 200% for manufacturing enterprises, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. Our Group has considered the Super Deduction to be claimed for our Group entities in ascertaining our assessable profits during the Track Record Period.

The tax on our Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of our PRC subsidiary as follows:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Tax calculated at the preferential tax rate of 15%	5,856	7,255	6,310
Expenses not deductible for tax purposes	93	88	2,038
Super deduction for research and development expenses	(1,209)	(1,149)	(1,967)
Income tax expense	4,740	6,194	6,381

Our effective tax rates were approximately 12.1%, 12.8% and 15.2% for FY2019, FY2020 and FY2021, respectively. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our income tax expense and effective tax rates during the Track Record Period.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2019 compared with FY2020

Revenue

Despite the impact of the outbreak of COVID-19, our revenue increased slightly from approximately RMB312.8 million for FY2019 to approximately RMB318.3 million for FY2020. During the first quarter of FY2020, the business of our Group was substantially disrupted by the outbreak of COVID-19, in particular, transport was severely restricted and manufacturing companies like our Group, was ordered to suspend operations by the PRC Government during the lockdown period in Huanggang, Hubei Province, from 23 January 2020 to 25 March 2020 as discussed in the paragraph headed "Business — Impact of the outbreak of COVID-19 on our operations" in this prospectus. Our business suspension during the lockdown period had led to a significant decrease in the revenue of our Group recognised during the three months ended 31 March 2020 of approximately RMB35.4 million as compared to the three months ended 31 March 2019 of approximately RMB78.2 million. However, following the resumption of our Group's operations in full scale since late-March 2020, our Group was able to recoup the operational and financial losses due to the COVID-19 and our revenue subsequently increased substantially from approximately RMB234.6 million for the nine months ended 31 December 2019 to approximately RMB282.9 million for the nine months ended 31 December 2020. Subsequent to our resumption of business operations, our production facility was operated at a high utilisation level to fulfill the purchase orders in the remaining period of the year. Specifically, we arranged our workers to work overtime immediately after the lockdown period, to fulfil the volume of purchase orders received by us prior to the lockdown period, while the utilisation rates of our production facility was approximately 131.5% and 112.9% for the months of April and May 2020, respectively. Once the transportation resumed, our Group managed to complete the delivery of purchase orders received prior to the lockdown period by April 2020. Besides, our marketing staff worked closely with our customers after the lockdown period to understand their product needs and production target for the remaining period of 2020, and the resumption of our operations and high utilisation of our production facility enabled us to fulfil the increased purchase orders from our customers in order to recoup the sales volume as originally planned for the year.

In general, the revenue contribution from our sales of transfer paper had increased from approximately RMB246.0 million for FY2019 to approximately RMB253.3 million for FY2020, given that the sales volume of transfer paper increased from approximately 16,162 tonnes for FY2019 to approximately 17,326 tonnes for FY2020.

Cost of sales

Our cost of sales increased slightly from approximately RMB247.1 million for FY2019 to approximately RMB248.2 million for FY2020, representing an increase of approximately 1.1 million or 0.4%, which was generally in line with the increase in our overall revenue of approximately 1.8% for the corresponding financial year. Our direct labour costs decreased from approximately RMB4.8 million for FY2019 to approximately RMB4.1 million for FY2020, which was mainly due to (i) the decrease in number of employees in production and quality control departments during FY2020 while our actual production volume slightly decreased in FY2020; and (ii) the partial exemption of social insurance contributions in accordance with the government policy in FY2020. Our utilities costs decreased from approximately RMB3.2 million for FY2019 to approximately RMB2.9 million FY2020, representing a decrease of approximately 9.0%. Such decrease was mainly due to the (i) the decrease in our actual production volume by approximately 2.6% from FY2019 to FY2020; and (ii) the 5% discount on electricity costs announced by the local government from February to December 2020 due to the outbreak of COVID-19, from which we had saved electricity costs of approximately RMB146,000 in FY2020.

Gross profit and gross profit margin

Our Group's gross profit remained relatively stable at approximately RMB65.8 million and RMB70.1 million for FY2019 and FY2020, respectively, and given that the increase in our cost of sales was generally in line with the increase in our overall revenue for the corresponding financial year, our Group's gross profit margin remained relatively stable at approximately 21.0% for FY2019 and approximately 22.0% for FY2020.

Our gross profit margin of transfer paper and laminated paper remained broadly stable, changing from approximately 20.2% and 20.7% respectively for FY2019 to approximately 21.6% and 19.7% respectively for FY2020. Despite the slight decrease in our average selling price of the transfer paper and laminated paper from FY2019 to FY2020, the relatively stable gross profit margin for FY2019 and FY2020 was mainly due to (i) the decrease in unit costs of two types of white cardboards, namely Hongta red fiber white cardboard (紅塔紅纖白卡) and Hongta primary fiber white cardboard (紅塔本纖白卡), supplied by Zhuhai Hongta Renheng Paper Industry Co., Ltd.* (珠海紅塔仁恒包裝股份有限公司) ("**Zhuhai Hongta**"), Supplier B, Wuhan Jinfengda Paper Co., Ltd.* (武漢金豐達紙業有限公司) ("**Wuhan Jinfengda**") and Shenzhen Bolida Paper Industry Co., Ltd.* (深圳市博立達紙業有限公司) ("**Shenzhen Bolida**") during FY2020. To the best of our Directors' knowledge and according to the Industry Report, Zhuhai Hongta is the ultimate supplier and manufacturer of both Hongta red fiber white cardboard and Hongta primary fiber white cardboard. Hongta red fiber white cardboard and Hongta primary fiber white cardboard involved special anti-counterfeiting features (the "**Special Technical Features**"). Prior to 2020, there were a limited number of paper product suppliers in the PRC which possessed the required technical knowledge and production skills in manufacturing white cardboards with similar Special Technical Features, resulting in limited alternative products available in the PRC paper industry. Subsequently, other paper products manufacturers in the PRC have also developed white cardboards with technical specifications similar to Hongta red fiber white cardboard or Hongta primary fiber white cardboard, resulting in an emergence of alternative suppliers capable of producing white cardboards with the Special Technical Features. The emergence of alternative suppliers and increase in supply of white cardboards with Special Technical Features in the PRC paper industry has created downward pressure on the average selling price of Hongta red fiber white cardboard and Hongta primary fiber white cardboard by approximately 6.8% and 9.0% per tonne from FY2019 to FY2020, respectively. In order to maintain the price competitiveness and market share of Hongta red fiber white cardboard and Hongta primary fiber white cardboard, Zhuhai Hongta has lowered the average selling price of both products in FY2020; and (ii) the decrease in our direct labour costs as discussed above.

The gross profit margin of frame paper increased from approximately 18.8% for FY2019 to approximately 28.7% for FY2020. Such increase was mainly because we were able to earn a higher gross profit margin for one of our frame paper products sold to a new customer (the "**Heilongjiang Customer**") based in Harbin, Heilongjiang Province, in FY2020 which required different technical specifications compared to our other products. Our Group generally applied a type of white cardboard (the "**Commonly used White Cardboards**") procured from Supplier B for the production of frame paper supplied to the Heilongjiang Customer. In FY2020, our Group had on occasions and depending on the availability, applied an alternative white cardboard (the "**Alternative White Cardboards**") with lowered pricing procured from another white cardboard supplier (the "**Alternative Supplier**") for the production of frame paper supplied to the Heilongjiang Customer.

The Alternative White Cardboards procured by our Group could be viewed as a form of by-product created when the Alternative Supplier performs cutting for some of its white cardboard products placed by its other customers. The Alterative Supplier generally has to cut a large piece of white cardboard into smaller pieces according to its customers' specifications. After cutting, there are generally certain remnants of white cardboard in smaller dimension remaining (the "**by-products**"). The by-products cannot be widely applied in the production of cigarette packaging paper products because the smaller-size of these by-products has largely restricted its prospect in fulfilling the product specifications of different customers, resulting in its relatively narrow application in cigarette packaging paper production and lower demand from customers. Therefore, the Alternative Supplier is willing to sell the by-products at a relatively lower price.

In FY2020, our Group had on occasions purchased the Alternative White Cardboards (subject to its availability as further discussed below) from the Alternative Supplier as a substitute of the Commonly used White Cardboards. We had examined the Alternative White Cardboard and considered that its specifications, including size and cutting, were suitable to be used for the production and were compatible with the product specifications of frame paper products supplied to the Heilongjiang Customer. For FY2019, FY2020 and FY2021, our purchases of Alternative White Cardboards from the Alternative Supplier for the production of frame paper supplied to the Heilongjiang Customer amounted to nil, approximately RMB0.3 million and nil, respectively, while our purchases of other white cardboards used for production of other products from the Alternative Supplier amounted to approximately RMB1.5 million, RMB4.4 million and RMB10.7 million, respectively. The average selling price of the Alternative White Cardboards per tonne was in general approximately 24.2% lower than the Commonly used White Cardboards. The use of the lower price white cardboard, namely the Alternative White Cardboards, in FY2020 has lowered our production costs of frame paper supplied to the Heilongjiang Customer, thereby resulting in the higher gross profit margin attributable to such frame paper product. The gross profit and gross profit margin attributable to the Heilongjiang Customer was approximately RMB0.4 million and 31.1% for FY2020, respectively. Such customer was deregistered on 15 October 2021 as required by relevant government body, according to publicly available information. As at the Latest Practicable Date, our Group did not have any unsettled amount owing from such customer.

Our Directors confirmed to the best of their knowledge that there were no other past or present relationship between each of Zhuhai Hongta, Supplier B, Wuhan Jinfengda, Shenzhen Bolida, the Heilongjiang Customer (or their shareholders/ultimate beneficial owners or directors) and our Company, subsidiaries, Shareholders, Directors, senior management, or any of their respective associates.

Selling expenses

Our selling expenses decreased from approximately RMB8.1 million for FY2019 to approximately RMB7.2 million for FY2020, representing a decrease of approximately RMB0.9 million or 11.1%. Such decrease in our selling expenses was mainly attributable to (i) the decrease in our freight charges by approximately RMB0.5 million which was mainly due to the increase in proportion of our sales to customers located in Hubei Province and Henan Province during FY2020 which are located within a shorter distance from our production facility as compared to customers located in other locations in North-east China and East China, resulting in lower freight charges, which was charged based on distance, being incurred by us; and (ii) the decrease in our salaries and benefits by approximately RMB0.3 million mainly due to the decrease in remuneration to our marketing staff as less marketing activities were carried out by them during the outbreak of COVID-19 as well as the partial exemption of social insurance in accordance with the government policy in FY2020.

Administrative expenses

Our administrative expenses decreased from approximately RMB17.0 million for FY2019 to approximately RMB15.7 million for FY2020 which was mainly attributable to the decrease in our staff costs, including directors' emolument, by approximately RMB0.7 million, due to the decrease in number of employees in the administration and finance departments during FY2020 as well as the partial exemption of social insurance in accordance with the government policy in FY2020.

Net impairment (losses)/reversal of impairment on financial assets

We recorded a net impairment losses on financial assets of approximately RMB2.0 million and RMB1.8 million for FY2019 and FY2020, respectively. For details, please refer to the paragraph headed "Principal components of results of operations — Net impairment (losses)/ reversal of impairment on financial assets" in this section.

Other income

Our other income increased from approximately RMB1.5 million for FY2019 to approximately RMB3.3 million for FY2020, mainly attributable to the increase in income generated from the sales of raw and waste materials, net from approximately RMB1.2 million for FY2019 to approximately RMB3.1 million for FY2020, which mainly depends on the ad-hoc orders placed by customers.

Other gains — net

Our other gains increased from approximately RMB44,000 for FY2019 to approximately RMB0.5 million for FY2020 mainly attributable to the increase in dividend income from financial assets at FVPL from approximately RMB22,000 for FY2019 to approximately RMB0.4 million for FY2020 derived from our Group's non-capital protected wealth management products during FY2020.

Finance (costs)/income — net

We recorded a net finance costs of approximately RMB1.1 million for FY2019 and approximately RMB0.9 million for FY2020 mainly attributable to the interest expenses on bank borrowings.

Income tax expense

Despite slight increase in our revenue and gross profit, our profit before income tax increased from approximately RMB39.0 million for FY2019 to approximately RMB48.4 million for FY2020 mainly due to the decrease in our administrative expenses, selling expenses and net impairment losses of impairment on financial assets, as well as the increase in our other income as discussed above.

Our income tax expense increased from approximately RMB4.7 million for FY2019 to approximately RMB6.2 million for FY2020 due to the increase in our profit before income tax while our effective tax rates remained relatively stable at approximately 12.1% for FY2019 and approximately 12.8% for FY2020.

FY2020 compared with FY2021

Revenue

Our overall revenue increased from approximately RMB318.3 million for FY2020 to approximately RMB370.3 million for FY2021, representing an increase of approximately RMB52.0 million or 16.3%. Such increase was mainly due to (i) the increase in demand from some of our major customers, in particular, the revenue derived from Harbin Shixiang increased from approximately RMB15.3 million for FY2020 to approximately RMB42.8 million for FY2021 which was mainly driven by the increase in sales of three other types of cigarette packaging paper products in FY2021 for the use in the manufacture of cigarette packages under Brand A and Brand G, both are ''Dual 15 cigarette brands'', to Harbin Shixiang and the revenue derived from Customer E increased from approximately RMB32.1 million for FY2020 to approximately RMB55.6 million for FY2021 which was mainly attributable to the increase in sales of cigarette packaging paper for the use in the manufacture of cigarette packages under Brand A, a ''Dual 15 cigarette brand'', to Customer E; (ii) the increase in average selling price of our products upon renewal of certain framework sales agreements with our customers during FY2021. When determining the average selling price of our products prior to the renewal of such framework sales agreements, we had taken into consideration the general increase in price of white cardboards used for our production and increased the average selling price of our products accordingly. As a result, our Group was able to shift part of the increase in price of white cardboards to our customers; and (iii) our Group was adversely affected by the outbreak of COVID-19 in early 2020. In particular, the PRC Government imposed a lockdown in Huanggang, Hubei Province from 23 January 2020 to 25 March 2020, during which we completely suspended all our sales and production activities. We resumed business operation since late-March 2020, and we were able to complete product delivery in respect of certain purchase orders received prior to the lockdown period by April 2020. For details, please refer to the paragraph headed ''Business — Impact of the outbreak of COVID-19 on our operations'' in this prospectus. Our Group was under full operation and did not experience any business suspension or disruption due to the outbreak of COVID-19 in FY2021.

Cost of sales

Our cost of sales increased from approximately RMB248.2 million for FY2020 to approximately RMB288.5 million for FY2021, representing an increase of approximately RMB40.3 million or 16.2%. The increase in cost of sales was generally in line with the increase in our revenue of approximately 16.3% for FY2021. Our business was operated in full scale throughout FY2021 while we experienced temporary suspension of our business during the lockdown period in FY2020. Our costs of raw materials increased from approximately RMB237.3 million for FY2020 to approximately RMB276.5 million for FY2021, representing an increase of approximately 16.6%. Such increase was mainly due to (i) the increase in sales volume by approximately 11.4% in FY2021 as discussed above; and (ii) the increase in price of white cardboard used for our Group's production in FY2021, which contributed an increase of cost of raw materials by approximately 5%. According to the Industry Report, the price of white cardboard for cigarette packaging use increased from approximately RMB6,259 per tonne for 2020 to approximately RMB7,224 per tonne for 2021, representing an increase of approximately 15.4%. The increase in price of white cardboard for cigarette packaging use in FY2021 was not fully reflected in our cost of raw materials and goods used for FY2021 which was mainly attributable to: (i) based on our past experience, the cost of white cardboard generally accounted for approximately 50% to 70% of the total cost of our transfer paper and laminated paper products; (ii) the sales of finished goods carried from the inventory of FY2020; and (iii) our production in the first half of FY2021 had used our inventory of white cardboard carried forward from FY2020 as well as from the white cardboard procured before the price increase since April 2021. Therefore, the increase in price of white cardboard mainly affected our production in the second half of FY2021.

The relatively higher utilities costs in FY2021 was mainly due to (i) the increase in our actual production volume by approximately 17.5% from FY2020 to FY2021; (ii) the 5% discount on electricity costs announced by the local government in FY2020 was not available in FY2021; and (iii) our Group purchased additional machinery and electronic and other equipment to enhance our Group's production process in 2021, which resulted in additional electricity costs of approximately RMB0.6 million incurred based on our estimation. Despite the increase in production volume in FY2021, our direct labour costs remained relatively stable at approximately RMB4.1 million and RMB4.2 million for FY2020 and FY2021, respectively. The less-than-proportionate increase in our direct labour costs was mainly due to the implementation of human resources cost control measures during the year which resulted in the reduction of headcount in some of our operation departments.

Gross profit and gross profit margin

Our Group's gross profit increased from approximately RMB70.1 million for FY2020 to approximately RMB81.8 million for FY2021, representing an increase of approximately RMB11.7 million or 16.7%. Such increase was mainly due to the increase in revenue as discussed above. Our gross profit margin remained relatively stable at approximately 22.0% and 22.1% for FY2020 and FY2021, respectively, given that the increase in our cost of sales was generally in line with the increase in our overall revenue for the corresponding financial year.

Transfer paper

Our gross profit margin of transfer paper increased from approximately 21.6% for FY2020 to approximately 23.8% for FY2021. The increase in gross profit margin of transfer paper was mainly attributable to the increase in sales of transfer paper products with higher gross profit margin during FY2021 while such products were mainly used for mid-to-high-end cigarettes packaging paper.

Laminated paper

Our gross profit margin of laminated paper decreased from approximately 19.7% for FY2020 to approximately 12.4% for FY2021. The relatively lower gross profit margin of laminated paper for FY2021 was mainly due to our pricing strategy in respect of certain laminated paper ordered by one of our major customers. Our management had factored in a lower gross profit margin when determining the fee quotation for such laminated paper after considering the increase in sales of transfer paper with higher gross profit margin to such customer during the year. Our sales of transfer paper to such customer accounted for approximately 70.6% of our revenue derived from such customer for FY2021; whereas our sale of laminated paper to such customer accounted for only approximately 29.4% of our revenue derived from such customer during the corresponding year. Our Directors consider that such pricing strategy is conducive to our efforts in strengthening our business relationship with such customer by being its supplier of different kinds of cigarette packaging paper.

Frame paper

Our gross profit margin of frame paper decreased from approximately 28.7% for FY2020 to approximately 11.9% for FY2021. The higher gross profit margin of frame paper for FY2020 was mainly due to certain purchase orders of frame paper placed by the Heilongjiang Customer in FY2020. The selling price of frame paper to the Heilongjiang customer was generally in line with similar products sold to other customers. However, our Group was able to reduce our production costs by using certain type of white cardboard which is mainly applied in the production of such product and generally less costly as compared to other types of white cardboard that could be applied in the production of a wider range of cigarette packaging materials.

The decrease in our gross profit margin of frame paper for FY2021 as compared to FY2020 was mainly due to the unavailability of the less costly white cardboard (i.e. the Alternative White Cardboards) at the time when the Heilongjiang Customer placed purchase orders of frame paper with us during FY2021. The availability of the Alternative White Cardboards is largely subject to the customer of the Alternative Supplier placing purchase orders for the specific types of products which would create the by-products, given that the Alternative White Cardboards are essentially by-products created during the cutting process of the Alternative Supplier as explained above. In the event that the Alternative White Cardboards were not readily available by the time the Heilongjiang Customer placed purchase orders for frame paper products with us, we would have to resort to the use of the Commonly used White Cardboards with higher average selling price to fulfil the purchase orders of the Heilongjiang Customer.

In order to ensure timely delivery of products, our Group used another type of white cardboard at a higher cost for the production of the frame paper products ordered by the Heilongjiang Customer in FY2021 resulting in a relatively lower gross profit margin of frame paper for FY2021 as compared to FY2020. The gross profit attributable to the Heilongjiang Customer decreased from approximately RMB0.4 million for FY2020 to approximately RMB23,000 for FY2021, and the gross profit margin attributable to such customer decreased from approximately 31.1% for FY2020 to approximately 9.6% for FY2021. The Heilongjiang Customer was deregistered on 15 October 2021 as required by relevant government body, according to publicly available information. As at the Latest Practicable Date, our Group did not have any unsettled amount owing from such customer.

Selling expenses

Our selling expenses increased from approximately RMB7.2 million for FY2020 to approximately RMB10.1 million for FY2021, representing an increase of approximately RMB2.9 million or 40.3%. The lower selling expenses for FY2020 was mainly due to (i) the negative impact of COVID-19 on the economic activities in the PRC during the first three months of FY2020, resulting in (i) the lower remuneration to our marketing staff for FY2020 due to the lower revenue for FY2020 as well as the partial exemption of social insurance in accordance with the government policy during February to December 2020; and (ii) lower sales volume recorded in FY2020 as well as higher proportion of sales to customers located in Hubei Province and Henan Province during FY2020 which are located within shorten distance from our production facility as compared to customers located in other locations in North-east China and East China, which led to lower freight charges incurred.

Administrative expenses

Our Group's administrative expenses increased from approximately RMB15.7 million for FY2020 to approximately RMB32.4 million for FY2021 mainly due to (i) the listing expenses of approximately RMB12.7 million incurred during FY2021; (ii) the increase in research and development expenses from approximately RMB10.4 million for FY2020 to approximately RMB13.1 million for FY2021; and (iii) the increase in our staff costs, including directors' emolument by approximately RMB0.8 million.

Net impairment (losses)/reversal of impairment on financial assets

We recorded a net impairment losses on financial assets of approximately RMB1.8 million for FY2020 and a net reversal of impairment on financial assets of approximately RMB0.5 million for FY2021. For details, please refer to the paragraph headed "Principal components of results of operations — Net impairment (losses)/reversal of impairment on financial assets" in this section.

Other income

Our other income decreased from approximately RMB3.3 million for FY2020 to approximately RMB2.0 million for FY2021 which was mainly attributable to the net effect of (i) the decrease in sales of raw and waste materials, net, from approximately RMB3.1 million for FY2020 to approximately RMB1.6 million for FY2021, which mainly depends on the ad-hoc purchase orders placed by customers; and (ii) the increase in government grants related to income from approximately RMB0.1 million for FY2020 to approximately RMB0.2 million for FY2021.

Other gains — net

Our Group's net other gains decreased from approximately RMB0.5 million for FY2020 to approximately RMB0.1 million for FY2021 which was mainly attributable to the net effect of (i) the increase in bank charges on bills receivable discounted to banks from nil for FY2020 to approximately RMB0.3 million for FY2021; and (ii) the decrease in dividend income from financial assets at FVPL from approximately RMB0.4 million for FY2020 to approximately RMB0.3 million for FY2021.

Finance (costs)/income — net

We recorded a net finance costs of approximately RMB0.9 million for FY2020 and a net finance income of approximately RMB0.2 million for FY2021, which was mainly attributable to (i) the increase in interest income on bank deposits and restricted cash by approximately RMB0.8 million and (ii) the decrease in interest expenses on bank borrowings by approximately RMB0.3 million as a result of decrease in our bank borrowings.

Income tax expense

Our profit before income tax decreased from approximately RMB48.4 million for FY2020 to approximately RMB42.1 million for FY2021 mainly due to the net effect of (i) increase in our revenue and gross profit as discussed above and (ii) the increase in our administrative expenses as discussed above.

Our income tax expense increased from approximately RMB6.2 million for FY2020 to approximately RMB6.4 million for FY2021 and our effective tax rate increased from approximately 12.8% for FY2020 to approximately 15.2% for FY2021, which was mainly due to the non-deductible listing expenses incurred during FY2021.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary use of cash is to fund our working capital requirements, purchase of property, plant and equipment and to repay bank borrowings and related interest expenses. During the Track Record Period, there have been no material changes in our underlying drivers of the sources and uses of cash.

We have funded our business primarily using proceeds from cash generated from our operating activities and bank borrowings. Our sources of liquidity will be satisfied using a combination of cash generated from operating activities, bank loans and the net proceeds from the Share Offer and other funds raised from the capital markets from time to time upon Listing. We will closely monitor the level of our working capital, particularly for our future plans which may utilise significant amount of working capital.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future plans and use of proceeds" in this prospectus.

