

Deyun Holding Ltd. 德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1440

SHARE OFFER

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



* for identification purpose only

IMPORTANT

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

Deyun Holding Ltd.

德運控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares	: 315,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares	: 31,500,000 Shares (subject to reallocation)
Number of Placing Shares	: 283,500,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	: Not more than HK\$0.50 per Offer Share and expected to be not less than HK\$0.40 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1440

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in the 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 by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The final 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, which is expected to be on or around Monday, 4 January 2021 and in any event, not later than Wednesday, 6 January 2021. The Offer Price will not be more than HK\$0.50 and is currently expected to be not less than HK\$0.40. If, for any reason, the final Offer Price is not agreed by Wednesday, 6 January 2021 between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, the public offer will not proceed and will lapse.

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

The obligations of the Underwriters under the Underwriting Agreements are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds for termination arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Public Offer Underwriting Agreement – Grounds for Termination" in this prospectus. Should the Joint Bookrunners (for themselves and on behalf of the Underwriters) terminate their obligations under the Underwriting Agreement, the Share Offer will not proceed and will lapse.

* For identification purpose only

EXPECTED TIMETABLE

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

Date⁽¹⁾

Public Offer commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Monday, 28 December 2020
Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Thursday, 31 December 2020
Application lists of the Public Offer open ⁽³⁾	11:45 a.m. on Thursday, 31 December 2020
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Thursday, 31 December 2020
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 31 December 2020
Application lists of the Public Offer close ⁽³⁾	12:00 noon on Thursday, 31 December 2020
Expected Price Determination Date ⁽⁵⁾	Monday, 4 January 2021
Announcement of the Offer Price, the levels of indication of interest in the Placing, the level of applications in respect of the Public Offer and basis of allocation under the Public Offer to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.ds-lace.com ⁽⁶⁾ on or before ⁽⁷⁾	Tuesday, 12 January 2021

EXPECTED TIMETABLE

Date⁽¹⁾

Results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares – 11. Publication of Results" from⁽⁷⁾ Tuesday, 12 January 2021

Results of allocations in the Public Offer to be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from⁽⁷⁾ Tuesday, 12 January 2021

Despatch/collection of share certificates or deposit of share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before⁽⁷⁾ Tuesday, 12 January 2021

Despatch/collection of **White Form eIPO** e-Refund payment instructions/refund cheques in respect of wholly or partially successful application if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or before^{(5), (7), (8)} Tuesday, 12 January 2021

Dealings in the Shares on the Stock Exchange to commence on⁽⁷⁾ Wednesday, 13 January 2021

Notes:

- (1) All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Share Offer, including the conditions of the Public Offer, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. If there is any change in this expected timetable, an announcement will be published on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.ds-lace.com**.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 December 2020, the application lists will not open and close on that day. Please see "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 Thursday, 31 December 2020, the dates mentioned in this section headed "Expected timetable" may be affected. An announcement will be made by us in such event.

EXPECTED TIMETABLE

- (4) Applicants who apply 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.
- (5) The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Monday, 4 January 2021 and in any event, not later than Wednesday, 6 January 2021. If, for any reason, the final Offer Price is not agreed by Wednesday, 6 January 2021 between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse.
- (6) None of the websites or any of the information contained on those websites form part of this prospectus.
- (7) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 Public Offer Shares or more and have provided all information required on their Application Forms may collect share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 January 2021 or any other date as notified by us in the newspapers as the date of despatch of share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorization from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offer and have provided all information required may collect their refund cheques, if any, in person but cannot elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to Apply for Public Offer Shares” in this prospectus.

You should read carefully the sections headed “Structure and Conditions of the Share Offer” and “How to Apply for Public Offer Shares” in this prospectus for details relating to the structure and conditions of the Share Offer and how to apply for Public Offer Shares.

Share certificates are expected to be issued on Tuesday, 12 January 2021 but will only become valid certificates of title provided that the Share Offer has become unconditional in all respect and neither 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 share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and the Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offer of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors or any other persons or parties involved in the Share Offer.

Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.