Cash flows

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

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

Cash flows from operating activities

We derived our cash flow from operating activities primarily through the receipt of payments from sales of cigarette packaging paper. Our cash outflow for operating activities was primarily attributable to payment for purchase of raw materials and other expenses for our operating activities. A statement of cash flow in relation to our operating activities is set out below.

	FY2019	FY2020	FY2021
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Adjustments for:			
— Depreciation of property, plant and equipment	3,124	3,197	3,229
— Depreciation of right-of-use assets	144	140	108
— Amortisation of the intangible assets	130	130	125
— Amortisation of deferred income	(22)	(42)	(42)
— Net impairment losses/(reversal of impairment) on financial assets	2,041	1,755	(474)
— Interest income	(214)	(236)	(1,070)
— Interest expenses on bank borrowings	1,359	1,170	825
— Interest expenses on lease liabilities	2	1	—
— Dividend income from financial asset at FVPL	(22)	(448)	(308)
— Gain on disposal of property, plant and equipment	(12)	—	(4)
— Net exchange gains	—	—	(54)
Changes in working capital:			
— Inventories	2,764	3,263	(12,661)
— Trade receivables	(27,028)	4,425	(2,257)
— Bills receivable	(28,600)	23,300	9,300
— Prepayments and other receivables	774	532	(1,130)
— Restricted cash	9,532	(59,542)	62,190
— Trade and other payables	25,702	50,524	(71,776)
— Amount due from a related party	187	—	—
— Amount due to related parties	—	—	5,496
Cash generated from operations	28,898	76,534	33,565
— Interest received	214	236	1,070
— Income tax paid	(4,697)	(6,000)	(6,007)
Net cash generated from operating activities	24,415	70,770	28,628

For FY2019, we recorded profit before income tax of approximately RMB39.0 million and cash generated from operating activities of approximately RMB24.4 million, which was resulted from the negative adjustment due to (i) the increase in our bills receivable by approximately RMB28.6 million mainly because our Group received certain amount of bills from our customers in late-December 2019, leading to the relatively larger amount of bills receivables balance of our Group of approximately RMB32.6 million as at 31 December 2019 as compared to approximately RMB4.0 million as at 31 December 2018; (ii) the increase in our trade receivables by approximately RMB27.0 million which in line with our revenue growth in FY2019; and partially offset by positive adjustment due to (iii) the increase in our trade and other payables by approximately RMB25.7 million as a result of greater amount of purchases made to support our business growth; and (iv) the decrease in our restricted cash by approximately RMB9.5 million mainly due to the decrease in bills payable.

For FY2020, we recorded profit before income tax of approximately RMB48.4 million and cash generated from operating activities of approximately RMB70.8 million, which was resulted from the positive adjustment due to (i) the increase in our trade and other payables by approximately RMB50.5 million due to the increase in purchase of raw materials from our suppliers following the resumption of economic activities in the PRC; (ii) the decrease in our bills receivable by approximately RMB23.3 million, and such decrease in our bills receivables was mainly due to the relatively larger amount of bills receivables balance as at 31 December 2019 as discussed above.

For FY2021, we recorded profit before income tax of approximately RMB42.1 million and cash generated from operating activities of approximately RMB33.6 million, which was mainly resulted from (i) the positive adjustment due to the decrease in restricted cash by approximately RMB62.2 million mainly attributable to the decrease in bills payable; (ii) the negative adjustment due to the increase in inventories by RMB12.7 million mainly due to greater amount of raw materials purchased to support our increased sales; and (iii) the negative adjustment due to the decrease in trade and other payables by approximately RMB71.8 million mainly attributable to the reasons as discussed under the paragraph headed "Discussion on selected financial positions — Trade and other payables" in this section below.

Cash flows from investing activities

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Assets-related government grants received	1,005	—	—
Proceeds from disposal of property, plant and equipment	283	—	1,004
Purchase of property, plant and equipment	(2,569)	(555)	(1,275)
Purchase of financial assets at FVPL	(8,000)	(169,100)	(215,000)
Proceeds from disposal of financial assets at FVPL	8,000	169,100	215,000
Dividend income from financial assets at FVPL	22	448	308
Net cash (used in)/generated from investing activities	(1,259)	(107)	37

During the Track Record Period, our cash outflows from investing activities primarily includes purchase of financial assets at FVPL, purchase of property, plant and equipment whereas our cash inflows from investing activities primarily includes proceeds from disposal of financial assets at FVPL, dividend income from financial assets at FVPL, assets-related government grants received and proceeds from disposal of property, plant and equipment.

For FY2019, we recorded net cash used in investing activities of approximately RMB1.3 million, which was primarily attributable to the purchase of financial assets at FVPL of approximately RMB8.0 million and the purchase of property, plant and equipment & land use right of approximately RMB2.6 million, while partially offset by the proceeds from disposal of financial assets at FVPL of approximately RMB8.0 million and the assets-related government grants received of approximately RMB1.0 million.

For FY2020, we recorded net cash used in investing activities of approximately RMB0.1 million, which was primarily attributable to the purchase of financial assets at FVPL of approximately RMB169.1 million and the purchase of property, plant and equipment of approximately RMB0.6 million, while partially offset by the proceeds from disposal of financial assets at FVPL of approximately RMB169.1 million and the dividend income from financial assets at FVPL of approximately RMB0.4 million.

For FY2021, we recorded net cash generated from investing activities of approximately RMB37,000, which was primarily attributable to the proceeds from disposal of financial assets at FVPL of approximately RMB215.0 million, proceeds from disposal of property, plant and equipment of approximately RMB1.0 million and dividend income from financial assets at FVPL of approximately RMB0.3 million, while partially offset by the purchase of financial assets at FVPL of approximately RMB215.0 million and purchase of property, plant and equipment of approximately RMB1.3 million.

Cash flows from financing activities

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Loan received from shareholders*(Note)*	—	—	82,261
Deemed distribution to the shareholders of the Company	—	—	(74,693)
Proceeds from bank borrowings	31,500	21,500	15,000
Repayments of bank borrowings	(16,500)	(24,500)	(26,500)
Interest paid on bank borrowings	(1,330)	(1,183)	(840)
Dividends paid	(33,771)	(55,341)	—
Payment of lease liabilities	(75)	(114)	(4)
Interest paid on lease liabilities	(2)	(1)	—
Payment of listing expenses	—	—	(2,911)
Net cash used in financing activities	(20,178)	(59,639)	(7,687)

Note: The loan received from shareholders represented loans received by our Group from each of City Ease, Yong Ning, Enlighten East and Mr. Hu in the amount of approximately RMB43.5 million, RMB12.3 million, RMB19.6 million and RMB6.8 million, respectively. The purpose of the loan received from City Ease, Yong Ning and Enlighten East was for facilitating the implementation of the Reorganisation. Pursuant to the resolution passed by the board of directors of our Company on 31 July 2021, approximately RMB43.5 million, RMB12.3 million and RMB18.9 million due to each of City Ease, Yong Ning and Enlighten East, respectively, was capitalised by increasing the reserve of our Company by the same amount (without allotting and issuing new shares). The remaining balance of approximately RMB0.8 million due to Enlighten East will be settled on or before the Listing. For further details, please refer to note 31(b) of the Accountant's Report to this prospectus.

Pursuant to a loan agreement entered into between Mr. Hu and our Group on 1 August 2021, Mr. Hu granted a loan of approximately RMB6.8 million to our Group which was unsecured, interest free and repayable on demand. Such loan represented the cash advanced by Mr. Hu to our Group for working capital purpose.

During the Track Record Period, our cash outflows from financing activities primarily includes dividends paid, repayments of bank borrowings, interest paid on bank borrowings, payment of lease liabilities and interest paid on lease liabilities, whereas our cash inflows from financing activities primarily includes loan received from shareholders and proceeds from bank borrowings.

For FY2019, we recorded net cash used in financing activities of approximately RMB20.2 million, which was mainly attributable to the dividend paid of approximately RMB33.8 million and the repayments of bank borrowings of approximately RMB16.5 million, and partially offset by cash inflows from the proceeds from bank borrowings of approximately RMB31.5 million.

For FY2020, we recorded net cash used in financing activities of approximately RMB59.6 million, which was mainly attributable to the dividend paid of approximately RMB55.3 million and the repayments of bank borrowings of approximately RMB24.5 million, and partially offset by cash inflows from the proceeds from bank borrowings of approximately RMB21.5 million.

For FY2021, we recorded net cash used in financing activities of approximately RMB7.7 million, which was attributable to (i) the deemed distribution to the shareholders of the Company of approximately RMB74.7 million; (ii) the repayments of bank borrowings of approximately RMB26.5 million; partially offset by (iii) the loan from shareholders of approximately RMB82.3 million; and (iv) the proceeds from bank borrowings of approximately RMB15.0 million.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operations, credit facilities as well as our existing cash and cash equivalents and the estimated net proceeds of approximately HK$94.1 million to be received by us from the Share Offer, assuming the Over-allotment Option is not exercised based on the Offer Price of HK$0.65 per Offer Share, being the mid-point of the indicative Offer Price Range of HK$0.63 to HK$0.67 per Offer Share, after deducting the related expenses in relation to the Share Offer, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	40,701	37,438	50,099	47,806
Trade receivables	148,525	142,418	145,076	158,341
Bills receivable	32,600	9,228	—	—
Prepayments and other receivables	1,147	614	5,106	6,476
Amount due from a related party	1,550	—	—	—
Financial assets at fair value through profit or loss	—	—	—	48,604
Restricted cash	8,908	68,450	6,260	16,740
Cash and cash equivalents	26,535	37,559	58,578	13,476
Total current assets	259,966	295,707	265,119	291,443
Current liabilities				
Trade and other payables	149,416	199,632	128,258	158,966
Bank borrowings	24,545	21,532	10,017	10,011
Dividends payable	17,401	—	37,872	17,872
Lease liabilities	42	—	43	29
Amount due to related parties	—	—	13,051	13,284
Current income tax liabilities	1,071	1,514	1,820	2,882
Total current liabilities	192,475	222,678	191,061	203,044
Net current assets	67,491	73,029	74,058	88,399

Our net current assets increased from approximately RMB67.5 million as at 31 December 2019 to approximately RMB73.0 million as at 31 December 2020. Such increase was mainly due to the combined effects of (i) the increase in our restricted cash by approximately RMB59.5 million as a result of increase in issuance of bills payable in respect of future settlement to suppliers; (ii) the increase in our cash and cash equivalents by approximately RMB11.0 million; and partially offset by (iii) the increase in our trade and other payables by approximately RMB50.2 million mainly attributable to the increase in bills payable from approximately RMB12.3 million as at 31 December 2019 to approximately RMB75.8 million as at 31 December 2020 for the purchase of raw materials from our suppliers which was in line with the increase in restricted cash.

Subsequently, our net current assets slightly increased from approximately RMB73.0 million as at 31 December 2020 to approximately RMB74.1 million as at 31 December 2021. Such increase was mainly due to the combined effects of (i) the decrease in trade and other payables of approximately RMB71.4 million due to the decrease in bills payable as a result of decrease in issuance of bills payable in FY2021 as compared to FY2020; (ii) the decrease in bank borrowings by approximately RMB11.5 million as we repaid bank borrowings during the year; (iii) increase in our cash and cash equivalents by approximately RMB21.0 million; partially offset by (iv) the increase in dividends payable by approximately RMB37.9 million as at 31 December 2021 (31 December 2020: nil) and (v) the decrease in our restricted cash by approximately RMB62.2 million which was in line with the decrease in bills payable.

As at 30 April 2022, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately RMB88.4 million, which was greater than our net current assets as at 31 December 2021 mainly due to the combined effect of (i) the increase in financial assets at fair value through profit or loss by approximately RMB48.6 million while the decrease in cash and cash equivalents by approximately RMB45.1 million mainly due to the purchase of financial assets; (ii) the decrease in dividends payable by RMB20.0 million as a result of settlement of dividends payable; (iii) the increase in trade receivables by approximately RMB13.3 million; (iv) the increase in our restricted cash by approximately RMB10.5 million; partially offset by (v) the increase in our trade and other payables by approximately RMB30.7 million as a result of the increase in issuance of bills payables and increase in trade payables.

DISCUSSION ON SELECTED FINANCIAL POSITION ITEMS

Inventories

The following table sets forth the breakdown of our inventories as at the dates indicated:

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	10,778	14,202	13,506
Finished goods	29,840	23,038	36,315
Packaging materials and others	83	198	278
	40,701	37,438	50,099

Our inventories mainly includes raw materials, finished goods and packaging materials and others. Our raw materials mainly include white cardboard, film and other accessory materials such as glue and ink.

Our Group has implemented inventory management policies to monitor and control our inventory level so as to facilitate our production in a timely manner and control our inventory at an optimal level to avoid obsolescence. Throughout the year, our Group reviews the stock-take records and performs inventory ageing analysis to ensure that inventory is properly used and there is no unnecessary accumulation of aged inventory. For details, please refer to the section headed "Business — Inventory control" in this prospectus.

The following table sets forth the turnover days of our inventories for the periods indicated:

	FY2019	FY2020	FY2021
Inventory turnover days*(Note)*	62.2 days	57.4 days	55.4 days

Note: Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales of the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our inventory turnover days decreased from approximately 62.2 days for FY2019 to approximately 57.4 days for FY2020. Subsequently, our inventory turnover days decreased further to approximately 55.4 days for FY2021 primarily attributable to improvement in managing our inventory level.

As at the Latest Practicable Date, approximately RMB42.1 million or 84.0% of our inventories as at 31 December 2021 had been used or sold.

Trade receivables

The following table sets forth a breakdown of our trade receivables as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	152,165	147,740	149,997
Less: allowance for impairment	(3,640)	(5,322)	(4,921)
Trade receivables — net	148,525	142,418	145,076

Our customers generally settle the trade receivables by bank acceptance bills or bank transfer. We generally granted a credit period of 60 to 180 days to our customers from the date of billing during the Track Record Period.

The following is an ageing analysis of trade receivables presented based on invoice date as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	48,390	44,111	66,606
31 to 90 days	44,455	68,682	57,017
91 to 180 days	39,544	32,004	22,915
181 days to 1 year	17,736	1,905	2,823
Over 1 year	2,040	1,038	636
	152,165	147,740	149,997

Our trade receivables decreased from approximately RMB152.2 million as at 31 December 2019 to approximately RMB147.7 million as at 31 December 2020. This was mainly due to the decreased level of trade receivables that were aged 181 days to one year from certain customers, which in aggregate amounted to approximately RMB10.0 million as at 31 December 2019 and such amount was settled during FY2020. Subsequently, our trade receivables slightly increased from approximately RMB147.7 million as at 31 December 2020 to approximately RMB150.0 million as at 31 December 2021 which was mainly due to the increased level of trade receivables aged within 30 days, from approximately RMB44.1 million as at 31 December 2020 to approximately RMB66.6 million as at 31 December 2021 partially offset by the decrease in trade receivables aged 31 to 90 days by approximately RMB11.7 million.

We determine the provision for impairment over our trade receivables and bills receivables based on expected credit losses (the "**ECL**"), calculated by using the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. We have engaged an independent valuer based in Hong Kong, ValQuest Advisory (Hong Kong) Limited (the "**Valuer**"), to evaluate and determine the provision for impairment over trade receivables and bills receivables. With the support of the valuation performed by the Valuer, the ECL rate for each year represented the average of the relevant credit loss rates for each group, which was determined based on a number of parameters, including (i) analysis of historical credit loss rates; and (ii) forward-looking adjustment based on the correlation between default rates and macro-economic factors (indicative overall market conditions), such as the Gross Domestic Product and Manufacturing Purchasing Managers Index of the PRC as well as the economic impact of the unprecedented COVID-19 pandemic on the customers' and the regions in which they operate. As at 31 December 2019, 31 December 2020 and 31 December 2021, we had allowance for impairment of RMB3.6 million, RMB5.3 million and RMB4.9 million, respectively. For further details, please refer to notes 2.8 and 3.1.2 of the Accountant's Report to this prospectus.

We have adopted an internal policy to monitor the recoverability of our trade receivables including reviewing the credit terms and credit limits granted to customers, their financial performance and historical payment records, and communicating to them regularly to obtain their latest business condition and financial performance.

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	FY2019	FY2020	FY2021
Trade receivables turnover days*(Note)*	158.7 days	166.8 days	141.7 days

Note: Trade receivables turnover days is calculated as the average of aggregate balance of the trade receivables for the year, divided by revenue for the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our trade receivables turnover days for FY2019, FY2020 and FY2021 were approximately 158.7 days, 166.8 days and 141.7 days, respectively, which were relatively stable and within the credit period we granted to our customers.

As at the Latest Practicable Date, approximately RMB125.9 million or 84.0% of the trade receivables outstanding as at 31 December 2021 had been subsequently settled.

Bills receivables

Bills receivables were all bank acceptance bills, and a total amount of approximately RMB50.5 million, RMB48.7 million and RMB133.5 million as at 31 December 2019 and 2020, and 31 December 2021, respectively, that have been endorsed to the suppliers, and a total amount of nil, nil and approximately RMB22.1 million that have been discounted to bank had been derecognised as our Directors considered substantially all risks and rewards of ownership of those bills receivable have been transferred before maturity.

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Bills receivables measured at fair value through other comprehensive income ("**FVOCI**")	32,600	9,228	—

Our bills receivable decreased from approximately RMB32.6 million as at 31 December 2019 to approximately RMB9.2 million as at 31 December 2020, then further decrease to nil as at 31 December 2021. In particular, the significant large amount of bills receivable as at 31 December 2019 was mainly because our Group received certain amount of bills from our customers in late-December 2019, leading to the relatively larger amount of bills receivables of our Group as at 31 December 2019. The decrease in our bills receivable as at 31 December 2021 was mainly because we have endorsed the bills receivables for settlement of outstanding balances to our suppliers.

As at 31 December 2021, we have no outstanding bills receivables.

Prepayments and other receivables

Our current portion of prepayments and other receivables mainly consists of listing expenses to be capitalised upon the Listing, recoverable of value added tax, prepayments for purchase and materials to our suppliers and other receivables such as refundable deposits to our customers as performance guarantee, which amounted to approximately RMB1.1 million, RMB0.6 million and RMB5.1 million as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively. The increase in prepayments and other receivables as at 31 December 2021 was mainly due to (i) the increase in prepayments of professional fees of approximately RMB3.8 million in relation to the Listing during FY2021; and (ii) the increase in other receivables of approximately RMB0.7 million as refundable deposits to our customers as performance guarantee in FY2021.

Amount due from a related party

The following table sets forth a summary of the amounts due from a related party which are non-trade in nature as at the dates indicated:

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Lin	1,550	—	—

Amount due from a related party mainly represented the amount due from Mr. Lin of approximately RMB1.6 million, nil and nil as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively. Such amount mainly represented the disposal of an item of property, plant and equipment owned by our Group to Mr. Lin in 2017 for his personal use. The amount was non-trade in nature, unsecured, interest-free, repayable on demand and denominated in RMB and was set off against the dividends payable to Mr. Lin in FY2020.

Trade and other payables

The following table sets out the breakdown of trade and other payables as at the dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	129,424	112,522	106,627
Bills payable	12,258	75,800	12,520
Employee benefits payable	1,959	1,934	1,942
Other accrued expenses	528	366	2,564
Refund liabilities	84	72	86
Other tax payable excluding income tax liabilities	5,163	8,938	4,519
	149,416	199,632	128,258

Trade payables

Trade payables mainly consist of amounts due to our suppliers for the purchase of raw materials.

The following table sets forth the ageing analysis of the trade payables based on invoice dates:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Up to 30 days	38,346	51,911	37,809
31 to 90 days	59,406	44,479	44,311
91 to 180 days	22,173	10,295	16,138
181 days to 1 year	8,815	5,269	6,632
Over 1 year	684	568	1,737
	129,424	112,522	106,627

Our trade payables decreased from approximately RMB129.4 million as at 31 December 2019 to approximately RMB112.5 million as at 31 December 2020 and then further decreased to approximately RMB106.6 million as at 31 December 2021 mainly due to our settlement of outstanding balances to our suppliers near the year end.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	FY2019	FY2020	FY2021
Trade payables turnover days(Note)	168.7 days	177.9 days	138.6 days

Note: Trade payables turnover days is calculated as the average of aggregate balance of the trade payables for the year, divided by the cost of sales for the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our trade payables turnover days increased from approximately 168.7 days for FY2019 to approximately 177.9 days for FY2020. Subsequently, it decreased to approximately 138.6 days for FY2021.

As at the Latest Practicable Date, approximately RMB82.3 million or 77.2% of our trade payables as at 31 December 2021 had been subsequently settled. None of our outstanding trade payables as at 31 December 2021 were in dispute with our suppliers.

Other payables

Our other payables mainly comprised of bills payables and other tax payables excluding income tax liabilities.

Our Group's bills payables increased from approximately RMB12.3 million as at 31 December 2019 to approximately RMB75.8 million as at 31 December 2020 and decreased to approximately RMB12.5 million as at 31 December 2021. The significant increase in amount of bills payables as at 31 December 2020 was mainly due to the increase in issuance of bills payables to suppliers as a result of greater amount of purchases made to support our business growth.

Our Group's other tax payables excluding income tax liabilities amounted to approximately RMB5.2 million, RMB8.9 million and RMB4.5 million as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively, mainly comprised of value-added tax payables in the PRC.

Bank borrowings

Our bank borrowings amounted to approximately RMB24.5 million as at 31 December 2019, RMB21.5 million as at 31 December 2020 and RMB10.0 million as at 31 December 2021. The decrease in bank borrowings as at 31 December 2021 was due to the net effect of (i) the repayment of bank borrowings of approximately RMB26.5 million during FY2021; and (ii) the drawdown of bank borrowings of approximately RMB15.0 million during the year. Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for more information.

Current income tax liabilities

Our current income tax liabilities were relatively stable at approximately RMB1.1 million as at 31 December 2019, RMB1.5 million as at 31 December 2020 and RMB1.8 million as at 31 December 2021.

Capital expenditure

During FY2019, FY2020 and FY2021, we incurred capital expenditures of approximately RMB1.7 million, RMB0.3 million and RMB1.3 million, respectively as set out in below:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Machinery	104	25	1,174
Buildings	1,416	136	—
Motor vehicles	74	—	22
Electronic and other equipments	98	144	67
Total	1,692	305	1,263

Our capital expenditures primarily consisted of purchase of machinery, buildings, motor vehicles and electronic and other equipments. Our Directors consider that continued investments in property, plant and equipment are necessary in order to cope with our business development and expand our overall production capacity, production efficiency and product portfolio. As such, we plan to acquire additional machinery and equipment and construct additional properties in the future, further information of which is disclosed in the paragraph headed "Business — Business strategies" and the section headed "Future plans and use of proceeds" in this prospectus. We plan to finance future capital expenditures primarily through the net proceeds of the Listing as well as from cash flows generated from operations.

INDEBTEDNESS

As at 30 April 2022, being the latest practicable date for the purpose of the indebtedness statement, the total balance of our interest-bearing liabilities was RMB10.0 million. Other than as disclosed above, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants or other material contingent liabilities.

The following table sets forth our Group's indebtedness as at the respective dates indicated. Our Directors confirm that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other credit facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing.

In May 2022, we have signed a new credit facility letter with a bank in the PRC that contains bank borrowings and bills payable limit up to RMB30.0 million in aggregate. Our Directors confirm that save as disclosed above, we did not have any other immediate plan for additional material external debt financing and there has not been any material change in our indebtedness or contingent liabilities since 30 April 2022 and up to the date of this prospectus.

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current liabilities				
Bills payable	12,258	75,800	12,520	26,740
Bank borrowings	24,545	21,532	10,017	10,011
Dividends payable	17,401	—	37,872	17,872
Lease liabilities	42	—	43	29
Amounts due to related parties	—	—	13,051	13,284
	54,246	97,332	73,503	67,936

Bills payable

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bills payable	12,258	75,800	12,520	26,740

As at 31 December 2019, the bills payable was secured by bank deposits, and were guaranteed by Mr. Yu.

As at 31 December 2020, the bills payable was secured by bank deposits and bills receivable pledged to banks, and guaranteed by Mr. Yu and a staff of the Group. The guarantees were subsequently released. As at 31 December 2021 and 30 April 2022, the bills payable was secured by bank deposits, the Group's buildings and land-use right.

Bank borrowings

The following table sets forth our bank borrowings as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank borrowings — secured	24,545	21,532	10,017	10,011

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the above bank borrowings were secured by our Group's buildings and land use rights and were to be settled within one year. Our Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse. Our Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr. Hu, Mr. Yu and his spouse, the guarantees were subsequently released on or before 18 November 2021.

The weighted average effective interest rates of our Group's bank borrowings as at 31 December 2019, 2020 and 2021 were 6.93%, 6.00% and 5.32% per annum, respectively.

As at 30 April 2022, being the latest practicable date for the liquidity disclosures in this prospectus, we had available credit facilities including bank borrowings of RMB10.0 million which was fully utilised.

Dividends payable

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Group's dividends payable to related parties was as follows.

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**	**As at 30 April 2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Mr. Chen	9,402	—	21,397	8,911
Mr. Yu	2,663	—	6,060	2,524
Mr. Hu	1,831	—	4,166	1,735
Mr. Wu	1,165	—	2,651	1,104
Mr. Lu	1,355	—	2,083	2,083
Mr. Lin	985	—	1,515	1,515
	17,401	—	37,872	17,872

Dividends payable was unsecured, interest-free, repayable on demand and denominated in RMB. The dividends payable as at 31 December 2021 of approximately RMB37.9 million has been settled as at the Latest Practicable Date by our own internal resources.

Lease liabilities

Our Group recorded total lease liabilities of approximately RMB42,000, nil, RMB43,000 and RMB29,000 as at 31 December 2019, 31 December 2020, 31 December 2021 and 30 April 2022, respectively.

Capital commitments

As at 31 December 2019, 31 December 2020, 31 December 2021 and 30 April 2022, we had the following capital commitments:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Property, plant and equipment	167	—	—	—

Our capital commitments which were contracted but not yet incurred mainly represented the expected capital expenditure in respect of acquisition of property, plant and equipment.

Amounts due to related parties

Our Group recorded amounts due to related parties of nil, nil, approximately RMB13.1 million and approximately RMB13.3 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Such amount mainly represented (i) the cash advanced by Mr. Hu of approximately RMB6.8 million to our Group for working capital purpose, which was non-trade in nature; and (ii) the listing expenses of approximately RMB5.5 million paid by Mr. Hu on behalf of our Group, which was trade in nature. Such arrangement was mainly because our Group did not have any member incorporated in Hong Kong and did not maintain any bank accounts in Hong Kong before the incorporation of Hong Kong WEIli in April 2021 and the opening of its bank accounts in Hong Kong in June 2021. On the other hand, Mr. Hu has other business and assets in Hong Kong and maintains personal bank accounts in Hong Kong. As a majority of the professional parties involved in the Listing are parties located in Hong Kong and the fees are denominated in Hong Kong dollars, in order to save time for arranging payments from the PRC and settle the fees in a timely manner, Mr. Hu paid listing expenses of approximately RMB5.5 million on behalf of our Group by bank transfer in Hong Kong dollars during FY2021. Upon the opening of Hong Kong WEIli's bank accounts in Hong Kong, Mr. Hu further advanced Hong Kong dollars equivalent to RMB6.8 million in aggregate during FY2021 to Hong Kong WEIli for working capital purpose in which such advance was mainly used to settle the listing expenses by cheque in Hong Kong dollars to the professional parties involved in the Listing in Hong Kong directly.

The amount due to related parties was unsecured, interest-free, repayable on demand and denominated in HKD and will be settled on or before the Listing.

Contingent liabilities

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

OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements or commitments except as otherwise disclosed.

KEY FINANCIAL RATIOS

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

Revenue growth

Revenue growth is calculated as the difference between revenue of the respective year and revenue of the previous corresponding year, then divided by revenue of the previous corresponding year.

Please refer to the paragraph headed ‘‘Period-to-period comparison of results of operations’’ in this section for the reasons for the fluctuation in our revenue.

Net profit growth

Net profit growth is calculated as the difference between profit of the respective year and profit of the previous corresponding year, then divided by profit of the previous corresponding year.

Please refer to the paragraph headed ‘‘Period-to-period comparison of results of operations’’ in this section for the reasons for the fluctuation in our net profit.

Gross profit margin

Gross profit margin is calculated as gross profit divided by total revenue of the respective year.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our gross profit margin.

Net profit margin

Net profit margin is calculated as profit and total comprehensive income for the year divided by total revenue of the respective year.

Our net profit margin increased from approximately 11.0% for FY2019 to approximately 13.2% for FY2020. Such increase was mainly due to (i) the increase in gross profit margin from approximately 21.0% for FY2019 to approximately 22.0% for FY2020; and (ii) the increase in our other income as discussed in the paragraph headed "Period-to-period comparison of results of operations — FY2019 compared with FY2020" in this section.

Our net profit margin decreased from approximately 13.2% for FY2020 to approximately 9.6% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2020 compared with FY2021" in this section.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year divided by the ending total equity as at the respective reporting dates.

Our return on equity increased from approximately 34.1% for FY2019 to approximately 40.9% for FY2020 mainly attributable to our Group's enhanced profitability with the increase in our Group's net profit margin as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2019 compared with FY2020" in this section.

Our return on equity decreased from approximately 40.9% for FY2020 to approximately 35.3% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2020 compared with FY2021" in this section.

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year divided by the ending total assets as at the respective reporting dates.

Our return on total assets had remained relatively stable at approximately 11.6%, 12.9% and 12.1% for FY2019, FY2020 and FY2021, respectively. The Group's return on assets decreased slightly from approximately 12.9% for FY2020 to approximately 12.1% for FY2021, which was mainly due to the net effect of (i) the decrease in net profit margin as discussed above ; and (ii) the decrease in total assets due to the decrease in restricted cash of approximately RMB62.2 million as at 31 December 2021 as a result of the maturity of bills payable issued by the Group.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio remained relatively stable at approximately 1.4 times, 1.3 times and 1.4 times as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.

Our quick ratio remained relatively stable at approximately 1.1 times, 1.2 times and 1.1 times as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Inventory turnover days

Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales of the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Inventories" in this section for the reasons of the fluctuations in our inventory turnover days.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Trade receivables" in this section for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of sales for the year, then multiplied by the number of days of the year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Trade and other payables" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including bank borrowings and finance lease liabilities) divided by the total equity as at the respective reporting dates.

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

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

We recorded a net cash position as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years/period.

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

CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management

Our Group is exposed to customer concentration risk, credit risk and liquidity risk in the normal course of business. For further details of our operational and financial risk management, please refer to the paragraph headed ''Business — Risk management and internal control systems'' and note 3 of the Accountant's Report set out in Appendix I to this prospectus.

We manage our capital to ensure that entities in our 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. Our overall strategy remains unchanged during the Track Record Period.

Treasury Policy

We have implemented a series of internal control policies and rules regarding investment to ensure that the purpose of investment is to preserve capital and liquidity, and we would only purchase investment products under limited circumstances. Our finance department is responsible for managing our investment activities, and investment strategies and decisions of our finance department are subject to review and approval of our Board and management team. Prior to making a proposal to invest in investment products, we will assess and ensure that there remains sufficient working capital for our business needs, operating activities, research and development and capital expenditures even after purchasing such investment products. We adopt a prudent approach in selecting investment products. We generally analyse the investment products based on its historical financial performance. Should we notice any adverse changes to the financial performance of the investment products based on available information, our finance department will report to the Board and take appropriate actions in a timely manner. During the Track Record Period, our Group invested in wealth management products administered by banks in the PRC with whom our Group has established stable business relationship and our Group was able to achieve a stable return from such wealth management products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of investment and the expected returns. To control our risk exposure, we will invest in investments products offered by reputable commercial banks or reputable financial institutions. We generally select investment products with flexible redemption options which allows us to redeem the investment products within a short notice, thereby providing us with flexibility in terms of liquidity. After making an investment, we closely monitor its performance and fair value on a regular basis.

Our Group's financial instruments are carried at fair value as at the end of each reporting period during the Track Record Period, by level of the inputs to valuation techniques used to measure fair value. Our investments of wealth management products are included in level 3 of the fair value hierarchy, and we recognised changes in fair values through profit or loss during the Track Record Period.

For details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, please refer to note 3.3 of the Accountant's Report as set out in Appendix I to this prospectus, which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted net tangible assets, please refer to the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately RMB30.5 million (equivalent to approximately HK$35.9 million), comprising (i) underwriting-related expenses, including underwriting commission and other expenses, of approximately RMB5.5 million (equivalent to approximately HK$6.5 million); and (ii) non-underwriting-related expenses of approximately RMB25.0 million (equivalent to approximately HK$29.4 million), including (a) fees paid and payable to legal advisers and reporting accountant of approximately RMB13.4 million (equivalent to approximately HK$15.7 million; and (b) other fees and expenses, including sponsor fees, of approximately RMB11.6 million (equivalent to approximately HK$13.7 million). Out of the amount of approximately RMB30.5 million (equivalent to approximately HK$35.9 million), approximately RMB10.9 million (equivalent to approximately HK$12.8 million) is directly attributable to the issue of the Listing and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately RMB19.6 million (equivalent to approximately HK$23.1 million), which cannot be so deducted, shall be charged to profit or loss, among which, approximately RMB12.7 million (equivalent to approximately HK$15.0 million) has been charged during FY2021, while approximately RMB6.9 million (equivalent to approximately HK$8.1 million) is expected to be incurred during FY2022. The listing expenses are expected to represent approximately 27.6% of the gross proceeds of the Share Offer, assuming an Offer Price of HK$0.65 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2022 will be adversely affected by the estimated expenses in relation to the Listing.

DIVIDEND

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

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 21 April 2021. As at 31 December 2019, 31 December 2020 and 31 December 2021, our Company had no reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 31 to the Accountant's Report set out in Appendix I to this prospectus.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospect since 31 December 2021, and there had been no events since 31 December 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus.

BUSINESS OBJECTIVES AND STRATEGIES

Our Group will endeavor to expand our business operations by adopting our business strategies through the following implementation plans. For details of our business strategies, please refer to the paragraph headed "Business — Business strategies" in this prospectus. Our Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will be materialised in accordance with the expected time frame or that the business objectives of our Group will be accomplished at all.

REASONS FOR THE LISTING

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry. We intend to achieve our business objective by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. Our executive Directors believe that the Listing is beneficial to our Company and our Shareholders as a whole because of the following reasons:

- according to the Industry Report, the total sales value of cigarette packaging paper in the PRC is forecasted to grow from approximately RMB41,155.9 million in 2022 to RMB44,349.5 million in 2025 at a CAGR of approximately 2.5%. The forecasted increase in sales value of cigarette packaging paper manufacturing industry in the PRC is mainly attributable to (i) the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes. Mid-to-high-end cigarettes, which are charged at a higher selling price, generally entails the use of cigarette packaging paper with advanced technical requirements so as to enhance their brand recognition and product appeal; and (ii) the increase in purchasing power of PRC citizens will likely result in a growth in demand for mid-to-high-end cigarettes. Driven by the PRC Government's policy in promoting mid-to-high-end cigarette such as the "Three qualities strategy (三品戰略)" and the "136/345 development goals", the demand for mid-to-high-end cigarette packaging paper is expected to maintain a steady growth. With our product quality, experienced management team and past track record, our executive Directors believe that we are well-positioned to capture the growing demand for mid-to-high-end cigarette packaging paper in the PRC. The net proceeds from the Share Offer will provide additional financial resources to our Group for our business plans as set out in the paragraph headed "Business — Business strategies" in this prospectus, which will further strengthen our market position and expand our market share in the PRC cigarette packaging paper manufacturing industry;

- a number of key market players in the PRC cigarette package or cigarette packaging paper manufacturing industry are listed companies or have sought listing in exchanges such as the Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange. Given that a listed company is subject to ongoing regulatory compliance for announcements, financial disclosures and corporate governance, a public listing status will enhance our corporate profile and recognition and provide better assurance to our customers and suppliers and thus enhance our competitiveness within the PRC cigarette packaging paper manufacturing industry. The enhanced corporate profile can potentially lead to more business opportunities to our Group as we will be considered more favourably by potential and existing customers, especially state-owned enterprises;

- the Share Offer will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders. Such platform would allow us to gain direct access to the capital market for equity and/or debt financing, both at the time of the Listing as well as at later stage, to fund our existing operations and future expansion, which could be instrumental to our expansion and improving our operating and financial performance to enhance Shareholders' return; and

- upon the Listing, our Shares will be freely traded on the Stock Exchange. A public listing status will offer us a broader shareholder base which could lead to a more liquid market in the trading of our Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the Listing.

Funding needs for implementing our business strategies

As at 30 April 2022, our cash and cash equivalents, which represents our immediately available working capital, amounted to approximately RMB13.5 million, as set out in the paragraph headed "Financial information — Net current assets" in this prospectus. Our executive Directors consider that the amount of our available working capital fluctuates from time to time, depending on the timing of (i) payment from our customers; and (ii) payment to our suppliers of raw materials. We had experienced significant growth in our business during the Track Record Period, as evidenced by the increase in our revenue from approximately RMB312.8 million for FY2019 to approximately RMB370.3 million for FY2021. The average monthly expenses incurred by us, primarily comprising cost of raw materials and goods used, staff costs, freight charges, utilities cost, administrative expenses and other miscellaneous expenses for our daily operations. In light of our plan to expand our operating scale, our executive Directors consider that it is financially prudent for us to reserve our current available cash resources for meeting our operating expenses.

In view of the aforesaid, our current available working capital would not have room for our further business expansion such as expanding our production capacity and enhancing our research and development capacities which would inevitably require more available cash for general working capital. Therefore, our executive Directors consider that we will need to raise additional funding through the Share Offer to facilitate the implementation of our future plans, while reserving our current available working capital for our existing business operations.

USE OF PROCEEDS

We estimate that the net proceeds from the Share Offer (assuming the Over-allotment Option is not exercised) based on the Offer Price of HK$0.65 per Offer Share, being the mid-point of the indicative Offer Price range of HK$0.63 to HK$0.67 per Offer Share, after deducting the related expenses, are estimated to be approximately HK$94.1 million. We intend to apply such net proceeds in the following manner:

(a) approximately HK$33.3 million (equivalent to approximately RMB28.3 million), representing approximately 35.4% of the estimated net proceeds, will be used for constructing a two-storey factory building of approximately 8,200 sq.m., mainly for production workshops and warehouse use ("**New Factory Building**"). Based on our management's best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the New Factory Building. The capital expenditure for the construction of the New Factory Building is currently estimated to be approximately HK$33.3 million which will be fully financed with the net proceeds from the Share Offer;

(b) approximately HK$24.4 million (equivalent to approximately RMB20.7 million), representing approximately 25.9% of the estimated net proceeds, will be used for (i) acquiring four sets of advanced laminating machine to facilitate the replacement of an existing production line and set up three new production lines. Such machinery could produce wider range of cigarette packaging paper products and achieve higher operational efficiency than our existing models; and (ii) acquiring ten sets of automatic control system for our existing and new production lines that could perform automatic identification and elimination of defective products. As the existing premises at our factory buildings were already substantially occupied, the four new production lines will be installed in the New Factory Building. The capital expenditure for the acquisition of additional machinery is currently estimated to be approximately HK$24.4 million in aggregate which will be fully financed with the net proceeds from the Share Offer.

    Under the assumptions that the three new production lines and the replaced production line will achieve (i) a utilisation rate of approximately 92.0% with reference to the average utilisation rate of our existing productions lines for the three years ended 31 December 2021; and (ii) an estimated annual maximum production capacity of approximately 4,605 tonnes for each new production line, it is expected that the three new production lines and the replaced production line will contribute to an increase in our annual actual production volume by approximately 12,710 tonnes and 553 tonnes, respectively. As a result, our Group's annual actual production volume is estimated to increase by approximately 13,263 tonnes in aggregate following (i) the construction of the New Factory Building; and (ii) the establishment of the three new production lines and the replaced production line.

Following the establishment of the new production lines, our existing production lines will continue to manufacture cigarette packaging paper with basic anti-counterfeiting, eco-friendliness and/or technical features (the "**Existing Products**"); whereas our new production lines will mainly focus on manufacturing cigarette packaging paper with (i) enhanced anti-counterfeiting features such as positioning pattern, watermarks and special symbols; (ii) enhanced eco-friendliness features such as aluminum foil-imitation characteristics; and (iii) advanced technical features such as double-sided lamination, hollowing, extra low weight and extra thin characteristics. For further details, please refer to the paragraph headed "Business — Business strategies — Expanding our production capacity, production efficiency and product portfolio — (VII) Technical improvement of our production lines — Features of products to be manufactured by the new production lines" in this prospectus;

(c) approximately HK$18.4 million (equivalent to approximately RMB15.6 million), representing approximately 19.5% of the estimated net proceeds, will be used for enhancing our research and development capabilities by (i) constructing a research and development centre of approximately 3,200 sq.m. (the "**R&D Centre**"); (ii) acquiring three types of advanced research and development equipment to assist us in the design, development and production of new products. Such equipment is expected to possess enhanced function of anti-counterfeit imprinting and high-resolution graphics; (iii) acquiring four types of advanced testing equipment to assist us in conducting a wider range of testing on our products on different aspects (e.g. chemical compositions and moisture content etc.); and (iv) recruiting four additional research and development staff member. Based on our management's best estimation and past experience, it will take approximately 12 to 18 months to complete the construction of the R&D Centre. The capital expenditure for the construction of the R&D Centre and the acquisition of additional research and development equipment and testing equipment is currently estimated to be approximately HK$4.7 million and HK$12.7 million, respectively. We currently intend to finance the construction of the R&D Centre, the acquisition of additional research and development equipment and testing equipment and the recruitment of additional research and development staff fully with the net proceeds from the Share Offer;

(d) approximately HK$6.0 million (equivalent to approximately RMB5.1 million), representing approximately 6.4% of the estimated net proceeds, will be used for enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency. The capital expenditure for the upgrade of our enterprise resource planning system and infrastructure systems is currently estimated to be approximately HK$6.0 million in aggregate which will be fully financed with the net proceeds from the Share Offer;

(e) approximately HK$2.7 million (equivalent to approximately RMB2.3 million), representing approximately 2.9% of the estimated net proceeds, will be used for increasing our marketing efforts by establishing three sales centres in Shanghai Municipality, Yunnan Province and Henan Province. Under our plan, these would involve (i) leasing a total of three offices in Jiading District of Shanghai Municipality, Kunming City of Yunnan Province and Zhengzhou City of Henan Province and conducting the necessary renovation works; (ii) purchasing three additional motor vehicles to facilitate the travelling of our marketing staff in their respective regions; and (iii) recruiting six additional marketing staff. We currently intend to finance the establishment of the three sales centre, the acquisition of additional motor vehicles and the recruitment of additional marketing staff fully with the net proceeds from the Share Offer; and

(f) approximately HK$9.3 million (equivalent to approximately RMB7.9 million), representing approximately 9.9% of the estimated net proceeds, will be reserved as our general working capital.

IMPLEMENTATION PLAN

We will endeavor to achieve the following milestone events for each of the six-month period from 1 July 2022, and their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and assumptions" in this section. We intend to fund the following business strategies entirely with the net proceeds from the Share Offer:

Business strategies	**Implementation plans**	**Use of proceeds** *HK$'million*
From 1 July 2022 to 31 December 2022		
Expanding our production capacity, production efficiency and product portfolio	• Progress payment for constructing a two-storey factory	3.0
Enhancing our research and development capabilities	• Progress payment for constructing a research and development centre	3.3
Enhancing our enterprise resource planning system and infrastructure system	• Progress payment for enhancing our enterprise resource planning system and infrastructure system	1.8
Increasing our marketing efforts	• Establishing three sales centres • Recruiting six additional marketing staff with a monthly salary of approximately RMB7,500	2.2

Business strategies	Implementation plans	Use of proceeds *HK$'million*
From 1 January 2023 to 30 June 2023		
Expanding our production capacity, production efficiency and product portfolio	• Progress payment for constructing a two-storey factory • Down payment for acquiring four sets of advanced laminating machine and ten sets of automatic control system	1.3
Enhancing our enterprise resource planning system and infrastructure system	• Progress payment for enhancing our enterprise resource planning system and infrastructure system	3.6
Increasing our marketing efforts	• Salary payment for six additional marketing staff	0.5
From 1 July 2023 to 31 December 2023		
Expanding our production capacity, production efficiency and product portfolio	• Progress payment for constructing a two-storey factory	3.5
Enhancing our research and development capabilities	• Progress payment for constructing a research and development centre • Recruiting four additional research and development staff members with a monthly salary of approximately RMB6,700	1.7
From 1 January 2024 to 30 June 2024		
Expanding our production capacity, production efficiency and product portfolio	• Progress payment for constructing a two-storey factory • Interim payment for acquiring four sets of advanced laminating machine and ten sets of automatic control system	37.8

Business strategies	Implementation plans	Use of proceeds *HK$'million*
Enhancing our research and development capabilities	• Down payment for acquiring six advanced research and development equipment and two advanced testing equipment • Salary payments for four additional research and development staff members	6.2
Enhancing our enterprise resource planning system and infrastructure system	• Progress payment for enhancing our enterprise resource planning system and infrastructure system	0.6
From 1 July 2024 onwards		
Expanding our production capacity, production efficiency and product portfolio	• Progress payment for constructing a two-storey factory • Payment of the balance for acquiring four sets of advanced laminating machine and ten sets of automatic control system	12.1
Enhancing our research and development capabilities	• Progress payment for constructing a research and development centre • Payment of the balance for acquiring six advanced research and development equipment and two advanced testing equipment • Acquiring two advanced testing equipment • Salary payments for four additional research and development staff members	7.2

In addition to the above, we intend to reserve approximately HK$9.3 million of the estimated net proceeds as our general working capital.

BASIS AND ASSUMPTIONS

The implementation plan set out by our Directors is based on the following assumptions:

- there will be no impediments, legal or otherwise, such as obtaining the relevant construction permits, which would materially disrupt our construction of the new factory building and research and development centre;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material changes in the funding requirement for each of our Group's future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no changes in the effectiveness of the licences, permits and qualifications obtained by our Group, where applicable;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" in this prospectus.

There can be no assurance that the net proceeds from the Share Offer will be sufficient for fully implementing our business expansion plans. For instance, (i) the construction costs of the New Factory Building and R&D Centre may exceed the net proceeds allocated for such purpose as set out above; (ii) the number of additional staff members we intend to recruit may not fulfil the manpower needs; and (iii) the number of machinery and equipment we intend to purchase may not be sufficient to fulfil the needs associated with the increase in our operation scale. In the event any of the above occurs or that the Listing becomes unsuccessful such that the net proceeds from the Share Offer becomes unavailable to us, we may adjust the timing and scale of our business expansion plans and/or seek alternative form of financing.

To the extent that the net proceeds are not immediately required for the above purposes and to the extent permitted by the applicable laws and regulations, such net proceeds can only be placed by us as interest-bearing deposits with authorised financial institutions in the PRC or Hong Kong.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the sales of these additional Offer Shares of approximately HK$18.5 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming an Offer Price of HK$0.65 per Share, being the mid-point of the proposed Offer Price range of HK$0.63 to HK$0.67. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK$14.2 million, as compared to the net proceeds received by us from the Share Offer based on the mid-point of the Offer Price and assuming the Over-allotment Option is not exercised at all. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of approximately HK$22.3 million, as compared to the net proceeds received by us from the Share Offer based on the mid-point of the Offer Price and assuming the Over-allotment Option is not exercised at all. The allocation of the additional net proceeds will be used in the same proportions as set out above.

Assuming the Over-allotment Option is not exercised at all, and in the event that the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds to be received from the Share Offer will increase or decrease by approximately HK$3.8 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Share Offer as described above.

PUBLIC OFFER UNDERWRITERS

First Shanghai Securities Limited

CRIC Securities Company Limited

Zhongtai International Securities Limited

Valuable Capital Limited

Cinda International Capital Limited

Livermore Holdings Limited

China Galaxy International Securities (Hong Kong) Co., Limited

Kingsway Financial Services Group Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the **GREEN** Application Form.