	<i>Page</i>
Expected timetable	i
Contents	iv
Summary	1
Definitions	22
Glossary	34
Forward-looking statements	37
Risk factors	38
Information about this prospectus and the Share Offer	58

CONTENTS

	<i>Page</i>
Waivers from strict compliance with the requirements under the Listing Rules . . .	63
Directors and parties involved in the Share Offer	65
Corporate information	72
Industry overview	75
Regulatory overview	107
History, development and reorganisation	125
Business	148
Relationship with our Controlling Shareholders	230
Substantial shareholders	234
Directors and senior management	237
Share capital	256
Financial information	260
Future plans and use of proceeds	340
Cornerstone Investors	345
Underwriting	350
Structure and conditions of the Share Offer	362
How to apply for Public Offer Shares	373
Appendix I — Accountant’s Report	I-1
Appendix II — Unaudited pro forma financial information	II-1
Appendix III — Summary of the constitution of our Company and Cayman Islands Company Law	III-1
Appendix IV — Statutory and general information	IV-1
Appendix V — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection	V-1

SUMMARY

This summary aims at giving you an overview of the information contained in this prospectus. Because 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, including our financial statements and the accompanying notes, 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 sections headed “Definitions” and “Glossary” in this prospectus.

OVERVIEW

We are a long-established lace manufacturer and dyeing service provider based in Fuzhou City, Fujian, the PRC in the textile industry. We are primarily engaged in manufacturing and sales of lace to our customers to produce branded lingerie products on order-by-order basis. For our dyeing services, our customers are mainly lace and swim wear manufacturers who would provide us with their own lace and swimwear fabrics for us to dye before further fabrication. All lace produced by our Group is dyed in-house. The dyeing process is carried out in our Fuzhou Production Facilities. We strategically focus on domestic market in the PRC which has high population with growing demand. According to the CIC Report, we ranked the sixth among all lace manufacturers in the PRC, accounting for a market share of 0.3% and ranked the fourth in the lace dyeing industry in the PRC, accounting for a market share of 1.3%, respectively, in terms of revenue in 2019.

The following table sets forth our revenue, sales volume, average selling prices, gross profit and gross profit margin by different product types during the Track Record Period:

	FY17						FY18						FY19					
	Revenue	% of revenue	Sales volume	Average selling price	Gross profit	Gross profit margin	Revenue	% of revenue	Sales volume	Average selling price	Gross profit	Gross profit margin	Revenue	% of revenue	Sales volume	Average selling price	Gross profit	Gross profit margin
	(RMB'000)	(%)	(kg'000)	(RMB/kg)	(RMB'000)	(%)	(RMB'000)	(%)	(kg'000)	(RMB/kg)	(RMB'000)	(%)	(RMB'000)	(%)	(kg'000)	(RMB/kg)	(RMB'000)	(%)
Dyeing	72,711	49.8	8,486	8.6	9,479	13.0	87,925	51.0	9,733	9.0	18,930	21.5	117,937	58.0	12,222	9.6	34,007	28.8
Lace																		
High density	34,659	23.7	326	106.4	10,265	29.6	42,662	24.7	402	105.7	15,609	36.6	53,749	26.4	438	122.6	23,048	42.9
Regular density	38,611	26.5	494	78.2	7,411	19.2	41,893	24.3	522	80.3	10,834	25.9	31,757	15.6	364	87.4	9,849	31.0
Subtotal	73,270	50.2	820	89.4	17,676	24.1	84,555	49.0	924	91.5	26,443	31.3	85,506	42.0	802	106.6	32,897	38.5
Total	145,981	100.0	9,306	N/A	27,155	18.6	172,480	100.0	10,657	N/A	45,373	26.3	203,443	100.0	13,024	N/A	66,904	32.9

SUMMARY

	1H19						1H20					
	Revenue	% of	Sales	Average	Gross		Revenue	% of	Sales	Average	Gross	
	(RMB'000)	revenue	volume	selling	profit	margin	(RMB'000)	revenue	volume	selling	profit	margin
	(unaudited)	(%)	(kg'000)	price	(RMB'000)	(%)	(RMB'000)	(%)	(kg'000)	(RMB/kg)	(RMB'000)	(%)
					(unaudited)							
Dyeing	61,038	56.4	6,474	9.4	18,991	31.1	57,456	60.4	5,707	10.1	17,572	30.6
Lace												
High density	29,356	26.8	256	114.7	12,764	43.5	24,675	25.9	208	118.6	10,042	40.7
Regular density	17,830	16.8	194	91.9	5,593	31.4	12,956	13.6	132	98.2	4,132	31.9
Subtotal	47,186	43.6	450	104.9	18,357	38.9	37,631	39.6	340	110.7	14,174	37.7
Total	108,224	100.0	6,927	N/A	37,348	34.5	95,087	100.0	6,047	N/A	31,746	33.4

Increasingly stringent regulatory measures on environmental protection

In recent years, the regulatory requirements on environment protection were increasingly stringent. In particular, according to the laws and regulations in Shantou City, which was a key area providing printing and dyeing services in Guangdong, the printing and dyeing enterprises may not extend the pollutant discharge permit after 31 December 2018 if they were located outside the industrial parks, notwithstanding there was indeed no industrial park established at that time.