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Stock Exchange and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to procure subscribers for the Public Offer Shares now being offered, or failing which, the Public Offer Underwriters shall subscribe for the Public Offer Shares on the terms and conditions of this prospectus, the **GREEN** Application Form and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for the Public Offer Shares are subject to termination. The Joint Bookrunners shall have the absolute right by notice in writing to our Company to terminate the Public Offer Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the "**Termination Time**") if any of the following events shall occur prior to the Termination Time that did not exist prior to the date of the Public Offer Underwriting Agreement:

1. There shall develop, occur, exist or come into effect:

   (i) any matter or event resulting in any of the representations, warranties, agreements and undertakings given to the Public Offer Underwriters under the Public Offer Underwriting Agreement (the "**Warranties**") becoming untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the Warranties or any other provisions of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriters which, in any such cases, is considered, in the reasonable opinion of the Joint Bookrunners, to be untrue, inaccurate or misleading and material in the context of the Public Offer; or

   (ii) any statement contained in this prospectus has become untrue, incorrect or misleading in any material respect which is considered, in the reasonable opinion of the Joint Bookrunners, to be untrue, inaccurate or misleading and material in the context of the Public Offer; or

   (iii) any event, series of events, matters or circumstances occurs or arises on or after the date of the Public Offer Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Public Offer Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any material respect, and which is considered, in the reasonable opinion of the Joint Bookrunners to be untrue, inaccurate or misleading and material in the context of the Public Offer; or

   (iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of the Joint Bookrunners, a material omission in the context of the Public Offer; or

   (v) in the reasonable opinion of the Joint Bookrunners, any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company and any of our executive Directors and our Controlling Shareholders arising out of or in connection with the breach of any of the Warranties; or

   (vi) any breach by any party to the Public Offer Underwriting Agreement other than the Public Offer Underwriters of any provision of the Public Offer Underwriting Agreement which, in the reasonable opinion of the Joint Bookrunners, is in breach and material;

2. there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

    (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of our Group; or

    (ii) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the PRC, the BVI, the Cayman Islands or any of the jurisdictions relevant to the business of our Group, the local, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions or prospects; or

    (iii) any adverse change in the conditions of Hong Kong or international equity securities or other financial markets; or

    (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances; or

    (v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, the BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdiction relevant to our Group's business; or

    (vi) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of any member of our Group; or

    (vii) a general moratorium on commercial banking activities in Hong Kong declared by the relevant authorities; or

    (viii) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out;

which, in the reasonable opinion of the Joint Bookrunners acting in good faith:

(a) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of our Group taken as a whole; or

(b) has or will have or is reasonably likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, or the distribution of the Offer Shares; or

(c) makes it impracticable, inadvisable or inexpedient for the Public Offer Underwriters to proceed with the Public Offer as a whole.

For the above purpose:

(a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. shall be taken as an event resulting in a change in currency conditions; and

(b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Undertakings

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders undertakes to the Stock Exchange and to our Company that except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement, he or it shall not and shall procure that the relevant registered holder(s) shall not:

(a) in the period commencing on the date by reference to which disclosure of his/its interests in our Company is made in this prospectus and ending on the date falling six months from the Listing Date (the "**First Six-month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; or

(b) in the six-month period commencing on the expiry of the First Six-month Period set out in paragraph (a) above (the "**Second Six-month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities mentioned in paragraph (a) 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 or a member of a group of controlling shareholders of our Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his/its shareholdings is made in this prospectus and to the date which is 12 months from the Listing Date, he or it will:

(a) when he or it pledges or charges any securities of our Company or interests therein beneficially owned by him or it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and

(b) when he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraphs (a) and (b) above by any of the Controlling Shareholders and disclose such matters by way of an announcement in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Pursuant to the Public Offer Underwriting Agreement, our Company had undertaken to each of the Joint Bookrunners, the Sponsor, the Joint Lead Managers and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares upon exercise of any such options or as otherwise permitted under the Listing Rules, our Company will not, and our Company, our Controlling Shareholders and each of our executive Directors will procure, that our subsidiaries will not, unless with the prior written consent of the Joint Bookrunners, such consent not to be unreasonably withheld or delayed, and in compliance with the requirements of the Listing Rules:

(i) allot or issue, or agree to allot or issue, Shares or other securities of our Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants, or other rights to subscribe for or convertible or exchangeable into Shares or other securities of our Company; or

(ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so,

during the six months immediately following the Listing Date (the "**First Six-month Period**").

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-month Period (the "**Second Six-month Period**"), it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to each of the Joint Bookrunners, our Company and the Public Offer Underwriters that, save as pursuant to the Stock Borrowing Agreement or unless as a result of any exercise of the Over-allotment Option or otherwise in compliance with the Listing Rules, during the First Six-month Period, he or it shall not, and shall procure that the relevant registered holder(s) and his or its associates and companies controlled by him or it and any nominee or trustee holding in trust for him or it shall not, without the prior written consent of the Joint Bookrunners unless in compliance with the requirements of the Listing Rules:

(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 in respect of which he or she or it is shown in this prospectus to be directly or indirectly interested (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 the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or

(iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or

(iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

Each of our Controlling Shareholders has jointly and severally undertaken to the Joint Bookrunners, our Company and the Public Offer Underwriters that he or it shall not, and shall procure that the relevant registered holder(s) and his or its associates or companies controlled by him or it and any nominee or trustee holding in trust for him or it shall not, without the prior written consent of the Stock Exchange at any time 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 Relevant Securities held by him or it or any of his or its associates or companies controlled by him or it or any nominee or trustee holding in trust for him or it if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a Controlling Shareholder or would together with the other Controlling Shareholders cease to be, or be regarded as, Controlling Shareholders.

In the event of a disposal of any of the Shares or securities of our Company directly or indirectly beneficially owned by him or it or any interest therein within the Second Six-month Period, the relevant Controlling Shareholder shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of our Company.

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has further undertaken to each of our Company, the Joint Bookrunners and the Public Offer Underwriters that within the first twelve months from the Listing Date, he or it will:

(i) when he or it pledges or charges any securities or interests in the securities of our Company beneficially owned by him or it directly or indirectly, immediately inform our Company and the Joint Bookrunners in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and

(ii) when he or it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Joint Bookrunners in writing of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of the matters above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement.

The Placing

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with our Controlling Shareholders, our executive Directors, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

Our Company is expected to grant to the Joint Bookrunners (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Joint Bookrunners at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Public Offer, to require our Company to allot and issue up to an aggregate of 30,000,000 additional Shares representing 15% of the number of Offer Shares initially offered under the Share Offer, at the same price per Share under the Placing to cover over-allocations (if any) in the Placing, and/or the obligations of the Joint Bookrunners (for and on behalf of the Placing Underwriters) to return Shares which it may have borrowed under the Stock Borrowing Agreement.

Commissions and expenses

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive an underwriting commission of 5.0% of the aggregate Offer Price in respect of all the Public Offer Shares. We expect to pay an underwriting commission of 5.0% of the aggregate Offer Price in respect of all the Placing Shares (including shares to be issued pursuant to the Over-allotment Option). No incentive fee shall be payable to the Underwriters by our Company or any other parties. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fees, the SFC transaction levy, the FRC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer, is currently estimated to be approximately HK$35.9 million in aggregate (based on an Offer Price of HK$0.65 per Offer Share, being the mid-point of the indicative Offer Price range of HK$0.63 per Offer Share and HK$0.67 per Offer Share and the assumption that the Over-allotment Option is not exercised) and are payable by our Company with reference to the number of Offer Shares under the Share Offer respectively.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sponsor will receive a sponsorship fee to the Share Offer. The Underwriters will receive an underwriting commission. Particulars of the underwriting commission are set forth under the paragraph headed "Commission and expenses" above.

We have appointed Grande Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

Save for their obligations under the Underwriting Agreements, and as disclosed above, none of the Sponsor or the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Share Offer.

INDEPENDENCE OF THE SPONSOR

Grande Capital, being the Sponsor, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

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

THE SHARE OFFER

The Share Offer consists of (subject to reallocation and the Over-allotment Option):

- the Public Offer of 20,000,000 Shares (subject to reallocation as mentioned below) as described under the section headed "Structure and Conditions of the Share Offer — The Public Offer" in this prospectus; and

- the Placing of 180,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) as described under the section headed "Structure and conditions of the Share Offer — The Placing" in this prospectus.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the section headed "Structure and Conditions of the Share Offer — Pricing and Allocation" in this prospectus.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK$0.67 per Offer Share and is expected to be not less than HK$0.63 per Offer Share, unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK$0.67 per Public Offer Share plus 1.0% brokerage, a 0.0027% SFC transaction levy, a 0.00015% FRC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK$2,707.00 for one board lot of 4,000 Shares. If the Offer Price as finally determined in the manner described below, is less than HK$0.67 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about Wednesday, 22 June 2022

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Friday, 24 June 2022 and in any event, no later than Monday, 27 June 2022.

If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Monday, 27 June 2022, the Share Offer will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

The Joint Bookrunners (on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause them to be published on the website of our Company and the website of the Stock Exchange notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Joint Bookrunners (on behalf of the other Underwriters), will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set forth in this prospectus, and any other financial information which may change as a result of any such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Public Offer was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications.

In the absence of any such notice and supplemental prospectus so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Bookrunners (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10%

of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Bookrunners.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

The final Offer Price, the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocations of Offer Shares under the Public Offer are expected to be announced on Wednesday, 29 June 2022 on the website of our Company and the website of the Stock Exchange.

Allocation

The Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters).

Allocation of the Placing Shares pursuant to the Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Wednesday, 29 June 2022 on the Stock Exchange's website and on our Company's website.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/ Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied through **eWhite Form** service will be made available through a variety of channels as described in the section headed "How to apply for Public Offer Shares — 11. Publication of results" in this prospectus.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer (including the Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause the notice of the lapse of the Public Offer to be published on the Stock Exchange's website and on our Company's website on the next day following such lapse.

Share certificates for the Offer Shares are expected to be issued on Wednesday, 29 June 2022 but will only become valid evidence of title at 8:00 a.m. on Thursday, 30 June 2022, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" in this prospectus has not been exercised.

THE PUBLIC OFFER

Number of Shares initially offered

Our Company is initially offering 20,000,000 Public Offer Shares at the Offer Price, representing 10% of the 200,000,000 Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of the total issued share capital of our

Company immediately after completion of the Share Offer, (assuming that the Over-allotment Option is not exercised). The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors. Completion of the Public Offer is subject to the conditions as set out in the section headed "Structure and Conditions of the Share Offer — Conditions of the Public Offer" above.

Allocation

For allocation purposes only, the Public Offer Shares initially being offered for subscription under the Public Offer (after taking into account any adjustment in the number of Offer Shares allocated between the Public Offer and the Placing) will be divided equally into two pools. Pool A will comprise 10,000,000 Public Offer Shares and Pool B will comprise 10,000,000 Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares with a total amount (excluding brokerage fee, SFC transaction levy, FRC transaction levy and Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 10,000,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares).

Allocation of the Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Reallocation

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Public Offer to a certain percentage of the total number of Offer Shares offered under the Share Offer if certain prescribed total demand levels are reached. In the event of over-subscription under the Public Offer to certain prescribed total demand levels and that the Placing are fully subscribed or oversubscribed, the Joint Bookrunners (for themselves and on behalf of the Underwriters) shall apply a clawback mechanism according to paragraph 4.2 of Practice Note 18 of the Listing Rules following the closing of the application lists as follows (the "**Mandatory Reallocation**"):

(i) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 40,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 60,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option);

(ii) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 60,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 80,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option); and

(iii) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 80,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 100,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Over-allotment Option).

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters). Subject to the foregoing paragraph, the Joint Bookrunners may in its discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In addition, if the Public Offer is not fully subscribed for, the Joint Bookrunners (for themselves and on behalf of the Underwriters) has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate.

In addition to any Mandatory Reallocation which may be required, the Joint Bookrunners (for themselves and on behalf of the Underwriters) may, at its discretion, reallocate the Offer Shares initially allocated for the Placing to the Public Offer to satisfy valid applications in pool A and pool B under the Public Offer in accordance with Guidance Letter HKEX-GL-91-18. In the event that (i) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Public Offer Shares initially available under the Public Offer provided that the Offer Price would be set at HK$0.63 (low-end of the indicative Offer Price range), up to 20,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing twice of the number of the Offer Shares initially available under the Public Offer (before any exercise of the Over-allotment Option).

Applications

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or if such applicant has been or will be placed or allocated Offer Shares under the Placing.

References in this prospectus to applications, the **GREEN** Application Form, application monies or to the procedure for application relate solely to the Public Offer.

THE PLACING

Number of Offer Shares offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered for subscription under the Placing will be 180,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Share Offer. The Placing is subject to the Public Offer being unconditional.

Allocation

Pursuant to the Placing, the Placing Underwriter will conditionally place the Placing Shares with institutional, professional and other investors expected to have a sizeable demand for the Placing Shares in Hong Kong. Allocation of Placing Shares pursuant to the Placing will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and allocation" above.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the Joint Bookrunners (for and on behalf of the Placing Underwriters) the Over-allotment Option, exercisable by the Joint Bookrunners at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging applications under the Public Offer. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to allot and issue up to 30,000,000 Shares, representing 15% of the number of Offer Shares initially available under the Share Offer, at the Offer Price.

STOCK BORROWING AGREEMENT

The Stabilising Manager, or any person acting for it may choose to borrow 30,000,000 Shares from City Ease under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

— such stock borrowing arrangement with City Ease will only be effected by the Stabilising Manager for settlement of over-allocations in the Placing and covering any short position prior to the exercise of the Over-allotment Option;

— the maximum number of Shares borrowed from City Ease under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option;

— the same number of Shares so borrowed must be returned to City Ease or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full and the relevant over-allocation shares have been allocated, and (iii) such earlier time as the parties may from time to time agree in writing;

— the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and

— no payment will be made to City Ease by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

STABILISATION AND OVER-ALLOTMENT

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely, 30,000,000 Shares, which is 15% of the number of Offer Shares initially available under the Share Offer.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;

- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;

- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day falling within 30 days after the last date for lodging applications under the Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period. Such stabilisation action, if commenced, may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws, rules and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO.

In connection with the Share Offer, the Stabilising Manager may over-allocate up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Stabilising Manager may borrow up to 30,000,000 Shares from City Ease, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 30 June 2022, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 30 June 2022. The Shares will be traded in board lots of 4,000 Shares.

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Share Offer. We will not provide any printed copies of this prospectus or any application forms to the public in relation to the Share Offer.

This prospectus is available at the website of the Stock Exchange at **www.hkexnews.hk** under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at **www.weiliholdings.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (WUMP) Ordinance. Set out below are procedures through which you can apply for the Public Offer Shares electronically. We will not provide any physical channels to accept any application for the Public Offer Shares by the public.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any questions about the application for the Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at +852 2153 1688 on the following dates and times:

Friday, 17 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Monday, 20 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Tuesday, 21 June 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Wednesday, 22 June 2022	**—**	**9:00 a.m. to 12:00 noon**

1. HOW TO APPLY

To apply for the Public Offer Shares, you may:

(1) apply online through the **eWhite Form** service at **www.ewhiteform.com.hk**;

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

(a) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf; or

(b) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System **(https://ip.ccass.com)** or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for

Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Public Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(a) or (2)(b) above, the Public Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the Sponsor and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States and not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **eWhite Form** for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;

- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

Items Required for the Application

If you apply for the Public Offer Shares online through the **eWhite Form** service, you must:

— have a valid Hong Kong identity card number; and

— provide a valid e-mail address and a contact telephone number.

If you are applying for the Public Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus, the **GREEN** Application From and on the designated website under the **eWhite Form** service, and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) agree that none of our Company, the Sponsor, the Joint Bookrunners, the Public Offer Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not participated in the Placing nor applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Joint Bookrunners, the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or as a result of any action arising from your rights and obligations under the terms and conditions set out in this prospectus and on the designated website under the **eWhite Form** service;

(x) agree that once your application has been accepted, you may not rescind it because of innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or through the **eWhite Form** service by you or by anyone as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **eWhite Form** service or the **CCASS EIPO** service must be for a minimum of 4,000 Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

Number of Public Offer Shares applied for	**Amount payable on application** *HK$*	**Number of Public Offer Shares applied for**	**Amount payable on application** *HK$*	**Number of Public Offer Shares applied for**	**Amount payable on application** *HK$*
4,000	2,707.00	80,000	54,140.21	1,000,000	676,752.60
8,000	5,414.02	100,000	67,675.26	1,200,000	812,103.12
12,000	8,121.03	120,000	81,210.31	1,400,000	947,453.64
16,000	10,828.05	140,000	94,745.36	1,600,000	1,082,804.15
20,000	13,535.05	160,000	108,280.41	1,800,000	1,218,154.67
24,000	16,242.05	180,000	121,815.47	2,000,000	1,353,505.19
28,000	18,949.08	200,000	135,350.52	3,000,000	2,030,257.79
32,000	21,656.08	300,000	203,025.78	4,000,000	2,707,010.38
36,000	24,363.10	400,000	270,701.04	6,000,000	4,060,515.57
40,000	27,070.10	600,000	406,051.55	8,000,000	5,414,020.76
60,000	40,605.16	800,000	541,402.07	10,000,000(1)	6,767,525.95

(1) Maximum number of Public Offer Shares you may apply for.

No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH EWHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "2. Who Can Apply" above in this section may apply through the **eWhite Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at **www.ewhiteform.com.hk**.

Detailed instructions for application through the **eWhite Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **eWhite Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **eWhite Form** service.

Time for Submitting Applications under the eWhite Form service

You may submit your application to the **eWhite Form** Service Provider on the designated website at **www.ewhiteform.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 17 June 2022 until 11:30 a.m. on Wednesday, 22 June 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 22 June 2022 or such later time under the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" below in this section.

No Multiple Applications

If you apply by means of the **eWhite Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **eWhite Form** service to make an application for the Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving **electronic application instructions** under the **eWhite Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **eWhite Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS phone system by calling +852 2979 7888 or through the CCASS Internet system **(https://ip.ccass.com)** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners, the Sponsor and our Hong Kong Branch Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Sponsor and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures set out in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions)** to observe and comply with the Companies (WUMP) Ordinance, the Companies Ordinance, the Companies Act and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions[1]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 17 June 2022	**—**	**9:00 a.m. to 8:30 p.m.**
Monday, 20 June 2022	**—**	**8:00 a.m. to 8:30 p.m.**
Tuesday, 21 June 2022	**—**	**8:00 a.m. to 8:30 p.m.**
Wednesday, 22 June 2022	**—**	**8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 17 June 2022 until 12:00 noon on Wednesday, 22 June 2022 (24 hours daily, except on Wednesday, 22 June 2022, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 22 June 2022, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" below in this section.

[1] These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E) of the Companies (WUMP) Ordinance).

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal information collection statement

This Personal Information Collection Statement informs applicant for, and holder of, the Public Offer Shares, of the policies and practices of the Company and its Hong Kong Branch Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Public Offer Shares to supply correct personal data to the Company or its agents and the Hong Kong Branch Share Registrar when applying for the Public Offer Shares or transferring the Public Offer Shares into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for the Public Offer Shares being rejected, or in delay or the inability of the Company or its Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Public Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Public Offer Shares inform the Company and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

(a) processing your application and refund cheque, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Public Offer Shares;

(b) compliance with applicable laws and regulations in Hong Kong and elsewhere;

(c) registering new issues or transfers into or out of the names of the holders of the Company's Shares including, where applicable, HKSCC Nominees;

(d) maintaining or updating the Company's Register of Members;

(e) verifying identities of the holders of the Company's Shares;

(f) establishing benefit entitlements of holders of the Company's Shares, such as dividends, rights issues, bonus issues, etc.;

(g) distributing communications from the Company and its subsidiaries;

(h) compiling statistical information and profiles of the holder of the Company's Shares;

(i) disclosing relevant information to facilitate claims on entitlements; and

(j) any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Branch Share Registrar to discharge their obligations to holders of the Company's Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by the Company and its Hong Kong Branch Share Registrar relating to the holders of the Public Offer Shares will be kept confidential but the Company and its Hong Kong Branch Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

(a) the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;

(b) where applicants for the Public Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;

(c) any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Branch Share Registrar in connection with their respective business operation;

(d) the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and

(e) any persons or institutions with which the holders of the Public Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

The Company and its Hong Kong Branch Share Registrar will keep the personal data of the applicants and holders of the Public Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Public Offer Shares have the right to ascertain whether the Company or the Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or the Company's Hong Kong Branch Share Registrar for the attention of the privacy compliance officer.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **eWhite Form** service is also only a facility provided by the **eWhite Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS phone system/CCASS Internet system for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 22 June 2022, the last day for applications, or such later time as described in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this section.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application by giving **electronic application instructions** to HKSCC or through **eWhite Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE OFFER SHARES

You must pay the maximum Offer Price, brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee in full upon application for Shares.

You may submit an application through the **eWhite Form** service in respect of a minimum of 4,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the paragraph headed "4. Minimum Application Amount and Permitted Numbers" in this section, or otherwise specified on the designated website at **www.ewhiteform.com.hk.**

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC and in the case of the FRC transaction levy, collected by the Stock Exchange on behalf of the FRC).

For further details on the Offer Price, see the paragraph headed "Structure and Conditions of the Share Offer — Pricing and allocation" in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; or
- an announcement of Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 22 June 2022 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 29 June 2022 on our Company's website at **www.weiliholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and dates and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.weiliholdings.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Wednesday, 29 June 2022;

- from the designated results of allocations website at **www.ewhiteform.com.hk/results** or with a "search by ID" function on a 24-hour basis from 9:00 a.m. on Wednesday, 29 June 2022 to 12:00 midnight on Tuesday, 5 July 2022;

- by telephone enquiry line by calling +852 2153 1688 between 9:00 a.m. and 6:00 p.m. from Wednesday, 29 June 2022 to Tuesday, 5 July 2022 on a Business Day (excluding Saturday and Sunday or public holiday in Hong Kong);

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or through the **eWhite Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your **electronic application instructions** through the **eWhite Form** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.ewhiteform.com.hk**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 10,000,000 Public Offer Shares offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$0.67 per Offer Share (excluding brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee thereon), the conditions of the Public Offer are not fulfilled in accordance with the paragraph headed "Structure and Conditions of the Share Offer — Conditions of the Public Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 29 June 2022.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 29 June 2022. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 30 June 2022 provided that the Share Offer has become unconditional and the right of termination set out in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply through the eWhite Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2022, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 29 June 2022 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(ii) If you apply through CCASS EIPO service

Allocation of Offer Shares

For the purposes of allocating Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 29 June 2022, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "Publication of results" above on Wednesday, 29 June 2022. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June 2022 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS Internet system (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 29 June 2022. Immediately following the credit of the Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 29 June 2022.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WEILI HOLDING LIMITED AND GRANDE CAPITAL LIMITED

Introduction

We report on the historical financial information of WEIli Holdings Limited (the ''Company'') and its subsidiaries (together, the ''Group'') set out on pages I-4 to I-64, which comprises the consolidated statements of financial position as at 31 December 2019, 2020 and 2021, the statement of financial position of the Company as at 31 December 2021 and, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 (the ''Track Record Period'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages I-4 to I-64 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 17 June 2022 (the ''Prospectus'') in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2021 and the consolidated financial position of the Group as at 31 December 2019, 2020 and 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period. No dividends have been paid by the Company since its date of incorporation in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
17 June 2022

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (''Underlying Financial Statements'').

The Historical Financial Information is presented in Renminbi (''RMB'') and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(a) Consolidated Statements of Comprehensive Income

		Year ended 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	312,800	318,346	370,311
Cost of sales	*6*	(247,050)	(248,236)	(288,522)
Gross profit		65,750	70,110	81,789
Selling expenses	*6*	(8,133)	(7,153)	(10,123)
Administrative expenses	*6*	(16,985)	(15,700)	(32,389)
Net impairment (losses)/reversal of impairment on financial assets	*3.1.2*	(2,041)	(1,755)	474
Other income	*8*	1,549	3,347	1,972
Other gains — net	*9*	44	451	100
Operating profit		40,184	49,300	41,823
Finance income		214	236	1,070
Finance costs		(1,361)	(1,171)	(825)
Finance (costs)/income — net	*10*	(1,147)	(935)	245
Profit before income tax		39,037	48,365	42,068
Income tax expense	*11*	(4,740)	(6,194)	(6,381)
Profit for the year		34,297	42,171	35,687
Other comprehensive income for the year		—	—	—
Total comprehensive income for the year attributable to				
Owners of the Company		34,297	42,171	35,687
Profit attributable to				
Owners of the Company		34,297	42,171	35,687
Earnings per share attributable to the owners of the Company				
Basic and diluted (RMB)	*12*	34,297	42,171	35,687

(b) Consolidated Statements of Financial Position

		As at 31 December		
		2019	**2020**	**2021**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	30,220	27,328	24,362
Right-of-use assets	*15*	3,284	3,216	3,119
Intangible assets	*16*	388	258	133
Deferred income tax assets	*17*	812	1,061	993
Prepayment	*22*	58	—	—
		34,762	31,863	28,607
Current assets				
Inventories	*19*	40,701	37,438	50,099
Trade receivables	*20*	148,525	142,418	145,076
Bills receivable	*21*	32,600	9,228	—
Prepayments and other receivables	*22*	1,147	614	5,106
Amount due from a related party	*31(c)(ii)*	1,550	—	—
Restricted cash	*23(b)*	8,908	68,450	6,260
Cash and cash equivalents	*23(a)*	26,535	37,559	58,578
		259,966	295,707	265,119
Total assets		294,728	327,570	293,726

		As at 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY				
Equity attributable to owner of the Company				
Share capital	*24*	—	—	—
Other reserves	*25*	69,398	73,615	77,183
Retained earnings		31,103	29,567	23,814
Total equity		100,501	103,182	100,997
LIABILITIES				
Non-current liabilites				
Deferred income	*28*	1,752	1,710	1,668
Current liabilities				
Trade and other payables	*26*	149,416	199,632	128,258
Bank borrowings	*27*	24,545	21,532	10,017
Dividends payable	*31(c)(i)*	17,401	—	37,872
Lease liabilities	*15*	42	—	43
Amounts due to related parties	*31(c)(iii)*	—	—	13,051
Current income tax liabilities		1,071	1,514	1,820
		192,475	222,678	191,061
Total liabilities		194,227	224,388	192,729
Total equity and liabilities		294,728	327,570	293,726
Net current assets		67,491	73,029	74,058

(c) Statement of Financial Position of the Company

	Note	As at 31 December 2021
		RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	*32*	84,728
Current assets		
Prepayments	*22*	3,760
Total assets		88,488
LIABILITIES		
Current liabilities		
Other payables	*26*	1,851
Amount due to a related party		5,496
Amount due to a subsidiary		9,023
Total liabilities		16,370
EQUITY		
Equity attributable to owner of the Company		
Share capital	*24*	—
Other reserves	*25*	84,728
Accumulated losses		(12,610)
Total equity		72,118
Total equity and liabilities		88,488
Net current liabilities		12,610

(d) Consolidated Statements of Changes in Equity

	Attributable to the owners of the Company			
	Share capital *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
As at 1 January 2019	—	65,968	42,766	108,734
Comprehensive income				
— Profit for the year	—	—	34,297	34,297
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	34,297	34,297
Appropriation to statutory reserve *(Note 25)*	—	3,430	(3,430)	—
Dividends *(Note 13)*	—	—	(42,530)	(42,530)
As at 31 December 2019	—	69,398	31,103	100,501
As at 1 January 2020	—	69,398	31,103	100,501
Comprehensive income				
— Profit for the year	—	—	42,171	42,171
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	42,171	42,171
Appropriation to statutory reserve *(Note 25)*	—	4,217	(4,217)	—
Dividends *(Note 13)*	—	—	(39,490)	(39,490)
As at 31 December 2020	—	73,615	29,567	103,182
As at 1 January 2021	—	73,615	29,567	103,182
Comprehensive income				
— Profit for the year	—	—	35,687	35,687
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	35,687	35,687
Loan capitalisation *(Note 31(b))*	—	74,693	—	74,693
Deemed distributions to the shareholders of the Company *(Note 25(d))*	—	(74,693)	—	(74,693)
Appropriation to statutory reserve *(Note 25)*	—	3,568	(3,568)	—
Dividends *(Note 13)*	—	—	(37,872)	(37,872)
As at 31 December 2021	—	77,183	23,814	100,997

(e) Consolidated Statements of Cash Flows

		Year ended 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	*29(a)*	28,898	76,534	33,565
Interest received		214	236	1,070
Income tax paid		(4,697)	(6,000)	(6,007)
Net cash generated from operating activities		24,415	70,770	28,628
Cash flows from investing activities				
Assets-related government grants received	*28*	1,005	—	—
Proceeds from disposal of property, plant and equipment		283	—	1,004
Purchase of property, plant and equipment		(2,569)	(555)	(1,275)
Purchase of financial assets at fair value through profit or loss ("FVPL")		(8,000)	(169,100)	(215,000)
Proceeds from disposal of financial assets at FVPL		8,000	169,100	215,000
Dividend income from financial assets at FVPL	*9*	22	448	308
Net cash (used in)/generated from investing activities		(1,259)	(107)	37
Cash flows from financing activities				
Loan received from shareholders	*31(b)*	—	—	82,261
Deemed distributions to the shareholders of the Company	*25(d)*	—	—	(74,693)
Proceeds from bank borrowings		31,500	21,500	15,000
Repayments of bank borrowings		(16,500)	(24,500)	(26,500)
Interest paid on bank borrowings		(1,330)	(1,183)	(840)
Dividends paid		(33,771)	(55,341)	—
Payment of lease liabilities		(75)	(114)	(4)
Interest paid on lease liabilities		(2)	(1)	—
Payment for listing expenses		—	—	(2,911)
Net cash used in financing activities		(20,178)	(59,639)	(7,687)
Net increase in cash and cash equivalents		2,978	11,024	20,978
Cash and cash equivalents at beginning of the year		23,557	26,535	37,559
Exchange differences on cash and cash equivalents		—	—	41
Cash and cash equivalents at end of the year		26,535	37,559	58,578

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

WEIli Holdings Limited (the "Company") was incorporated in the Cayman Islands on 21 April 2021 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in manufacturing and sales of cigarette packaging paper (the "Listing Business") in the People's Republic of China (the "PRC").

The directors consider City Ease Limited ("City Ease"), a company incorporated in the British Virgin Islands (the "BVI"), as the ultimate holding company of the Group and Mr. Chen Weizhuang ("Mr. Chen" or the "Controlling Shareholder") as the ultimate controlling shareholder of the Company.

1.2 Reorganisation

Prior to the Reorganisation (as defined below) and during the Track Record Period, the Listing Business was operated by Hubei Qiangda Packaging Industry Co., Ltd. ("Hubei Qiangda"), a limited liability company incorporated in the PRC. Hubei Qiangda was owned by the following persons prior to the Reorganisation and their respective percentage of interest is as follows:

Name of shareholders	Equity interest in %
Mr. Chen	56.5%
Mr. Yu Tianbing ("Mr. Yu")	16.0%
Mr. Hu Haoran ("Mr. Hu")	11.0%
Mr. Wu Bo ("Mr. Wu")	7.0%
Mr. Lu Shunhe ("Mr. Lu")	5.5%
Mr. Lin Huan ("Mr. Lin")	4.0%
	100.0%

In preparation for the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent a reorganisation (the "Reorganisation") to establish the Company as the ultimate holding company of the Listing Business. Details of the Reorganisation are set out below:

1.2.1 Incorporation of City Ease, Yong Ning Limited ("Yong Ning") and Enlighten East Limited ("Enlighten East")

On 31 March 2021, City Ease was incorporated in the BVI with limited liability. On 16 April 2021, City Ease allotted and issued 1 share with a par value of United States Dollars ("USD") 1 as fully paid to Mr. Chen. City Ease then became wholly-owned by Mr. Chen.

On 4 January 2021, Yong Ning was incorporated in the BVI with limited liability. On 16 April 2021, Yong Ning allotted and issued 1 share with a par value of USD1 as fully paid to Mr. Yu. Yong Ning then became wholly-owned by Mr. Yu.

On 8 December 2020, Enlighten East was incorporated in the BVI with limited liability. On 16 April 2021, Enlighten East allotted and issued 3,266 shares, 2,857 shares, 2,244 shares and 1,633 shares with a par value of USD 1 each as fully paid to Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin, respectively, and all the issued shares of Enlighten East were owned as to 32.66% by Mr. Hu, 28.57% by Mr. Wu, 22.44% by Mr. Lu and 16.33% by Mr. Lin, respectively.

1.2.2 Incorporation of the Company

On 21 April 2021, the Company was incorporated in the Cayman Islands with one subscriber share allotted and issued. On the same date, the subscriber share of the Company was transferred to City Ease for a consideration of Hong Kong dollar ("HKD") 0.01, and the Company further allotted and issued 564 shares, 160 shares and 245 shares as fully paid to City Ease, Yong Ning and Enlighten East, respectively. After such allotment and issue of shares, the Company was owned as to approximately 58.25% by City Ease, 16.49% by Yong Ning and 25.26% by Enlighten East.

1.2.3 Incorporation of an offshore subsidiary in the BVI

On 29 March 2021, Shengxi Global Limited ("Shengxi Global") was incorporated in the BVI. On 23 April 2021, Shengxi Global allotted and issued 1 share with a par value of USD 1, credited as fully paid to the Company. Shengxi Global then became a wholly-owned subsidiary of the Company.

1.2.4 Incorporation of an offshore subsidiary in Hong Kong

On 30 April 2021, Hong Kong WEIli Holdings Limited ("Hong Kong WEIli") was incorporated in Hong Kong. On the same date, Hong Kong WEIli allotted and issued 1 share as fully paid to Shengxi Global. Hong Kong WEIli then became a wholly-owned subsidiary of Shengxi Global.

1.2.5 Acquisition of equity interest in Hubei Qiangda by Mr. Lam Wing Chak Victor (the "Pre-IPO Investor" or "Mr. Lam")

On 12 April 2021, Mr. Hu and the Pre-IPO Investor entered into an equity transfer agreement, pursuant to which, the Pre-IPO Investor agreed to acquire 3.00% of equity interest in Hubei Qiangda from Mr. Hu at a consideration of RMB3,927,000. The consideration was agreed by the parties after arm's length commercial negotiation. Upon completion of the transfer, Hubei Qiangda became a foreign-invested enterprise, and its shares were owned as to 56.5% by Mr. Chen, 16% by Mr. Yu, 8% by Mr. Hu, 7% by Mr. Wu, 5.5% by Mr. Lu, 4% by Mr. Lin and 3% by the Pre-IPO Investor.

1.2.6 Acquisition of all equity interest of Hubei Qiangda by Hong Kong WEIli

On 6 May 2021, Hong Kong WEIli acquired all equity interest of Hubei Qiangda from Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and Mr. Lam, respectively, at an aggregate consideration of RMB77,000,000. The considerations were determined by taking into account the valuation of Hubei Qiangda as at 31 December 2020 prepared by an independent valuer. The considerations to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin were settled in cash and the consideration to Mr. Lam was settled by the Company allotting and issuing 30 shares with a par value of HKD0.01 each of the Company, credited as fully paid, to Mr. Lam.

Upon the completion of the Reorganisation on 6 May 2021, the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of company	Place and date of establishment	Registered/ Issued and paid-up capital	Principal activities and place of operation	Effective equity interest held as at 31 December 2019	2020	2021	Date of this report	Note
Directly owned								
Shengxi Global	BVI, 29 March 2021	USD1	Investment holding, BVI	—	—	100%	100%	(a)
Indirectly owned								
Hong Kong WEIli	Hong Kong, 30 April 2021	HKD1	Investment holding, Hong Kong	—	—	100%	100%	(a)
Hubei Qiangda* (湖北強大包裝實業有限公司)	PRC, 8 June 2011	RMB60,000,000	Manufacturing and sales of cigarette packaging paper, the PRC	—	—	100%	100%	(b)

* The English name of the PRC company referred to in this note represent management's best efforts in translating the Chinese name of this company as no English name has been registered or is available.

(a) No audited financial statements for the years ended 31 December 2019, 2020 and 2021 have been prepared as these companies were newly incorporated or there is no statutory audit requirement under the respective place of incorporation of the subsidiaries.

(b) The statutory financial statements of this subsidiary for the years ended 31 December 2019, 2020 and 2021 were audited by Wuhan Yinuozhicheng CPA Ltd ("Yinuozhicheng"), Yinuozhicheng and Hubei Chengxin CPA Ltd, respectively, which are certified public accountants in the PRC.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is mainly conducted through Hubei Qiangda under the control of Mr. Chen. Pursuant to the Reorganisation, Hubei Qiangda and the Listing Business are transferred to and held by a subsidiary newly set up by the Company.

The Company and its newly set up subsidiaries had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business with no change in management of such business and the ultimate controlling shareholder of the Listing Business remains the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under Hubei Qiangda and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the Listing Business conducted through Hubei Qiangda, with assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business for all periods presented.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with Hong Kong Financial Reporting Standards (''HKFRS'') issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the financial assets measured at fair value through other comprehensive income (''FVOCI'') and financial assets at FVPL which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

In preparing the Historical Financial Information, all effective HKFRSs, amendments to standards and interpretations, including but not limited to HKFRS 16 'Leases', which are mandatory for the financial year beginning on 1 January 2021, have been consistently applied by the Group throughout the Track Record Period.

2.1.1 New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published but are not mandatory for the Track Record Period and have not been early adopted by the Group.

		Effective for annual years beginning on or after
Accounting Guideline 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-Scope Amendments	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
Amendments to HKFRS 17	Amendments to HKFRS 17	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Hong Kong Interpretation 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Management is in the process of making an assessment of the impact of the above new standards, amendments to standards and interpretations and considered that these new standards, amendments to standards and interpretations will not result in any substantial changes to the Group's existing accounting policies and presentation of the Historical Financial Information of the Group.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (''CODM''). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (''the functional currency''). The Historical Financial Information are presented in RMB, which is the Company's presentation and functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs — net. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains — net.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On combination, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	5 – 20 years
Machinery	5 – 10 years
Motor vehicles	6 years
Electronic and other equipments	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and included in profit or loss.

2.6 Intangible assets

(i) Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 3 to 10 years based on the remaining using periods between the acquisition date and the expiry date for acquired patent rights.

(ii) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 5 years.

(iii) Research and development

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects (relating to the design and developing of new or improved products) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible;
- its intention to complete the intangible asset and use or sell it;
- its 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
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

During the Track Record Period, all research and development expenditures were recognised in the consolidated statements of comprehensive income as they did not meet the recognition criteria for capitalisation.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

2.8 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(iv) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) — net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses) — net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains — net and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net with other gains/(losses) — net in the period in which it arises.

(v) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value (either through other comprehensive income or through profit or loss). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

For trade receivables, the expected credit losses are determined based on the Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the Group's historical observed default rates and market credit loss rate are updated and changes in the forward-looking estimates are analysed.

For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. At every reporting date, the corresponding default rates are referred adjusted by considering forward-looking factors.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group company or the counterparty.

2.10 Trade and bills receivables

Trade and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and amounts due from issuing financial institutions in respect of bills received from customers to settle trade receivable, respectively. If collection of trade and bills receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and bills receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group holds bills receivable with the objective to collect contractual cash flows and to sell bills receivable and therefore measures them subsequently at fair value through OCI. See Note 20 and Note 21 for further information about the Group's accounting for trade and bills receivables and Note 2.8 and 3.1.2 for a description of the Group's impairment policies and impairment of trade and bills receivables.

2.11 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks with maturity date of less than 3 months.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.14 Trade and other payables and dividends payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables and dividends payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and dividends payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn-down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.18 Employee benefits

(i) Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligation in the consolidated statement of financial position.

(ii) Pension obligation

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iv) Housing fund, medical insurance and other social insurance

Employees of the subsidiary in the PRC are entitled to participate in various government-supervised housing fund, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(v) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to income are deferred and recognised in the profit or loss, separately as ''other income'', over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment or right-of-use assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.20 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of goods

Sales are recognised when control of the products has transferred, being when the products are delivered and accepted and there is no unfulfilled obligation that could affect the customers' acceptance of the products, either on delivery of the products when the products have been placed to the specific location, or when goods are delivered and quality inspected by a customer as the risks of obsolescence and loss are transferred to the customer after quality inspection performed by the customer.

Receivable is recognised when the goods are delivered and accepted, or quality inspected by customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

For sales to certain customers with a right of return, revenue is recognised after netting off the estimated sales return. Accumulated experience is used to estimate the return rate. A refund liabilities (included in trade and other payables) and a right to the returned goods (including in prepayments and other receivables) are recognised for the products expected to be refunded.

A contract liability is the obligation to transfer products to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers products to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group performs under the contract.

(ii) Processing service income

The Group provides processing services to certain customers. Processing service income is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in finance income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.23 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 Leases

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are depreciated over the lease periods of 50 years using the straight-line method. The Group's leasehold land payments meet the definition of right-of-use assets under HKFRS 16 and hence have been recognised as such.

Besides that, the Group leases various offices and a warehouse. Rental contracts for offices and the warehouse are typically made for fixed period of more than one year. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as right-of-use assets at the date at which the leased assets are available for use by the Group. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Historical Financial Information in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not use derivative financial instruments to hedge foreign exchange or other risk exposures.

3.1.1 Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group mainly operates in the PRC with majority of the transactions conducted in the functional currency of the respective group entity. The Directors consider the foreign currency risk arising from recognised assets and liabilities to be minimal. Accordingly, no sensitivity analysis is presented for foreign exchange risk. The Group did not hedge against any fluctuation in foreign currency. The Group timely monitors foreign exchange risk and will take measure to minimise foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates expose the Group to fair value interest rate risk.

For the years ended 31 December 2019, 2020 and 2021, if the interest rate on bank borrowings increased/decreased by 0.5% with all other variables held constant, the Group's post-tax profit for the year would have been approximately RMB83,000, RMB83,000 and RMB66,000 lower/higher, respectively.

During the Track Record Period, the Group did not enter into any interest rate swap to hedge its exposure to cash flow and fair value interest rate risk.

3.1.2 Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted cash, trade and bills receivables, amount due from a related party and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these assets in the consolidated statement of financial position.

(i) Impairment on cash and cash equivalents and restricted cash

Majority of the Group's cash and cash equivalents and restricted cash are placed in those banks incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. While cash and cash equivalents and restricted cash were also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial as the Group does not expect any losses from non-performance by these banks as they have no default history in the past.

(ii) Impairment on trade and bills receivables

In respect of trade and bills receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment, including but not limited to the economic impact of the unprecedented Corona Virus Disease 2019 ("COVID-19") pandemic, and other factors.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables.

To measure the expected credit losses of trade and bills receivables, trade and bills receivables having similar credit characteristic were grouped based on shared credit risk characteristics. For trade receivables, management collectively assessed the expected credit losses taking into account the history of bad debt losses and market credit loss rate, in respect of those groups of customers. For bills receivable, the expected credit losses were mainly assessed by taking into account the credit rating for issuing financial institutions.

Trade receivables have been grouped into two categories by the Group's management based on shared credit risk characteristics. Receivables from state-owned enterprises, collectively-owned enterprises and companies invested by state-owned or collectively-owned enterprises are grouped as one category and remaining receivables from other customers are classified as another category.

The Group has identified the Gross Domestic Product ("GDP") and Manufacturing Purchasing Managers Index of the PRC in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors, including but not limited to the economic impact of the unprecedented COVID-19 pandemic on the customers' and the regions in which they operate.

Trade receivables

The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for trade receivables:

	Current	**Up to 180 days past due**	**181 days to 1 year past due**	**1-2 years past due**	**2-3 years past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019						
Gross carrying amount — trade receivables	93,390	49,163	7,572	2,040	—	152,165
Expected loss rate	2.01%	2.21%	4.41%	16.72%	N/A	2.39%
Total loss allowance	1,880	1,085	334	341	—	3,640
As at 31 December 2020						
Gross carrying amount — trade receivables	116,061	29,375	1,266	952	86	147,740
Expected loss rate	3.11%	4.37%	5.69%	32.35%	61.63%	3.60%
Total loss allowance	3,604	1,285	72	308	53	5,322
As at 31 December 2021						
Gross carrying amount — trade receivables	129,287	19,668	1,042	—	—	149,997
Expected loss rate	3.21%	3.64%	4.80%	N/A	N/A	3.28%
Total loss allowance	4,156	715	50	—	—	4,921

As at 31 December 2019, 2020 and 2021, approximately 52%, 56% and 50% of the Group's net trade receivables were derived from top five customers.

Movements on the Group's allowance of impairment of trade receivables are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	1,609	3,640	5,322
Provision for/(reversal of) loss allowance	2,031	1,682	(401)
At end of the year	3,640	5,322	4,921

Bills receivable

The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for bills receivable:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount — current	32,600	9,300	—
Expected loss rate	0.00%	0.77%	N/A
Total loss allowance	—	72	—

As at 31 December 2019 and 2020, approximately 90% and 99% of the Group's net bills receivable was derived from top five issuing financial institutions, which are all recognised state-owned banks in the PRC.

Movements on the Group's allowance of impairment of bills receivable are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	72
Provision for/(reversal of) loss allowance	—	72	(72)
At the end of the year	—	72	—

(iii) Impairment on amount due from a related party and other receivables

For amount due from a related party and other receivables, the Group made periodic collective assessment as well as individual assessment on the recoverability based on past experience and forward-looking information including but not limited to the economic impact of the unprecedented COVID-19 pandemic, and other factors.

The Group's other receivables (excluding prepayments, right to the returned goods and recoverable of value added tax) were mainly refundable deposits. The directors were of the view that the expected credit losses are not material as historically they had no history of default and the debtors had a strong capacity to meet its contractual cash flow obligations in the near term.

No provision had been made for amount due from a related party as the directors considered the balance can be fully recovered. The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for other receivables:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount — current	904	509	1,236
Expected loss rate	1.57%	2.94%	1.16%
Total loss allowance	14	15	14

Movements on the Group's allowance of impairment of other receivables are as follows:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	4	14	15
Provision for/(reversal of) loss allowance	10	1	(1)
At the end of the year	14	15	14

Trade and bills receivables, amount due from a related party and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited to profit or loss. No written-off was made during the Track Record Period.

3.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances and the availability of funding through committed credit facilities and takes into account all available information on future business environment including among others, the economic impact of the unprecedential COVID-19 pandemic or other unforeseen crisis on the economies of the countries in which the Group and its customers and suppliers operate. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Total contractual cash flows — on demand or less than 1 year	Carrying amount
	RMB'000	*RMB'000*
As at 31 December 2019		
Bank borrowings	25,095	24,545
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	142,210	142,210
Lease liabilities	43	42
Dividends payable	17,401	17,401
	184,749	184,198
As at 31 December 2020		
Bank borrowings	22,089	21,532
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	188,688	188,688
	210,777	210,220

	Total contractual cash flows — on demand or less than 1 year	Carrying amount
	RMB'000	*RMB'000*
As at 31 December 2021		
Bank borrowings	10,337	10,017
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	121,711	121,711
Lease liabilities	48	43
Dividends payable	37,872	37,872
Amount due to related parties	13,051	13,051
	183,019	182,694

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, issue new shares or sell assets to reduce debts. The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total liabilities divided by total assets at the end of corresponding year. Besides, the Group's strategy, which was unchanged during the Track Record Period, was to maintain the gearing ratio within 80%.

The gearing ratio at 31 December 2019, 2020 and 2021 were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	194,227	224,388	192,729
Total assets	294,728	327,570	293,726
Gearing ratio	66%	69%	66%

3.3 Fair value estimation

The Group's financial instruments are carried at fair value as at the end of the reporting period, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of each reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no transfers between levels 1, 2 and 3 during the Track Record Period. The Group has no financial instruments in level 1.

(a) The financial instruments in level 2

The following table presented the financial instruments in level 2 as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Bills receivable measured at FVOCI *(Note 21)*	32,600	9,228	—

The fair value of financial instruments in level 2 (net of provision for impairment) was estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group for similar financial instruments.