As a result, more than 180 printing and dyeing plants in Shantou City were shut down. The demand originally took place in Shantou City migrated to surrounding provinces and cities, including Fuzhou City, Fujian Province. Please refer to the section “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” for details. As such, the Group recorded significant revenue growth during the Track Record Period and was primarily attributable by the regulatory factors.

Unlike the laws and regulations in Shantou City, the laws and regulations in Fuzhou City explicitly stated that the printing and dyeing enterprises can remain to be located in the same area if they are not conducting business in environmental sensitive areas (i.e., not in the near proximity to residential areas, natural reserve areas, and environmental conservation areas in general). According to the confirmation issued by the Department of Ecology and Environment of Changle District, Fuzhou City on 11 March 2020, Deyun does not locate in environmental sensitive areas and is not an enterprise that seriously affects the environment, therefore Deyun can remain to operate in the same area. Also, according to the verbal confirmation made by the Division Chief of the Industry and Consumer Goods Division of the Department of Industry and Information Technology of Fuzhou City on 6 August 2020, there is no plan to force printing and dyeing enterprises to move into similar industrial park in Fuzhou City at present, the existing printing and dyeing enterprises in Fuzhou City can continue to operate legally, and there is no unified shutdown or conversion plan.

SUMMARY

However, the environmental laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. There is no assurance that the regulatory measures on environmental protection similar to those implemented in Shantou City would not be implemented in Fujian. Please refer to section headed “Risk Factors – Risks relating to our business - We as a dyeing service provider have been categorised as one of the heavily polluting industries. Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms” for further details. Our future business and financial performance may further subject to similar regulatory factor.

The Group’s sales volume of dyeing amounted to approximately 8.5 million kg, 9.7 million kg and 12.2 million kg, respectively, for each of the three years ended 31 December 2019. The sales volume of dyeing increased significantly over the three years ended 31 December 2019, primarily due to the increasing customer base as driven by the Regulatory Impact, which led to the shutting down of more than 180 printing and dyeing plants in Shantou City as at 31 December 2018 and the migration of approximately 70% of lace dyeing demand from Shantou City to Fujian in 2019 due to Regulatory Impact. Please refer to the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” in this prospectus for details on the Regulatory Impact. Our sales volume of dyeing decreased from approximately 6.5 million kg for 1H19 to approximately 5.7 million kg for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020.

The sales volume of lace increase from approximately 820,000 kg for FY17 to approximately 924,000 kg for FY18, primarily due to the increased customer base driven by the Regulatory Impact. The sales volume of lace decreased to approximately 802,000 kg for FY19, primarily resulted from our upward pricing adjustments on lace products accompany with change in product mix with more high density lace with higher margin. Our sales volume of lace decreased from approximately 450,000 kg for 1H19 to approximately 340,000 kg for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020.

The average selling price of dyeing has increased during the Track Record Period, primarily due to the pricing adjustment in view of the over-stretched dyeing facilities, from utilisation rate of approximately 84.9% for FY17, to approximately 100.1% for FY18, to approximately 117.9% for FY19 and approximately 117.4% for 1H20.

The average selling price of lace has increased annually for the three years ended 31 December 2019, primarily due to (i) the increasing proportional sales on high density lace, and (ii) upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace. Our average selling price of lace increased from approximately RMB104.9/kg for 1H19 to approximately RMB110.7/kg for 1H20, which was primarily attributable to the upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace.

Our overall gross profit margin increased from approximately 18.6% for FY17 to approximately 26.3% for FY18, primarily due to the combined effect of increased average selling price of dyeing leading to the increase in its respective gross profit margin, and decrease

SUMMARY

in cost of sales of lace causing its respective gross profit margin to increase from approximately 24.1% for FY17 to approximately 31.3% for FY18. The decrease in cost of sales of lace for FY18 was primarily due to the economy of scale achieved by the increased sales volume for FY18 which caused unit depreciation and other factory overheads to be lower. Our overall gross profit margin increased from approximately 26.3% for FY18 to approximately 32.9% for FY19, primarily due to the increase in our gross profit margin of dyeing from approximately 21.5% for FY18 to approximately 28.8% for FY19, which was caused by an increase in our average selling price in dyeing. Our overall gross profit margin remained at similar level of approximately 34.5% for 1H19 to approximately 33.4% for 1H20.