(b) The financial instruments in level 3

The following table presented the changes in level 3 instruments as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	—
Additions	8,000	169,100	215,000
Disposals	(8,022)	(169,548)	(215,308)
Dividend income from financial assets at FVPL *(Note 9)*	22	448	308
At the end of the year	—	—	—

During the year ended 31 December 2019, 2020 and 2021, the Group's financial assets at FVPL represented certain non-capital protected wealth management products denominated in RMB and issued by reputable banks in the PRC which primarily invested in listed or unlisted securities and bonds. As these instruments were not traded in active market, their fair values were determined based on the expected rate of return on the Group's investment.

The following table summarises the quantitative information about the significant unobservable inputs used in fair value measurements of level 3 instruments:

Description	**Unobservable inputs**	**Range of inputs (probability weighted average)**	**Relationship of unobservable inputs to fair value**
Investment in wealth management products	Expected rate of return	1.80% — 3.10%	The higher the expected rate of return, the higher the fair value

If the expected rate of return of the fair values of financial assets at FVTPL held by the Group had increased/decreased 10%, the profit before income tax for the years ended 31 December 2019, 2020 and 2021 would have been approximately RMB2,000 higher/lower, RMB45,000 higher/lower and RMB31,000 higher/lower, respectively

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables and the expected lifetime losses are recognised from initial recognition of the assets. For trade receivables, the expected credit losses are determined based on the Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers or issuing financial institutions, actual or expected significant adverse changes in business and customers or issuing financial institutions' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers or issuing financial institutions and the regions in which they operate. At every reporting date, historical observed default rates and market credit loss rate are updated (for trade receivables) and the credit rating for issuing financial institutions (for bills receivable) and changes in the forward-looking estimates are analysed by the Group's management, see Note 3.1.2.

(b) Net realisable value of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

(c) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives. It will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

(d) Current and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimates are changed.

5 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in manufacturing and sales of cigarette packaging paper. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. The executive directors of the Company consider that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive directors for the purpose of resources allocation and performance assessment.

All of the businesses of the Group are carried out in the PRC during the Track Record Period. An analysis of the Group's revenue as well as timing of revenue recognition is as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Goods transferred at point in time			
— Sales of cigarette packaging paper	309,759	314,352	370,224
Services transferred over time			
— Processing service income	3,041	3,994	87
	312,800	318,346	370,311

During the years ended 31 December 2019, 2020 and 2021, revenue derived from customers who accounted for more than 10% of total revenue were set out below.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Customer 1	27%	29%	25%
Customer 2	11%	*	12%
Customer 4	*	13%	*
Customer 5	*	10%	15%
Customer 6	*	11%	14%

* This customer contributed less than 10% of total revenue for the corresponding year.

Unsatisfied performance obligation

The Group does not disclose information about remaining performance obligations as their original expected duration is less than one year as permitted under the practical expedient in accordance with HKFRS 15.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses were analysed as follow:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and goods used	242,675	245,166	287,335
Staff costs *(Note 7)*	12,120	10,376	12,140
Freight charges	4,645	4,105	5,302
Depreciation of property,plant and equipment and right-of-use assets *(Note 14, 15)*	3,268	3,337	3,337
Amortisation of intangible assets *(Note 16)*	130	130	125
Utilities	3,408	3,080	4,265
Travelling and entertainment expenses	2,383	2,076	2,990
Maintenance fees	996	698	368
Tax surcharges	1,220	856	965
Cost of security and cleaning	274	175	130
Office expense	281	312	439
Professional service fees	83	49	117
Short-term lease expenses *(Note 15)*	30	46	30
Listing expenses	—	—	12,700
Miscellaneous expenses	655	683	791
	272,168	271,089	331,034

Research and development expenses are included in "administrative expenses". Amounts incurred during the Track Record Period are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Research and development expenses	10,713	10,394	13,115

7 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages, bonuses and other benefits (a)	11,479	10,310	11,539
Pension costs — defined contribution plans (a)	641	66	601
	12,120	10,376	12,140

(a) Reduction of pension costs and other benefits

The government assistance have been implemented for the relief of the social insurance in respect of COVID-19. According to the notice issued by the Ministry of Social Affairs (2020) No. 11, in order to minimise the impact of the COVID-19 on social and economic development, the government has reduced the social security fees for medium-sized enterprises from February to December 2020.

(b) Directors' emoluments

The remuneration paid or payable to the executive directors of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) during the years ended 31 December 2019, 2020 and 2021 was as follows.

Name	Fees and bonus	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	250	21	271
	—	250	21	271
Year ended 31 December 2020				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	247	2	249
	—	247	2	249
Year ended 31 December 2021				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	260	19	279
	—	260	19	279

(i) Mr. Chen was appointed as director on 21 April 2021 and re-designated as executive director of the Company on 20 May 2021. He also serves as the chairman of the Board of the Company.

(ii) Mr. Yu was appointed as executive director of the Company on 19 July 2021. He is also the chief executive officer of the Group.

(iii) Mr Hu was appointed as non-executive director of the Company on 19 July 2021. Mr. Liu Yimin, Mr. Chen Yeung Tak and Ms. Feng Yuan were appointed as independent non-executive directors of the Company on 2 June 2022. During the years ended 31 December 2019, 2020 and 2021, the non-executive director and independent non-executive directors have not yet been appointed and did not receive directors' remuneration in the capacity of non-executive directors or independent non-executive directors.

(c) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries' undertaking during the years ended 31 December 2019, 2020 and 2021.

No payment was made to the directors as compensation for early termination of appointment during the years ended 31 December 2019, 2020 and 2021.

(d) Consideration provided to their parties for making available directors' services

No payment was made to any former employers of the directors for making available the services of them as a director of the Company during the years ended 31 December 2019, 2020 and 2021.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 December 2019, 2020 and 2021.

(f) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in the Note 31, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2019, 2020 and 2021.

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2019, 2020 and 2021 included one director, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals during the Track Record Period are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	1,039	1,046	1,295
Pension costs — defined contribution plans	50	4	46
	1,089	1,050	1,341

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 December		
	2019	**2020**	**2021**
Emolument bands			
Nil to HKD1,000,000	4	4	4

8 OTHER INCOME

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to income (a)	276	148	242
Sales of raw and waste materials, net	1,204	3,058	1,561
Amortisation of deferred income (b) and *(Note 28)*	22	42	42
Others	47	99	127
	1,549	3,347	1,972

(a) Government grants relating to income are deferred and recognised in the profit or loss over the period necessary to match them with the expenses that they are intended to compensate. The government grants related to income have been received were mainly to reward for the contribution to the local economic growth.

(b) Government grants relating to the purchase of land use right are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related asset.

9 OTHER GAINS — NET

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Other gains			
— Dividend income from financial assets at FVPL *(Note 3.3(b))*	22	448	308
— Gain on disposal of property,plant and equipment	12	—	4
— Exchange gains	—	—	54
— Others	10	3	75
	44	451	441
Other losses			
— Bank charges on bills receivable discounted to banks	—	—	(339)
— Others	—	—	(2)
	—	—	(341)
Other gains — net	44	451	100

10 FINANCE (COSTS)/INCOME — NET

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income on bank deposits and restricted cash	214	236	1,070
Finance costs			
— Interest expenses on bank borrowings	(1,359)	(1,170)	(825)
— Interest expenses on lease liabilities *(Note 15)*	(2)	(1)	—
	(1,361)	(1,171)	(825)
Finance (costs)/income — net	(1,147)	(935)	245

11 INCOME TAX EXPENSE

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— The PRC income tax	4,717	6,443	6,313
Deferred income tax *(Note 17)*	23	(249)	68
Income tax expense	4,740	6,194	6,381

(a) Cayman Islands and BVI profits tax

The Company is incorporated in the Cayman Islands as an exempted company and is not liable for taxation in the Cayman Islands. The Group's subsidiary incorporated in the BVI is also an exempted company and is not liable for taxation in the BVI.

(b) Hong Kong profits tax

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group did not have estimated assessable profit in Hong Kong during the Track Record Period.

(c) The PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding tax rates of the group company in Hong Kong is 10% after the completion of the Reorganisation (Note 1.2).

(d) The PRC Enterprise Income Tax

Subsidiary incorporated in the PRC has obtained the approvals to become a new and high-technology enterprise and are entitled to a preferential income tax rate of 15% on the estimated assessable profits for each of the Track Record Period.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The additional tax deducting amount of the qualified research and development expenses has been increased from 175% to 200% for manufacturing enterprises, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. The Group has considered the Super Deduction to be claimed for the Group entities in ascertaining their assessable profits during the Track Record Period.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of a PRC subsidiary as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Tax calculated at the preferential tax rate of 15%	5,856	7,255	6,310
Expenses not deductible for tax purposes	93	88	2,038
Super deduction for research and development expenses	(1,209)	(1,149)	(1,967)
	4,740	6,194	6,381

12 EARNINGS PER SHARE

(a) Basic earnings per share

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to owner of the Company *(RMB'000)*	34,297	42,171	35,687
Weighted average number of ordinary shares in issue *(thousand) (Note)*	1	1	1
Basic earnings per share *(in RMB)*	34,297	42,171	35,687

Note: In determining the weighted average number of ordinary shares, the 1,000 shares issued by the Company in 2021 was treated as if they had been in issue since 1 January 2019. The earnings per share calculation has not taken into account the proposed capitalisation issue of 599,999,000 shares pursuant to the written resolution passed by the shareholders on 2 June 2022 because the proposed capitalisation issue has not become effective as of the date of this report.

(b) Diluted earnings per share

For the years ended 31 December 2019, 2020 and 2021, the Company had no dilutive potential shares. Accordingly, diluted earnings per share for the years ended 31 December 2019, 2020 and 2021 are the same as basic earnings per share.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

Dividends during the years ended 31 December 2019, 2020 and 2021 represented dividends declared by the companies now comprising the Group to the then shareholders of the companies for the years ended 31 December 2019, 2020 and 2021. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Dividends declared	42,530	39,490	37,872

14 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	**Machinery**	**Motor vehicles**	**Electronic and other equipments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019					
Cost	17,484	23,981	406	1,220	43,091
Accumulated depreciation	(2,604)	(4,936)	(32)	(425)	(7,997)
Impairment	—	(3,171)	—	—	(3,171)
Net book amount	14,880	15,874	374	795	31,923
Year ended 31 December 2019					
Opening net book amount	14,880	15,874	374	795	31,923
Additions	1,416	104	74	98	1,692
Disposals	—	(271)	—	—	(271)
Depreciation	(1,043)	(1,766)	(93)	(222)	(3,124)
Closing net book amount	15,253	13,941	355	671	30,220
At 31 December 2019					
Cost	18,900	17,731	480	1,318	38,429
Accumulated depreciation	(3,647)	(3,790)	(125)	(647)	(8,209)
Net book amount	15,253	13,941	355	671	30,220

	Buildings	Machinery	Motor vehicles	Electronic and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020					
Opening net book amount	15,253	13,941	355	671	30,220
Additions	136	25	—	144	305
Depreciation	(1,090)	(1,773)	(103)	(231)	(3,197)
Closing net book amount	14,299	12,193	252	584	27,328
At 31 December 2020					
Cost	19,036	17,756	480	1,462	38,734
Accumulated depreciation	(4,737)	(5,563)	(228)	(878)	(11,406)
Net book amount	14,299	12,193	252	584	27,328
Year ended 31 December 2021					
Opening net book amount	14,299	12,193	252	584	27,328
Additions	—	1,174	22	67	1,263
Disposals	—	(1,000)	—	—	(1,000)
Depreciation	(1,099)	(1,779)	(106)	(245)	(3,229)
Closing net book amount	13,200	10,588	168	406	24,362
At 31 December 2021					
Cost	19,036	17,930	502	1,512	38,980
Accumulated depreciation	(5,836)	(7,342)	(334)	(1,106)	(14,618)
Net book amount	13,200	10,588	168	406	24,362

As at 31 December 2019 and 2020, buildings with net book value of approximately RMB15,253,000 and RMB14,299,000, respectively, were pledged to secure bank borrowings of the Group (Note 27).

As at 31 December 2021, buildings with net book value of approximately RMB13,200,000 were pledged to secure bank borrowings and bills payable of the Group (Note 26 and Note 27).

Depreciation of the property, plant and equipment was charged to profit or loss as follows:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	2,391	2,452	2,479
Selling expenses	8	8	7
Administrative expenses	538	550	553
Research and development expenses	187	187	190
	3,124	3,197	3,229

15 RIGHT-OF-USE ASSETS — GROUP

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statements of financial position

	Leasehold land use right *RMB'000*	Offices *RMB'000*	Warehouse *RMB'000*	Total *RMB'000*
At 1 January 2019				
Cost	3,818	128	—	3,946
Accumulated depreciation	(511)	(64)	—	(575)
Net book amount	3,307	64	—	3,371
Year ended 31 December 2019				
Opening net book amount	3,307	64	—	3,371
Additions	—	57	—	57
Depreciation	(77)	(67)	—	(144)
Closing net book amount	3,230	54	—	3,284
At 31 December 2019				
Cost	3,818	185	—	4,003
Accumulated depreciation	(588)	(131)	—	(719)
Net book amount	3,230	54	—	3,284
Year ended 31 December 2020				
Opening net book amount	3,230	54	—	3,284
Additions	—	72	—	72
Depreciation	(77)	(63)	—	(140)
Closing net book amount	3,153	63	—	3,216
At 31 December 2020				
Cost	3,818	257	—	4,075
Accumulated depreciation	(665)	(194)	—	(859)
Net book amount	3,153	63	—	3,216

	Leasehold land use right *RMB'000*	Offices *RMB'000*	Warehouse *RMB'000*	Total *RMB'000*
Year ended 31 December 2021				
Opening net book amount	3,153	63	—	3,216
Additions	—	—	47	47
Contract termination	—	(36)	—	(36)
Depreciation	(77)	(27)	(4)	(108)
Closing net book amount	3,076	—	43	3,119
At 31 December 2021				
Cost	3,818	221	47	4,086
Accumulated depreciation	(742)	(221)	(4)	(967)
Net book amount	3,076	—	43	3,119

As at 31 December 2019 and 2020, leasehold land use right with net book value of approximately RMB3,230,000 and RMB3,153,000, respectively, were pledged to secure bank borrowings of the Group (Note 27).

As at 31 December 2021, leasehold land use right with net book value of approximately RMB3,076,000, were pledged to secure bank borrowings and bills payable of the Group (Note 26 and Note 27).

	As at 31 December		
	2019 *RMB'000*	**2020** *RMB'000*	**2021** *RMB'000*
Lease liabilities			
Current	42	—	43

(b) Amounts recognised in the consolidated statements of comprehensive income

	Year ended 31 December		
	2019 *RMB'000*	**2020** *RMB'000*	**2021** *RMB'000*
Depreciation charge of right-of-use assets			
Land use right	77	77	77
Offices	67	63	27
Warehouse	—	—	4
	144	140	108
Interest expense (included in finance cost) *(Note 10)*	2	1	—
Expense relating to short-term leases (included in cost of sales and selling expenses) *(Note 6)*	30	46	30

The total cash outflow for leases in the years ended 31 December 2019, 2020 and 2021 were approximately RMB107,000, RMB161,000, RMB34,000 respectively.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, a warehouse and land . Rental contracts for offices and the warehouse are typically made for fixed periods of more than one year. Rental contract for land is made for fixed periods of 50 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Besides leasehold land use right, other leased assets may not be used as security for borrowing purposes.

16 INTANGIBLE ASSETS — GROUP

	Computer software	Patents	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019			
Cost	174	423	597
Accumulated amortisation	(55)	(24)	(79)
Net book amount	119	399	518
Year ended 31 December 2019			
Opening net book amount	119	399	518
Amortisation	(35)	(95)	(130)
Closing net book amount	84	304	388
At 31 December 2019			
Cost	174	423	597
Accumulated amortisation	(90)	(119)	(209)
Net book amount	84	304	388
Year ended 31 December 2020			
Opening net book amount	84	304	388
Amortisation	(35)	(95)	(130)
Closing net book amount	49	209	258
At 31 December 2020			
Cost	174	423	597
Accumulated amortisation	(125)	(214)	(339)
Net book amount	49	209	258

	Computer software	Patents	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2021			
Opening net book amount	49	209	258
Amortisation	(35)	(90)	(125)
Closing net book amount	14	119	133
At 31 December 2021			
Cost	174	423	597
Accumulated amortisation	(160)	(304)	(464)
Net book amount	14	119	133

Amortisation of the intangible assets was charged to profit or loss as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Administrative expenses	35	35	35
Research and development expenses	95	95	90
	130	130	125

17 DEFERRED INCOME TAX — GROUP

(a) Deferred taxation is calculated on temporary differences under the liability method using the applicable income tax rate. No deferred tax assets and liabilities are offset as there were no balances of deferred income tax liabilities as at 31 December 2019, 2020 and 2021. The analysis of deferred income tax assets was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets			
— to be recovered within 12 months	9	2	5
— to be recovered after more than 12 months	803	1,059	988
	812	1,061	993

The net movements on the deferred income tax were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	835	812	1,061
(Charged)/credited to profit or loss	(23)	249	(68)
At the end of the year	812	1,061	993

(b) The movements in deferred income tax assets during the years ended 31 December 2019, 2020 and 2021, were as follows:

	Deferred income tax assets				
	Provision for loss allowance	**Impairment for property, plant and equipment**	**Deferred income**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	242	476	115	2	835
(Charged)/credited to profit or loss *(Note 11)*	306	(476)	148	(1)	(23)
At 31 December 2019 and 1 January 2020	548	—	263	1	812
(Charged)/credited to profit or loss *(Note 11)*	264	—	(7)	(8)	249
At 31 December 2020 and 1 January 2021	812	—	256	(7)	1,061
(Charged)/credited to profit or loss *(Note 11)*	(72)	—	(6)	10	(68)
At 31 December 2021	740	—	250	3	993

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on remittance of dividends in respect of profits earned by the Company's PRC subsidiary at the applicable tax rate of 10%.

As at 31 December 2021, deferred income tax liabilities of RMB3,651,000 have not been recognised for the withholding tax that would be payable on the unremitted earnings of RMB36,512,000 of subsidiary in the PRC based on the profits for the year ended 31 December 2021. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and the directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Group			
Financial assets			
Financial assets at amortised cost			
— Trade receivables	148,525	142,418	145,076
— Other receivables	890	494	1,222
— Cash and cash equivalents	26,535	37,559	58,578
— Restricted cash	8,908	68,450	6,260
— Amount due from a related party	1,550	—	—
Bills receivable measured at FVOCI	32,600	9,228	—
	219,008	258,149	211,136
Financial liabilities			
Financial liabilities at amortised cost			
— Bank borrowings	24,545	21,532	10,017
— Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	142,210	188,688	121,711
— Lease liabilities	42	—	43
—Amount due to related parties	—	—	13,051
—Dividends payable	17,401	—	37,872
	184,198	210,220	182,694

	As at 31 December 2021
	RMB'000
Company	
Financial liability	
Financial liability at amortised cost	
— Amount due to a related party	5,496
— Amount due to a subsidiary	9,023
— Other payables (excluding other tax payables and employee benefits payable)	1,851
	16,370

The Group's exposure to various risks associated with the financial instruments is described in Note 3. The maximum exposure to credit risk at the end of the reporting period was the carrying amount of each class of financial assets mentioned above.

19 INVENTORIES — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	10,778	14,202	13,506
Finished goods	29,840	23,038	36,315
Packaging materials and others	83	198	278
	40,701	37,438	50,099

Cost of inventories included in cost of sales and research and development expenses during the years ended 31 December 2019, 2020 and 2021 were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	245,804	246,798	287,843
Research and development expenses	8,245	7,913	10,787
	254,049	254,711	298,630

20 TRADE RECEIVABLES — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables (a)	152,165	147,740	149,997
Less: allowance for impairment (b)	(3,640)	(5,322)	(4,921)
Trade receivables — net	148,525	142,418	145,076

(a) The carrying amounts of trade receivables were denominated in RMB. The credit period for trade receivables was generally 60 to 180 days from the date of billing during the Track Record Period. The ageing analysis of trade receivables based on invoice date was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	48,390	44,111	66,606
31 to 90 days	44,455	68,682	57,017
91 to 180 days	39,544	32,004	22,915
181 days to 1 year	17,736	1,905	2,823
Over 1 year	2,040	1,038	636
	152,165	147,740	149,997

(b) Movements of the Group's allowance for impairment of trade receivables are shown in Note 3.1.2.

21 BILLS RECEIVABLE — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bills receivable measured at FVOCI	32,600	9,228	—

As at 31 December 2019, 2020 and 2021, bills receivable were all bank acceptance, and a total approximately amount of RMB50,529,000, RMB48,738,000 and RMB133,456,000 that have been endorsed to the suppliers, and a total approximately amount of nil, nil and RMB22,050,000 that have been discounted to the bank had been derecognised as the Directors considered substantially all risks and rewards of ownership of those bills receivable have been transferred before maturity. As the bills receivable are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, they are measured at FVOCI.

Information about the methods and assumptions used in determining fair value is provided in Note 3.3(a).

As at 31 December 2019 and 2020, bills receivable were denominated in RMB with maturity within 1 to 12 months.

As at 31 December 2019 and 2020, net book value of bills receivable pledged to secure bank acceptance bills payable of the Group (Note 26) were as follow:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Net book value of bills receivable pledged to secure bills payable	—	1,985	—

22 PREPAYMENTS AND OTHER RECEIVABLES — GROUP AND COMPANY

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Group			
Included in non-current asset			
Prepayment for property, plant and equipment	58	—	—
Included in current asset			
Other receivables	904	509	1,236
Prepayments for purchase and materials	191	60	56
Right to the returned goods	66	56	68
Recoverable of value added tax	—	4	—
Listing expenses to be capitalised upon the Listing	—	—	3,461
Prepayments for listing expenses	—	—	299
	1,161	629	5,120
Less: loss allowance	(14)	(15)	(14)
	1,147	614	5,106
	1,205	614	5,106

	As at 31 December 2021
	RMB'000
Company	
Listing expenses to be capitalised upon the Listing	3,461
Prepayments for listing expenses	299
	3,760

23 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — GROUP

(a) Cash and cash equivalents

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks	26,535	37,559	58,578

Cash and cash equivalents of the Group were denominated in the following currencies:

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
RMB	26,535	37,559	55,679
HKD	—	—	2,899
	26,535	37,559	58,578

The effective interest rates of cash and cash equivalent ranged from 0.001% to 1.950% throughout the Track Record Period.

(b) Restricted cash

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Restricted cash	8,908	68,450	6,260

The Group's restricted cash were with maturity within one year, denominated in RMB and represented bank deposits pledged to banks for the issuance of bank acceptance bills payable in respect of future settlement to suppliers of the Group (Note 26).

The effective interest rates of restricted cash ranged from 0.30% to 2.03% throughout the Track Record Period.

24 SHARE CAPITAL — GROUP AND COMPANY

	Number of shares	Nominal value of shares	Equivalent nominal value of shares
		HKD'000	*RMB'000*
Group and Company			
Issued:			
As at 21 April 2021 (date of incorporation)	1	—	—
Issuance of ordinary shares to shareholder of the Company in connection with the Reorganisation *(Note 1.2)*	999	—	—
As at 31 December 2021	1,000	—	—

The Company was incorporated in the Cayman Islands on 21 April 2021 with authorised share capital of HKD380,000 divided into 38,000,000 shares of a par value of HKD0.01 each.

Pursuant to the written resolution passed by the shareholders on 2 June 2022, authorised share capital increased to HKD100,000,000, divided into 10,000,000,000 shares by the creation of additional 9,962,000,000 shares, all of which shall rank equally in all respects with the existing shares in issue with immediate effect. No share issued by the Group after 31 December 2021 and up to the date of this report.

25 OTHER RESERVES — GROUP AND COMPANY

	Statutory reserve *RMB'000* *(a)*	Capital reserve *RMB'000* *(b)&(d)*	FVOCI reserve *RMB'000* *(c)*	Others *RMB'000*	Total *RMB'000*
Group					
As at 1 January 2019	5,967	60,000	—	1	65,968
Appropriation to statutory reserve	3,430	—	—	—	3,430
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2019	9,397	60,000	—	1	69,398
As at 1 January 2020	9,397	60,000	—	1	69,398
Appropriation to statutory reserve	4,217	—	—	—	4,217
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2020	13,614	60,000	—	1	73,615
As at 1 January 2021	13,614	60,000	—	1	73,615
Appropriation to statutory reserve	3,568	—	—	—	3,568
Loan capitalisation *(Note 31(b))*	—	74,693	—	—	74,693
Deemed distributions to the shareholders of the Company *(Note (d))*	—	(74,693)	—	—	(74,693)
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2021	17,182	60,000	—	1	77,183

	Capital reserve *RMB'000*
Company	
As at 21 April 2021 (date of incorporation of the Company)	—
Loan capitalisation *(Note 31(b))*	74,693
Net assets value of subsidiaries pursuant to the Reorganisation *(Note 1.2)*	10,035
As at 31 December 2021	84,728

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Articles of Association of Hubei Qiangda, Hubei Qiangda is required to transfer at least 10% of its profit after taxation calculated under the PRC accounting standards and regulations to a statutory reserve fund, until the accumulated total of the fund reaches 50% of its registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' accumulated losses or to increase the capital of Hubei Qiangda.

(b) Capital reserve

The balance of capital reserve as at 1 January 2019 of the Group represents the aggregate of the paid-up share capital of the subsidiaries now comprising the Group before the Reorganisation.

(c) Bills receivable measured at FVOCI

As at 31 December 2019, 2020 and 2021, the Group's bills receivable were measured at FVOCI (Note 21). During the Track Record Period, the fair value losses of the Group's bills receivable were accumulated within the FVOCI reserve in equity. The accumulated fair value losses in FVOCI reserve were reclassified to profit or loss when the relevant bills receivable were derecognised or impaired.

Movements of the reserve in relation to bills receivable measured as FVOCI were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	—
Fair value movement	—	72	(72)
Loss allowance movement	—	(72)	72
At the end of the year	—	—	—

(d) As disclosed in Note 1.2.6, Hong Kong WEIli acquired all equity interest of Hubei Qiangda from the then shareholders during the Reorganisation. The cash considerations of amount RMB74,693,000 paid to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin for 97% equity is deemed as distribution to the equity holders.

26 TRADE AND OTHER PAYABLES — GROUP AND COMPANY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Group			
Trade payables (a)	129,424	112,522	106,627
Bills payable (b)	12,258	75,800	12,520
Employee benefits payable	1,959	1,934	1,942
Other accrued expenses	528	366	2,564
Refund liabilities	84	72	86
Other tax payable excluding income tax liabilities	5,163	8,938	4,519
	149,416	199,632	128,258

	As at 31 December 2021
	RMB'000
Company	
Other accrued expenses	1,851

(a) Ageing analysis of trade payables based on invoice date was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Up to 30 days	38,346	51,911	37,809
31 to 90 days	59,406	44,479	44,311
91 to 180 days	22,173	10,295	16,138
181 days to 1 year	8,815	5,269	6,632
Over 1 year	684	568	1,737
	129,424	112,522	106,627

(b) As at 31 December 2019, the bills payable was secured by bank deposits (Note 23), and was guaranteed by Mr. Yu (Note 31).

As at 31 December 2020, the bills payable was secured by bank deposits and bills receivable pledged to banks (Note 21 and Note 23), and was guaranteed by Mr. Yu (Note 31) and a staff of the Group.

As at 31 December 2021, the bills payable was secured by bank deposits, the Group's buildings (Note 14) and land-use rights (Note 15).

(c) Trade and other payables of the Group were denominated in the following currencies:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
RMB	149,416	199,632	126,961
HKD	—	—	1,297
	149,416	199,632	128,258

27 BANK BORROWINGS — GROUP

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings — secured	24,545	21,532	10,017

As at 31 December 2019, 2020 and 2021, the Group's bank borrowings were secured by the Group's buildings (Note 14) and land-use rights (Note 15).

The Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse. The Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr Hu, Mr. Yu and his spouse, the guarantees were subsequently released on or before 18 November 2021 (Note 31).

The Group's bank borrowings were to be settled within one year and denominated in RMB. The weighted average effective interest rates of the Group's bank borrowings as at 31 December 2019, 2020 and 2021 were 6.93%, 6.00% and 5.32% per annum, respectively.

As at 31 December 2019, 2020 and 2021, the Group had no unutilised bank facility.

28 DEFERRED INCOME — GROUP

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to purchase of land use right	1,752	1,710	1,668

Government grants related to purchase of land use right are recorded as deferred income and amortised in the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the land use right.

The movements of the above government grants during the Track Record Period are as follows:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	769	1,752	1,710
Granted during the year	1,005	—	—
Amortised as income *(Note 8)*	(22)	(42)	(42)
At the end of the year	1,752	1,710	1,668

29 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations was as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Adjustments for:			
— Depreciation of property, plant and equipment	3,124	3,197	3,229
— Depreciation of right-of-use assets	144	140	108
— Amortisation of the intangible assets	130	130	125
— Amortisation of deferred income	(22)	(42)	(42)
— Net impairment losses/(reversal of impairment) on financial assets	2,041	1,755	(474)
— Interest income	(214)	(236)	(1,070)
— Interest expenses on bank borrowings	1,359	1,170	825
— Interest expenses on lease liabilities	2	1	—
— Dividend income from financial assets at FVPL	(22)	(448)	(308)
— Gain on disposal of property, plant and equipment	(12)	—	(4)
— Net exchange gains	—	—	(54)
	45,567	54,032	44,403
Changes in working capital:			
— Inventories	2,764	3,263	(12,661)
— Trade receivables	(27,028)	4,425	(2,257)
— Bills receivable	(28,600)	23,300	9,300
— Prepayments and other receivables	774	532	(1,130)
— Restricted cash	9,532	(59,542)	62,190
— Trade and other payables	25,702	50,524	(71,776)
— Amount due from a related party	187	—	—
— Amount due to related parties	—	—	5,496
Cash generated from operations	28,898	76,534	33,565

(b) Significant non-cash financing activities

During the year ended 31 December 2020, the dividend payable to Mr. Lin was settled by offsetting the amount due from Mr. Lin without cash outflow in the amount of RMB1,550,000 (Note 31(b)).

During the year ended 31 December 2021, loan due to shareholders was capitalised by increasing the reserve of the Company (Note 31(b)), without cash outflow in the amount of approximately RMB74,693,000.

(c) Net (debt)/cash reconciliation

Set out below was an analysis of net (debt)/cash and the movements in net debt for each of the years/periods presented.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	26,535	37,559	58,578
Bank borrowings — repayable within one year	(24,545)	(21,532)	(10,017)
Lease liabilities	(42)	—	(43)
Dividends payable	(17,401)	—	(37,872)
Amount due to related parties — non-trade nature *(Note 31(c)(iii))*	—	—	(7,555)
Net (debt)/cash	(15,453)	16,027	3,091
Cash and cash equivalents	26,535	37,559	58,578
Dividends payable	(17,401)	—	(37,872)
Amount due to related parties — non-trade nature	—	—	(7,555)
Gross debt — fixed interest rates	(20,040)	—	—
Gross debt — variable interest rates	(4,547)	(21,532)	(10,060)
Net (debt)/cash	(15,453)	16,027	3,091

	Cash and cash equivalents	Amount due to related parties-non-trade nature	Bank borrowings due within one year	Lease liabilities	Dividends payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash as at 1 January 2019	23,557	—	(9,516)	(60)	(8,642)	5,339
Cash flows — principal	2,978	—	(15,000)	75	33,771	21,824
Cash flows — interest	—	—	1,330	2	—	1,332
Other non-cash movements						
— Accrued interest expenses	—	—	(1,359)	(2)	—	(1,361)
— Acquisition — leases	—	—	—	(57)	—	(57)
— Dividends declared	—	—	—	—	(42,530)	(42,530)
Net debt as at 31 December 2019 and 1 January 2020	26,535	—	(24,545)	(42)	(17,401)	(15,453)
Cash flows — principal	11,024	—	3,000	114	55,341	69,479
Cash flows — interest	—	—	1,183	1	—	1,184
Other non-cash movements						
— Accrued interest expenses	—	—	(1,170)	(1)	—	(1,171)
— Acquisition — leases	—	—	—	(72)	—	(72)
— Dividends declared	—	—	—	—	(39,490)	(39,490)
— Offsetted against dividends payable and amount due from a related party	—	—	—	—	1,550	1,550
Net cash as at 31 December 2020 and 1 January 2021	37,559	—	(21,532)	—	—	16,027
Cash flows — principal	20,978	(82,261)	11,500	4	—	(49,779)
Cash flows — interest	—	—	840	—	—	840
Other non-cash movements						
— Accrued interest expenses	—	—	(825)	—	—	(825)
— Acquisition — leases	—	—	—	(47)	—	(47)
— Loan capitalisation	—	74,693	—	—	—	74,693
— Dividends declared	—	—	—	—	(37,872)	(37,872)
— Net exchange gain	41	13	—	—	—	54
Net cash as at 31 December 2021	58,578	(7,555)	(10,017)	(43)	(37,872)	3,091

30 COMMITMENT

The Group's significant capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	167	—	—

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The following individuals are related parties of the Group that had significant balances and/or transactions as at/during the years ended 31 December 2019, 2020 and 2021:

Name	Relationship
Mr. Chen	Controlling shareholder of the Group
Mr. Yu	Shareholder of the Group
Mr. Lin	Shareholder of the Group
Mr. Hu	Shareholder of the Group
Mr. Lu	Shareholder of the Group
Mr. Wu	Shareholder of the Group
City Ease	Shareholder of the Group
Yong Ning	Shareholder of the Group
Enlighten East	Shareholder of the Group

(b) Significant transaction with related parties

Save as disclosed elsewhere in this report, during the Track Record Period, the Group had the following significant transactions with related parties:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Amount settled by/received from:			
Mr. Lin	187	1,550	—
Mr. Yu	—	2,000	—
Mr. Hu	—	—	5,496
	187	3,550	5,496
Amount repaid to:			
Mr. Yu	—	2,000	—

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Loan received from shareholders:			
City Ease (i)	—	—	43,507
Yong Ning (i)	—	—	12,320
Enlighten East (i)	—	—	19,642
Mr. Hu (iii)	—	—	6,792
	—	—	82,261
Loan capitalised (ii):			
City Ease	—	—	43,507
Yong Ning	—	—	12,320
Enlighten East	—	—	18,866
	—	—	74,693

(i) On 24 June 2021, approximately HKD52,287,000 (RMB43,507,000), HKD14,807,000 (RMB12,320,000), and HKD23,607,000 (RMB19,642,000) was received by the Group, which was a loan to the Company lent by City Ease, Yong Ning, Enlighten East, respectively.

(ii) Balance due to City Ease, Yong Ning, Enlighten East by the Company of approximately HKD52,287,000 (RMB43,507,000), HKD14,807,000 (RMB12,320,000), and HKD22,673,000 (RMB18,866,000) was capitalised by increasing the reserve of the Company by the same amount (without allotting and issuing new shares), pursuant to the resolution passed by the board of directors of the Company on 31 July 2021 (Note 25(d)). The remaining balance due to Enlighten East will be returned to Enlighten East and settled by cash on or before the Listing.

(iii) On 1 August 2021, Mr. Hu and the Group had entered into a loan agreement, pursuant to which, loan received from Mr. Hu of approximately HKD8,306,000 (RMB 6,792,000) was unsecured, interest free and repayable on demand.

All transactions mentioned above will not continue after the Listing.

(c) Balance with related parties

(i) Dividends payable

As at 31 December 2019, 2020 and 2021, the Group's dividends payable to related parties was as follows.

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
Mr. Chen	9,402	—	21,397
Mr. Yu	2,663	—	6,060
Mr. Hu	1,831	—	4,166
Mr. Wu	1,165	—	2,651
Mr. Lu	1,355	—	2,083
Mr. Lin	985	—	1,515
	17,401	—	37,872

Dividends payable was unsecured, interest-free, repayable on demand and denominated in RMB. In addition, it was resolved to settle the dividends payable on or before 30 May 2022.

(ii) Amount due from a related party

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
Mr. Lin	1,550	—	—

The amount due from Mr. Lin was unsecured, interest-free, receivable on demand and denominated in RMB.

(iii) Amounts due to related parties

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
— Enlighten East *(Note 31(b)(ii))*	—	—	763
— Mr. Hu *(Note 31(b)(iii))*	—	—	6,792
	—	—	7,555
Trade			
— Mr. Hu	—	—	5,496
	—	—	13,051

The amounts due to related parties were unsecured, interest-free, repayable on demand and denominated in HKD. All balances will be settled on or before the Listing.

(d) Key management compensation

Key management includes chairman, executive directors and senior management of the Group.

The compensation paid or payable to the key management during the Track Record Period, excluding those paid to the executive directors which has been disclosed in Note 7, was shown as below.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries, bonus, housing fund, medical insurance and other social insurance	564	563	639
Pension costs — defined contribution plan	34	3	35
	598	566	674

(e) Bank borrowings guaranteed by related parties

The Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse.

The Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr Hu, Mr. Yu and his spouse.

All guarantees on bank borrowings were released on or before 18 November 2021.

(f) Bills payable guaranteed by a related party

The Group's bills payable as at 31 December 2019 and 2020 were guaranteed by Mr. Yu.

All guarantees on bills payable were released on or before 31 May 2021.

32 INTERESTS IN SUBSIDIARIES — COMPANY

	Year ended 31 December 2021 *RMB'000*
Amounts due from a subsidiary *(a)*	74,693
Investments in a subsidiary *(b)*	10,035
	84,728

(a) It represents the amounts due from Hong Kong WEIli with no fixed repayment terms and is considered as a part of the investment.

(b) It is stated at the consolidated net assets value of Shengxi Global amounting to approximately RMB10,035,000 upon the completion of the Reorganisation.

33 SUBSEQUENT EVENTS

Save as disclosed elsewhere in the report, the Group has the following subsequent events after the balance sheet date:

(i) Pursuant to the resolutions passed by the shareholders on 2 June 2022, the authorised shares of the Company has been increased to 10,000,000,000 shares of HKD0.01 par value each.

(ii) Pursuant to the resolutions passed by the shareholders on 2 June 2022, an aggregate of 599,999,000 shares will be issued and allotted, immediately prior to the Listing, to the shareholders whose names appear on the register of members of the Company as of 2 June 2022 on a pro rata basis.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2021 and up to the date of this report.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, 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 Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2021 as if the Share Offer had taken place on 31 December 2021.

The unaudited pro forma statement of adjusted 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 net tangible assets of the Group had the Share Offer been completed as at 31 December 2021 or at any future dates following the Share Offer.

	Audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2021	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2021	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an Offer Price of HK$0.63 per Share	100,864	89,416	190,280	0.24	0.28
Based on an Offer Price of HK$0.67 per Share	100,864	95,870	196,734	0.25	0.29

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2021 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company as at 31 December 2021 of approximately RMB100,997,000, with adjustment for intangible assets as at 31 December 2021 of approximately RMB133,000.

(2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK$0.63 and HK$0.67 per Share, being the low and high end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB12,700,000 which have been accounted for in the consolidated statements of comprehensive income of the Group prior to 31 December 2021) paid/payable by the Company, and takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this prospectus.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 800,000,000 Shares were in issue, assuming that the Share Offer and Capitalisation Issue have been completed on 31 December 2021 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, or any options which may be granted under the Share Option Scheme and any Shares which may be issued or repurchased by the Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this prospectus.

(4) For the purpose of the unaudited pro forma adjusted net tangible assets per Share, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.1775. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2021.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of WEIli Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of WEIli Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 December 2021, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 17 June 2022, in connection with the proposed initial public offering of the shares of the Company (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 the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2021 as if the proposed initial public offering had taken place at 31 December 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the period ended 31 December 2021, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 proposed initial public offering at 31 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, 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.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) or standards and practices of any professional body in any other overseas jurisdiction and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 17 June 2022

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 April 2021 under the Companies Act. Our Company's constitutional documents consist of our Amended and Restated Memorandum of Association **(Memorandum)** and our Amended and Restated Articles of Association **(Articles)**.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our 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 our Company is an exempted company, that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) By special resolution our 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 2 June 2022. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a member being a corporation, by our 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

Our Company may, by an ordinary resolution of our members: (a) increase our share capital by the creation of new shares of such amount as we think expedient; (b) consolidate or divide all or any of our share capital into shares of larger or smaller amount than our existing shares; (c) divide our unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide our 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 our share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of our share capital.

(iv) Transfer of shares

Subject to the Companies Act 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 such other form as our Board may approve and may be underhand or, if the transferor or transferee is a Clearing House or our nominee(s), underhand or by machine imprinted signature, or by such other manner of execution as our 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 our 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 our Company in respect of that share.

Our Board may, at our 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 our 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.

Our Board may, in our 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 our 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.

Our 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 our 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 our Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as our 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 our Company to purchase our own shares

Our Company may purchase our own shares subject to certain restrictions and our Board may only exercise this power on behalf of our 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.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

Our 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 our Board shall fix from the day appointed for payment to the time of actual payment, but our Board may waive payment of such interest wholly or in part. Our 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 our Company may pay interest at such rate (if any) not exceeding 20% per annum as our Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, our 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 our 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 our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if our Board shall in our discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as our Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, our Board shall have the power to appoint any person as a Director either to fill a casual vacancy on our 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 annual general meeting of our 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 our Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by our Board shall not be taken into account in determining our 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 our 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. Our 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 our 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 our Company. The period for lodgment of such notices shall commence no earlier than the day after the 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 our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from our Board.

A Director may be removed by an ordinary resolution of our members 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 our Company) and our Company may by an 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) resigns;

(bb) dies;

(cc) is declared to be of unsound mind and our 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) is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of our Board for six consecutive months, and our 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 our Directors or otherwise pursuant to the Articles.

From time to time, our Board may appoint one or more of our body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as our Board may determine, and our Board may revoke or terminate any of such appointments. Our Board may also delegate any of our powers to committees consisting of such Director(s) or other person(s) as our 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 our Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act, 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 our Company may by an ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as our 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 our Company or the holder of the share, it is liable to be redeemed.

Our Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to the bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless our Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and our Company has received an indemnity in such form as our Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Act, 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 our Company shall be at the disposal of our 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 our absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor our 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 our 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 our Company or any of our subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries, our Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Act to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of our Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

Our Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Companies Act, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or any third party.

(v) Remuneration

Our Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by our Board or our 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 our 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. Our 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 our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company, performs services which in the opinion of our Board goes beyond the ordinary duties of a Director may be paid such special or extra remuneration as our 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 our Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

Our Board may establish, either on our own or jointly in concurrence or agreement with subsidiaries of our Company or companies with which our Company is associated in business, or may make contributions out of our 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 our Company or any of our subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

Our 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 our 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 our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our 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 our Company or any of their respective close associates, or, if any one or more of our 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) Financial assistance to purchase Shares

Subject to the Companies Act, or any other law or so far as not prohibited by any law and subject to any rights conferred on the holders of any class of Shares, our Company shall have the power to give, directly or indirectly, by means of a loan, a guarantee, an indemnity, the provision of security or otherwise howsoever, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any Shares or warrants or other securities in our Company or any company which is a holding company of our Company.

(ix) Disclosure of interest in contracts with our Company or any of our subsidiaries

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and upon such terms as our 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 our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefit received by him as a director, officer or member of such other company. Our Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as we think fit, including the exercise in favour of any resolution appointing our 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 our 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 our 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 our Company shall declare the nature of his interest at the earliest meeting of our Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attached 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 our Company.

A Director shall not vote or be counted in the quorum on any resolution of our 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 our Company or any of our subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our 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 our Company or any other company which our 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 our Company or any of our 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 benefit scheme which relates to Directors, their close associates and employees of our Company or any of our 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 our Company by virtue only of his/their interest in those shares, debentures or other securities.

(x) Proceedings of our Board

Our Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate our meetings as we think 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 our 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 our Company may only be altered or amended, and the name of our Company may only be changed, with the sanction of a special resolution of our Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of our 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 the Companies Act, 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 our 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 our 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 our 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 our 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 our 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 our nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting, a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in our 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 our nominee(s) be a member of our Company, such person or persons may be authorised as we think fit to act as our representative(s) at any meeting of our Company or at any meeting of any class of members of our 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 our nominee(s) as if such person were an individual member including the right to vote individually on a show of hands and the right to speak.

Where our Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting each financial year other than the financial year of our Company's adoption of the Articles.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to our Board or the secretary of our Company for the purpose of requiring an extraordinary general meeting to be called by our Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, our Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of our Board shall be reimbursed to the requisitionist(s) by our Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of our Company shall be called by at least 21 days' notice in writing, and any other general meeting of our 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 our 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 our Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Act and the Listing Rules, a notice or document may also be served or delivered by our Company to any member by electronic means.

Although a meeting of our 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 our 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 our Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by our duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our 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 a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by our 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 our 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.

(viii) Right to Speak

All members have the right to (a) speak at a general meeting; and (b) vote at a general meeting except where a member is required, by the Listing Rules, to abstain from voting to approve the matter under consideration.

(e) Accounts and audit

Our Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and of the assets and liabilities of our Company and of all other matters required by the Companies Act (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of our Company's affairs and to show and explain our transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as our 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 our Company except as conferred by the Companies Act or ordered by a court of competent jurisdiction or authorised by our Board or our Company in general meeting.

Our Board shall from time to time cause to be prepared and laid before our Company at our 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 our 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 our 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), our Company may send summarised financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

Our members may by an ordinary resolution 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 our Board. The auditors' remuneration shall be fixed by our members in general meeting by an ordinary resolution or in such manner as the members may determine.

The members may, at a general meeting remove the auditor(s) by an ordinary resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of our 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

Our 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 our 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) our Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where our Board or our Company in general meeting has resolved that a dividend should be paid or declared, our 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 our Board may think fit.

Upon the recommendation of our Board, our Company may by an ordinary resolution in respect of any one particular dividend of our 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 our 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 our Board or our Company in general meeting has resolved that a dividend be paid or declared, our Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

Our 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 our 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 our Board for the benefit of our Company until claimed and our 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 our Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our 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 our Company is listed on the Stock Exchange, any member may inspect any register of members of our 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 our 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 our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that our 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 our Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if our Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If our 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 Companies Act, divide among the members in specie or kind the whole or any part of the assets of our 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 Companies Act, if warrants to subscribe for shares have been issued by our Company and our 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

Our Company was incorporated in the Cayman Islands as an exempted company on 21 April 2021 subject to the Companies Act. 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 Companies Act 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 our Company must conduct our 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 our authorised share capital.

(b) Share capital

Under the Companies Act, 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 Companies Act;

(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 Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Act.

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 Companies Act, 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 a 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 Act (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 Act (2018 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to our Company or our 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 our Company:

(aa) on or in respect of the shares, debentures or other obligations of our 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 Act (2018 Revision).

The undertaking for our Company is for a period of 30 years from 26 April 2021.

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 our 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 Act (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Act, our Company is required to maintain at our registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

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.

(t) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("**ES Act**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is our Company; however, it does not include an entity that is a tax resident outside the Cayman Islands. Accordingly, for so long as our Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Appleby, our Company's legal adviser on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display as referred to in the paragraph headed "Documents Available on Display" in Appendix V. 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 GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 21 April 2021.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 June 2021 and the principal place of business in Hong Kong is Unit 2004–6, 20th Floor, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong. In connection with such registration, our Company has appointed Mr. Yu Tsz Ngo of Unit 2004–6, 20th Floor, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong as the authorised representative for the acceptance of service of process and notices on our behalf in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Act and our constitution, which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Act and certain provisions of the Articles is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

(a) As at the date of incorporation, the authorised share capital of our Company was HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each. Upon incorporation, one subscriber Share in our Company with a par value of HK$0.01 was allotted and issued as fully paid to a nominee subscriber. On the same date, the said one Share with a par value of HK$0.01 was transferred to City Ease for a consideration of HK$0.01. Upon completion of the above transfer and share issue, City Ease became the sole Shareholder of our Company.