We primarily sell our products to customers in Fujian, Guangdong and Zhejiang. We also sell our products to other parts in China, as well as engage in international trade to Hong Kong and other countries include Thailand, Vietnam, Brazil, Cambodia and Latvia. The following table sets forth our revenue and percentage of revenue by different geographical regions during Track Record Period:

	FY17		FY18		FY19	
	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue
		(%)		(%)		(%)
Fujian	75,066	51.4	92,559	53.7	110,835	54.5
Guangdong	35,765	24.5	48,190	27.9	64,922	31.9
Zhejiang	25,802	17.7	21,722	12.6	9,636	4.8
Other PRC regions	7,915	5.4	6,721	3.9	15,550	7.6
Domestic sales	144,548	99.0	169,192	98.1	200,943	98.8
International sales	1,433	1.0	3,288	1.9	2,500	1.2
Total revenue	145,981	100.0	172,480	100.0	203,443	100.0

	1H19		1H20	
	Revenue	% of revenue	Revenue	% of revenue
	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)			
Fujian	54,230	50.1	60,221	63.4
Guangdong	36,210	33.5	23,749	24.9
Zhejiang	6,676	6.1	5,953	6.3
Other PRC regions	9,909	9.2	4,403	4.6
Domestic sales	107,025	98.9	94,326	99.2
International sales	1,199	1.1	761	0.8
Total	108,224	100.0	95,087	100.0

SUMMARY

Our products were mainly used for manufacturing of domestic brand lingerie ultimately consumed domestically. The table below sets forth a breakdown of our revenue by sales destination of end products of our customers' domestic brand lingerie and international brand lingerie ⁽¹⁾:

	FY17				FY18				FY19			
	Domestic		International	Percentage of total (%)	Domestic		International	Percentage of total (%)	Domestic		International	Percentage of total (%)
	brand	brand	brand		brand	brand	brand					
	lingerie	lingerie	lingerie		lingerie	lingerie	lingerie					
	(RMB'000)	(RMB'000)	(RMB'000)		(RMB'000)	(RMB'000)	(RMB'000)		(RMB'000)	(RMB'000)	(RMB'000)	
Sales destination of end products:												
– China	117,899	12,424	130,323	89.3	141,780	13,121	154,901	89.8	180,763	10,177	190,940	93.9
– U.S.	–	1,008	1,008	0.7	–	655	655	0.4	–	702	702	0.3
– South-east Asia ⁽²⁾	1,636	4,935	6,571	4.5	1,456	7,654	9,110	5.3	1,102	5,067	6,169	3
– Europe	–	7,990	7,990	5.4	–	7,531	7,531	4.4	–	5,413	5,413	2.7
– Others ⁽²⁾	–	89	89	0.1	–	283	283	0.1	–	219	219	0.1
Total	119,535	26,446	145,981	100.0	143,236	29,244	172,480	100.0	181,865	21,578	203,443	100.0
Percentage of total (%)	81.9	18.1	100.0		83.0	17.0	100.0		89.4	10.6	100.0	
	1H19				1H20							
	Domestic		International	Percentage of total (%)	Domestic		International	Percentage of total (%)				
	brand	brand	brand		brand							
	lingerie	lingerie	lingerie		lingerie							
	(RMB'000)	(RMB'000)	(RMB'000)		(RMB'000)	(RMB'000)	(RMB'000)					
	(unaudited)	(unaudited)	(unaudited)		(unaudited)	(unaudited)	(unaudited)					
Sales destination of end products:												
– China	93,775	6,652	100,427	92.8	88,877	2,312	91,189	95.9				
– U.S.	–	493	493	0.5	19	174	193	0.2				
– South-east Asia ⁽²⁾	1,036	3,082	4,118	3.8	1,023	1,575	2,598	2.7				
– Europe	–	3,099	3,099	2.8	182	921	1,103	1.2				
– Others ⁽²⁾	–	87	87	0.1	4	–	4	0.0				
Total	94,811	13,413	108,224	100.0	90,105	4,982	95,087	100.0				
Percentage of total (%)	87.6	12.4	100.0		94.8	5.2	100.0					

Notes:

- (1) The breakdown of our revenue in final sales destination of domestic brand and international brand was based on the communication between our customers and us and the Director's best knowledge on the sales network of our customers. Our Group does not have any direct relationship with these brand owners.
- (2) For the purpose of this breakdown, South-east Asia includes: Japan, Vietnam, Sri Lanka, Thailand, Hong Kong, Indonesia and Cambodia; Others includes: Latvia and Brazil.