(b) Upon completion of the above transaction, on the same date, our Company allotted and issued 564 Shares, 245 Shares and 160 Shares with a par value of HK$0.01 each as fully paid to City Ease, Enlighten East and Yong Ning, respectively. After such allotment, our Company was owned as to approximately 58.25% by City Ease, 25.26% by Enlighten East and 16.49% by Yong Ning, respectively.

(c) On 6 May 2021, our Company allotted and issued 30 Shares, credited as fully paid, to the Pre-IPO Investor in consideration of the acquisition of 3.00% of the equity interest in Hubei Qiangda from the Pre-IPO Investor by Hong Kong WEIli. After such allotment and issue of Shares, our Company was owned as to 56.50% by City Ease, 16.00% by Yong Ning, 24.50% by Enlighten East and 3.00% by the Pre-IPO Investor.

(d) On 2 June 2022, the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each by the creation of additional 9,962,000,000 Shares with a par value of HK$0.01 each, all of which shall rank equally in all respects with the existing Shares in issue.

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each, of which 800,000,000 Shares with a par value of HK$0.01 each will be allotted and issued fully paid or credited as fully paid and 9,200,000,000 Shares with a par value of HK$0.01 each will remain unissued.

Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraphs headed "A. Further information about our Group — 5. Written resolutions of our Shareholders passed on 2 June 2022" and "A. Further information about our Group — 6. Repurchase of our Shares" under this appendix, the exercise of the Over-allotment Option or the options that may be granted under the Share Option Scheme, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in a general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save for aforesaid and as disclosed in the paragraph headed "History, development and Reorganisation — Reorganisation" in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the paragraph headed "History, development and Reorganisation — Reorganisation" in this prospectus.

4. Changes in the share capital of the subsidiaries of our Company

The subsidiaries of our Company are listed in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "History, development and Reorganisation — Reorganisation" in this prospectus, there has been no alteration in the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Written resolutions of our Shareholders passed on 2 June 2022

Written resolutions of our Shareholders were passed on 2 June 2022 approving, amongst others, the following:

(a) the Memorandum and the Articles were adopted as the memorandum of association and articles of association of our Company;

(b) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares with a par value of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 Shares with a par value of HK$0.01 each by the creation of additional 9,962,000,000 Shares with a par value of HK$0.01, all of which shall rank equally in all respects with the existing Shares in issue; and

(c) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed "Structure and conditions of the Share Offer" in this prospectus:

(i) the Share Offer and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to (aa) allot and issue the Offer Shares and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the **GREEN** Application Form; (bb) implement the Share Offer and the listing of Shares on the Stock Exchange; and (cc) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;

(ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK$5,999,990 from the amount standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par a total of 599,999,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 2 June 2022, or as each of them may direct in writing, in proportion (subject to rounding to avoid fractions and odd lots) to their then existing respective shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing Shares in issue;

(iii) the rules of the Share Option Scheme were approved and adopted and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (aa) administer the Share Option Scheme; (bb) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (cc) grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any option(s) granted thereunder; and (dd) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;

(iv) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or pursuant to, or in consequence of, the Capitalisation Issue, the Share Offer, the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, Shares in aggregate not exceeding the sum of (1) 20% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised) and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme); and (2) the total number of Shares in issue which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, renewing or varying the mandate granted to our Directors, whichever occurs first;

(v) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, renewing or varying the mandate granted to our Directors, whichever occurs first; and

(vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the total number of Shares in issue which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the total number of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme).

6. Repurchase of our Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 2 June 2022, conditional upon the same conditions to be satisfied and/or waived as stated in the section headed "Structure and Conditions of the Share Offer" in this prospectus, a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Stock Exchange (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and without taking into account any Share that may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme). The Repurchase Mandate will remain effective until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking, renewing or varying the mandate granted to our Directors, whichever occurs first.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong and the Companies Act. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Act, out of capital. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of profits of our Company, out of our Company's share premium account before or at the time the Shares are repurchased, or, subject to the Companies Act, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

Further, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding days on which its shares were traded on the Stock Exchange.

In addition, the Listing Rules prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

Under the Companies Act, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (aa) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarter-year or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be submitted for publication to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day.

In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Connected parties

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell his or its securities to the company.

(b) Reasons for repurchase

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our 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 the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong and the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account the current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Share to our Company or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the Listing Rules and the applicable laws of Hong Kong and the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in our Company's voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

Our Company has not made any repurchases of our own securities since our incorporation.

No core connected person of our Company has notified us that he/she/it has a present intention to sell our Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement dated 6 May 2021 entered into between Mr. Chen as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 56.50% of the equity interest in Hubei Qiangda at a consideration of RMB43,505,000;

(b) an equity transfer agreement dated 6 May 2021 entered into between Mr. Yu as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 16.00% of the equity interest in Hubei Qiangda at a consideration of RMB12,320,000;

(c) an equity transfer agreement dated 6 May 2021 entered into between Mr. Hu as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 8.00% of the equity interest in Hubei Qiangda at a consideration of RMB6,160,000;

(d) an equity transfer agreement dated 6 May 2021 entered into between Mr. Wu as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 7.00% of the equity interest in Hubei Qiangda at a consideration of RMB5,390,000;

(e) an equity transfer agreement dated 6 May 2021 entered into between Mr. Lu as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 5.50% of the equity interest in Hubei Qiangda at a consideration of RMB4,235,000;

(f) an equity transfer agreement dated 6 May 2021 entered into between Mr. Lin as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 4.00% of the equity interest in Hubei Qiangda at a consideration of RMB3,080,000;

(g) an equity transfer agreement dated 6 May 2021 entered into between the Pre-IPO Investor as transferor and Hong Kong WEIli as transferee relating to the sale and purchase of 3.00% of the equity interest in Hubei Qiangda at a consideration of RMB2,310,000;

(h) the Deed of Indemnity;

(i) the Deed of Non-competition; and

(j) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Patents

As at the Latest Practicable Date, our Group had registered the following patents which are, in the opinion of our Directors, material to our Group's business:

No.	Patent	Registered owner	Type	Place of registration	Patent number	Expiry date
1.	Method and instrument for detecting infrared ascending conversion material (多波段紅外上轉換材料的檢測方法及裝置)	Hubei Qiangda	Invention	PRC	ZL 02138137.2	15 August 2022
2.	High-gloss coating and application and method of coating to coated ivory board (一種高光塗布塗料及在塗布白卡上的應用及方法)	Hubei Qiangda	Invention	PRC	ZL 201410799819.9	18 December 2034
3.	Anti-counterfeiting label outer surface laminating machine (一種防偽標簽外表面覆膜機)	Hubei Qiangda	Invention	PRC	ZL 201910547814.X	23 June 2039

No.	Patent	Registered owner	Type	Place of registration	Patent number	Expiry date
4.	Composite paper drying device (一種複合紙烘乾裝置)	Hubei Qiangda	Utility model	PRC	ZL 201821992585.X	29 November 2028
5.	Composite paper winding device (一種複合紙收卷裝置)	Hubei Qiangda	Utility model	PRC	ZL 201821992587.9	29 November 2028
6.	Excessive glue removing device for composite paper (一種複合紙的溢膠清除裝置)	Hubei Qiangda	Utility model	PRC	ZL 201821992583.0	29 November 2028
7.	Paper-plastic separation equipment for waste paper-plastic packaging material (一種廢舊紙塑包裝材料紙塑分離的設備)	Hubei Qiangda	Utility model	PRC	ZL 201921101529.7	14 July 2029
8.	Cutting equipment with good safety for paper product processing (一種安全性佳的紙製品加工用切割設備)	Hubei Qiangda	Utility model	PRC	ZL 201921101530.X	14 July 2029
9.	Drying device for paper product processing (一種紙製品加工用烘乾裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921101528.2	14 July 2029
10.	Plastic production film processing waste recovery equipment (一種塑料生產薄膜加工廢料回收設備)	Hubei Qiangda	Utility model	PRC	ZL 201921101103.1	14 July 2029
11.	Raw material mixing device for plastic laser film production (一種塑料鐳射薄膜生產用原料混合裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921101100.8	14 July 2029
12.	Extruder cooling mechanism for plastic laser film processing (一種塑料鐳射薄膜加工的擠出機冷卻機構)	Hubei Qiangda	Utility model	PRC	ZL 201921171402.2	23 July 2029
13.	Packaging plate extracting device of paper-plastic packaging equipment (一種紙塑包裝設備的包裝板提取裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921171370.6	23 July 2029

No.	Patent	Registered owner	Type	Place of registration	Patent number	Expiry date
14.	Marking device for plastic laser film processing (一種塑料鐳射薄膜加工用打標裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921170735.3	23 July 2029
15.	Cutting forming device for composite paper-plastic packaging material manufacturing device (一種用於複合紙塑包裝材料製造裝置的切割成形裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921170734.9	23 July 2029
16.	Sterile paper-plastic packaging box (一種無菌紙塑包裝盒)	Hubei Qiangda	Utility model	PRC	ZL 201921170749.5	23 July 2029
17.	Perforating device for paper product processing (一種紙製品加工用打孔裝置)	Hubei Qiangda	Utility model	PRC	ZL 201921170748.0	23 July 2029
18.	Cropping device convenient for recycling for laser film production (一種鐳射膜生產用方便回收的裁切裝置)	Hubei Qiangda	Utility model	PRC	ZL 202023261437.0	29 December 2030
19.	Automatic curing chamber for manufacturing laser film for carton packaging (一種紙盒包裝的鐳射膜生產用自動熟化室)	Hubei Qiangda	Utility model	PRC	ZL 202023261449.3	29 December 2030
20.	Storage equipment for manufacturing laser film with good protection (一種保護性好的鐳射膜生產用儲存設備)	Hubei Qiangda	Utility model	PRC	ZL 202023261390.8	29 December 2030
21.	Bridle unit for processing laser film with automatic adjustment function (一種鐳射膜加工用具有自動調節功能的張緊裝置)	Hubei Qiangda	Utility model	PRC	ZL 202023271962.0	29 December 2030
22.	Adjustable comminuter for the processing materials of sputtered film (一種可調式射膜加工原料粉碎裝置)	Hubei Qiangda	Utility model	PRC	ZL 202023261402.7	29 December 2030

No.	Patent	Registered owner	Type	Place of registration	Patent number	Expiry date
23.	Slitting device for plastic laser film packaging (一種用於塑料鐳射膜包裝產用分條裝置)	Hubei Qiangda	Utility model	PRC	ZL 202023261447.4	29 December 2030
24.	Cropping mechanism for plastic laser film processing (一種塑料鐳射膜加工用的裁剪機構)	Hubei Qiangda	Utility model	PRC	ZL 202023261440.2	29 December 2030

(b) Domain name

As at the Latest Practicable Date, our Group had registered the following domain name which is, in the opinion of our Directors, material to our Group's business:

Domain name	Registered owner	Registration date	Expiry date
www.weiliholdings.com	Hubei Qiangda	10 June 2021	10 June 2023

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests and short positions of our Directors and chief executives of our Company in our Shares, underlying Shares and debentures of our Company and its associated corporations after completion of the Capitalisation Issue and the Share Offer

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), the interests or short positions of our Directors and chief executives of our Company in our 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Interests in our Company

Name of Director/ chief executive	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Mr. Chen	Interest in a controlled corporation *(Note 2)*	339,040,000 (L)	42.38%
Mr. Yu	Interest in a controlled corporation *(Note 3)*	96,000,000 (L)	12.00%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.

2. Our Company will be owned as to 42.38% by City Ease immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme). City Ease is wholly-owned by Mr. Chen. By virtue of the SFO, Mr. Chen is deemed to be interested in the same number of Shares held by City Ease.

3. Our Company will be owned as to 12.00% by Yong Ning immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme). Yong Ning is wholly-owned by Mr. Yu. By virtue of the SFO, Mr. Yu is deemed to be interested in the same number of Shares held by Yong Ning.

(b) Interests and/or short positions of the Substantial Shareholders under the SFO

Please refer to the section headed "Substantial Shareholders" in this prospectus for details of the persons (other than a Director or a chief executive of our Company)/ corporations who/which will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who/which will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

Our Directors are not aware of any persons who will immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in our Shares or, having such a notifiable interest, have any short position (within the meaning of the SFO) in our Shares, other than those as disclosed above.

2. Particulars of Directors' service agreements and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for a fixed term of three years commencing from the Listing Date subject to the termination provisions contained therein.

(b) Non-executive Director and Independent non-executive Directors

Each of our non-executive Director and independent non-executive Directors has entered into an appointment letter with our Company for a fixed term of three years commencing from the Listing Date subject to the termination provisions contained therein.

Save as disclosed above, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

3. Remuneration of our Directors

For FY2019, FY2020 and FY2021, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors were approximately RMB250,000, RMB247,000 and RMB260,000, respectively.

For FY2019, FY2020 and FY2021, the aggregate of contributions to pension schemes for our Directors were approximately RMB21,000, RMB2,000 and RMB19,000, respectively.

For FY2019, FY2020 and FY2021, the aggregate of bonuses paid to or receivable by our Directors which are discretionary or are based on our Company's, our Group's or any member of our Group's performance were nil, nil and nil, respectively.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including our independent non-executive Directors) for FY2022 will be approximately HK$0.7 million.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money for each of FY2019, FY2020 and FY2021 (a) as an inducement to join or upon joining our Company; or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for each of FY2019, FY2020 and FY2021.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefit or bonus or other fringe benefits) payable by our Company to each of our Directors will be as follows:

Executive Directors	
Mr. Chen	HK$240,000
Mr. Yu	RMB250,000
Non-executive Director	
Mr. Hu	HK$120,000
Independent non-executive Directors	
Mr. Liu Yimin	HK$120,000
Mr. Chen Yeung Tak	HK$216,000
Ms. Feng Yuan	HK$120,000

Each of our executive Directors, non-executive Director and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Company from time to time or for providing services to our Company or executing their functions in relation to our Company's business and operations.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of each of FY2019, FY2020 and FY2021 by our Company to our Directors.

4. Related Party Transactions

Details of the related party transactions are set out under note 31 to the Accountant's Report set out in Appendix I to this prospectus.

5. Disclaimers

(a) Save as disclosed in the paragraph headed "C. Further Information about our Directors and Substantial Shareholders — 1. Disclosure of Interests" in this appendix, none of our Directors or chief executives has any interest or short position in any of the Shares, underlying Shares or debentures of our Company or any of the associated corporation (within the meaning of Part XV of the SFO), immediately after the completion of the Capitalisation Issue and the Share Offer, without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed.

(b) Save as disclosed in the paragraph headed "C. Further Information about our Directors and Substantial Shareholders — 1. Disclosure of Interests" in this appendix, our Directors are not aware of any person (other than our Directors or the chief executives of our Company) who will, immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Share that may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) have an interest or short position in our Shares or underlying Shares which will have to be notified to our Company and the Stock Exchange pursuant to 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 a general meeting of any other member of our Group.

(c) None of our Directors or the experts under the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix has been directly or indirectly interested in the promotion of, or in any asset(s) which has or have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

(d) None of our Directors nor the experts named under the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company's business.

(e) None of the experts named under the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix below 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 our Directors, none of our Directors, their respective close associates or any Shareholder who are interested in more than 5% of the share capital has any interests in the top five customers or the top five suppliers of our Group.

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**"). As at the Latest Practicable Date, there was no "Invested Entity" other than members of our Group, and our Group has not identified any potential "Invested Entity" for investment.

(b) Who may join

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

(i) any employee (whether full time or part time, including our Directors (including any independent non-executive Director)) of our Company, any of its subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an "**eligible employee**");

(ii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iii) any customer of any member of our Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and

(vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer under the Share Option Scheme shall be determined by our Directors from time to time on the basis of our Directors' opinion as to such eligible participant's contribution to the development and growth of our Group.

(c) Maximum number of Shares

(i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Company shall not exceed 30% of the share capital of our Company in issue from time to time.

(ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Company) to be granted under the Share Option Scheme and any other share option scheme of our Company shall not in aggregate exceed 10% of the total number of Shares (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised) in issue at the time dealings in our Shares first commence on the Stock Exchange, being 80,000,000 Shares ("**General Scheme Limit**").

(iii) Subject to sub-paragraph (i) above and without prejudice to sub-paragraph (iv) below, our Company may seek approval of our Shareholders in a general meeting of our Company to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Company shall not exceed 10% of our Shares in issue (assuming the Over-allotment Option and the options granted under the Share Option Scheme are not exercised) as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Company will not be counted.

(iv) Subject to sub-paragraph (i) above and without prejudice to sub-paragraph (iii) above, our Company may seek separate Shareholders' approval in a general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in sub-paragraph (iii) above to eligible participants identified by our Company before such approval is sought.

(d) Maximum entitlement of each eligible participant

Subject to paragraph (e) below, the total number of Shares issued and which may fall to be issued upon exercise of any option which may be granted under the Share Option Scheme and any other share option scheme of our Company (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of our Company in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant must be separately approved by our Shareholders in a general meeting of our Company with such grantee and his close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) Grant of options to core connected persons

(i) Without prejudice to sub-paragraph (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive of our Company or Substantial Shareholder or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).

(ii) Without prejudice to sub-paragraph (i) above, where any grant of options under the Share Option Scheme to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of our Shares in issue; and

(2) having an aggregate value, based on the closing price of our Shares on the offer date of each grant, in excess of HK$5 million;

such further grant of options must be approved by our Shareholders in a general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval from our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at our Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

(f) Time of acceptance and exercise of an option

An offer under the Share Option Scheme shall remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a Business Day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in our Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) Performance targets

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(h) Subscription price for Shares

The subscription price in respect of any option shall, subject to any adjustment made pursuant to the paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

(i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the offer date;

(ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and

(iii) the nominal value of a Share.

(i) Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(j) Restrictions on the time of grant of options

For so long as our Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's result for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish announcements of our results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(k) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) Rights of ceasing employment

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in paragraph (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(m) Rights on death, ill-health or retirement

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(n) Rights on dismissal

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

(o) Rights on breach of contracts

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i)(1) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (2) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(1) to (3).

(p) Rights on a general offer, a compromise or an arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) Rights on winding-up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation equally with the holders of our Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(r) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(i) the provisions of paragraphs (m), (l), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (m), (l), (n) and (o) above shall occur with respect to the relevant eligible participant; and

(ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(s) Adjustment to the subscription price

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct our auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

(i) the number or nominal amount of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised); and/or

(ii) the subscription price of any option; and/or

(iii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by our auditors or such independent financial adviser shall be made, provided that:

(i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;

(ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(iv) any such adjustment shall be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, our auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the relevant provisions of the Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

(t) Cancellation of options

Subject to the provisions in the Share Option Scheme and the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(iii) or (c)(iv) above.

(u) Termination of the Share Option Scheme

Our Company by an ordinary resolution in a general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Rights are personal to grantee

An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so do so. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of paragraph (v) above.

(x) Others

(i) The Share Option Scheme is conditional upon:

(1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and

(2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in a general meeting or by way of written resolution of our Shareholders.

(ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in a general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of our Shares under the Articles of Association for the time being of our Company for a variation of the rights attached to the Shares.

(iii) Subject to sub-paragraph (v) below, any alteration to the terms and conditions of the Share Option Scheme which is of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alteration takes effect automatically under the existing terms of the Share Option Scheme.

(iv) The terms of the Share Option Scheme and/or any option amended must comply with the applicable requirements of the Listing Rules.

(v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in a general meeting.

2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be within the General Scheme Limit pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders (collectively, the "**Indemnifiers**") have, under the Deed of Indemnity, given joint and several indemnities to our Company (for ourselves and as trustee for each of our subsidiaries) in connection with, among other things:

(a) any taxation (including estate duty) falling on any member of our Group resulting from or by reference to any income, profit, gain, transaction (including but not limited to any transactions involved in the Reorganisation), event, matter or thing earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date on which the Share Offer becomes unconditional; and

(b) all costs which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional and (ii) any alleged or actual violation or breach or non-compliance by any member of our Group with any law, regulation, rule or administrative order or measure in Hong Kong or other applicable jurisdictions on or before the date on which the Share Offer becomes unconditional, if any.

The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- in relation to items (a) and (b) above, provision has been made for such liability in the audited consolidated accounts of our Company or any member of our Group for the Track Record Period;
- in relation to item (a) above, 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 Share Offer becomes unconditional; or
- in relation to item (a) above, the taxation liability arises in the ordinary course of business of any member of our Group after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

2. Legal proceedings/Litigation

To the best knowledge of our Directors, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group, that would have a material adverse effect on the results of operations or financial condition.

3. Application for listing of Shares

Our Company has applied to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer as mentioned herein (including the additional Shares which may be issued upon full exercise of the Over-allotment Option and the Shares to be issued upon exercise of any option which may be granted under the Share Option Scheme). All necessary arrangements have been made to enable the securities to be admitted into CCASS.

4. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Grande Capital as our compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results for the first full financial year commencing after the Listing Date.

5. Preliminary expenses

The estimated preliminary expenses amounted to approximately HK$46,000 and had been paid by our Company.

6. Promoter

(a) We do not have any promoter.

(b) Within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to any promoter of our Company in connection with the Share Offer or the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus, and have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion of their letter, report, and/or opinion and/or references to their names (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus:

Name	Qualifications
Appleby	Legal advisers to our Company as to Cayman Islands law
Grande Capital Limited	A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity as defined under the SFO
Ipsos Asia Limited	Industry consultant
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountant Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Guangdong Wannuo Law Office	Legal advisers to our Company as to PRC law

8. Consents of experts

Each of the abovementioned experts has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and reference to its name included in the form and context in which it respectively appears.

9. Fees of the Sponsor

The Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK$6.5 million in relation to the Listing and will be reimbursed for their expenses.

10. Independence of the Sponsor

Neither the Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

(a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sponsor for acting as the sponsor of the Listing; and

(b) by way of the compliance advisory fee to be paid to Grande Capital as our compliance adviser pursuant to the requirements under Rule 3A.19 of the Listing Rules.

No director or employee of the Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of our subsidiaries. None of the directors and employees of the Sponsor has any directorship in our Company or any member of our Group. The Sponsor is independent from our Group under Rule 3A.07 of the Listing Rules.

11. 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.

12. Miscellaneous

(a) Within the two years immediately preceding the date of this prospectus:

(i) Save as disclosed in the section headed ''History, development and Reorganisation'' in this prospectus, no share or loan capital of our Company or any of its subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued fully or partly paid either for cash or for a consideration other than cash;

(ii) Save as disclosed in the section headed ''Underwriting'' in this prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(iii) Save as disclosed in the section headed ''Underwriting'' in this prospectus, no commission (excluding sub-underwriters' commission) has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscription, for any Share or shares of any of member of our Group.

(b) No founder, management or deferred share of our Company has been allotted and issued or agreed to be allotted and issued.

(c) Save as disclosed in the paragraph headed "D. Share Option Scheme" in this appendix, no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(d) Our Company has no outstanding convertible debt securities.

(e) There is no arrangement under which future dividends are waived or agreed to be waived.

(f) Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects since 31 December 2021, and there had been no events since 31 December 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus.

(g) Our Directors confirm that 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 12 months immediately preceding the date of this prospectus.

13. Bilingual Prospectus

Pursuant to section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. a copy of the **GREEN** Application Form;

2. copies of the material contracts as referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix IV to this prospectus; and

3. the written consents as referred to in the paragraph headed "E. Other information — 8. Consents of experts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.weiliholdings.com** up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles of Association;

2. the Accountant's Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

3. the audited consolidated financial statements of our Group for FY2019, FY2020 and FY2021;

4. the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

5. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;

6. the legal opinions prepared by our PRC Legal Advisers;

7. the industry report prepared by Ipsos Asia Limited;

8. the Companies Act;

9. the rules of the Share Option Scheme;

10. the material contracts as referred to in the paragraph headed "B. Further information about the business of our Group — 1. Summary of material contracts" in Appendix IV to this prospectus;

11. the service agreements and letters of appointment as referred to in the paragraph headed "C. Further information about our Directors and Substantial Shareholders — 2. Particulars of Directors' service agreements and appointment letters" in Appendix IV to this prospectus; and

12. the written consents as referred to in the paragraph headed "E. Other information — 8. Consents of experts" in Appendix IV to this prospectus.

WEILI HOLDINGS LIMITED
偉立控股有限公司