SUMMARY

Given our the international sales of lace (excluding Hong Kong, Thailand and Vietnam) represents approximately 0.1% to 0.3% of our total revenue of the year/period only during the Track Record Period and the sale of end products to the U.S. represents approximately 0.2% to 0.7% to of our total revenue of each year/period only during the Track Record Period, our Directors believe that the impact of the China-United States trade war to our Group is very minimal.

OUR BUSINESS MODEL

We principally engage in (a) the production and sales of lace; and (b) the provision of dyeing services. The principal steps for the production and sales of lace includes: (i) market analysis, product development and marketing, (ii) customers' enquiries, (iii) production of sample and design optimisation, (iv) placing of purchase orders by customers, (v) production planning and procurement of raw materials; (vi) mass production authorised by customers and quality assurance; and (vii) packaging and delivery of goods to customers. For dyeing services, the principle steps of operation include: (i) market analysis and marketing, (ii) customers' enquiries, (iii) placing of order by customers, (iv) production planning and procurement of raw materials; (v) dyeing and quality assurance; and (vi) pick-up of goods by customers. For further information, please refer to the section headed "Business – Our Business Model" in this prospectus.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors as a well-established lace manufacturer and dyeing service provider in the PRC: (i) we have high quality assurance for our products; (ii) we command strong research and development capabilities; (iii) we are strategically located in the textile hub in Fuzhou City, Fujian, the PRC, one of the top province for textile manufacturing and dyeing services in the PRC; and (iv) we have an experienced, visionary and dedicated management team.

OUR BUSINESS STRATEGIES

In order to capture the upcoming business opportunities arising from the policies issued by the PRC government in relation to environmental protection and further enhance our market position in the dyeing industry of Fujian, we plan to pursue the following strategies: (i) expand our dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring of dyeing machineries and facilities; (ii) continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-boiler; (iii) strengthen our research and development capability and quality control for our dyeing services; and (iv) expand our integrated ERP system.

SUMMARY

OUR PRODUCTION FACILITIES AND UTILISATION RATE

Our production facilities are located in Fuzhou City, Fujian, the PRC. During the Track Record Period, we have production lines for lace dyeing and lace weaving respectively. The utilisation rate for the lace dyeing productions lines in FY17, FY18, FY19 and 1H20 reached 84.9%, 100.1%, 117.9% and 117.4%, respectively, whereas the utilisation rate for the lace weaving production lines in FY17, FY18, FY19 and 1H20 reached 83.4%, 98.9%, 85.5% and 85.0%, respectively. For further information, please refer to the section headed “Business – Production – Production facilities and capacity” in this prospectus.

OUR CUSTOMERS AND SUPPLIERS

Our customers can be broadly classified into manufacturers and trading entities. For each of FY17, FY18, FY19 and 1H20, revenue generated from our five largest customers in aggregate accounted for 22.5%, 22.9%, 15.9% and 20.3% of our total revenue of the corresponding periods, respectively, and revenue generated from our largest customers accounted for 7.5%, 7.6%, 3.7% and 5.0% of our total revenue for the corresponding periods, respectively. Attributable to our quality products and services, during the Track Record Period, over 70% of our customers are returning customers.

Our principal raw material required for our production of lace is filament yarn for making lace fabric while the principal raw materials required for our dyeing service are different colours of dyes. For each of FY17, FY18, FY19 and 1H20, the cost of raw materials accounted for approximately 50.6%, 53.7%, 49.5% and 46.1% of our total cost of sales, respectively, during the Track Record period.

During the Track Record Period, we maintained a list of approved materials suppliers. For each of FY17, FY18, FY19 and 1H20, our purchases from our five largest suppliers in aggregate accounted for 54.4%, 50.6%, 52.2% and 52.8% of our total purchases for the corresponding periods, respectively, and our purchases from our largest supplier accounted for 20.9%, 13.4%, 13.8% and 16.8% of our total purchases for the corresponding periods, respectively.

For details in relation to the relationship with our customers and suppliers, please refer to the sections headed “Business – Sales and marketing – Our customers” and “Business – Procurement – Our suppliers” in this prospectus.

During the Track Record Period, seven of our customers were at the same time our suppliers. They all mainly engage in textile manufacturing. For further information, please refer to the section headed “Business – Sales and marketing – Overlapping customers and suppliers” in this prospectus.

SUMMARY

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Due to the importance of environmental sustainability to our Group and the significance of social and economic responsibilities to us, we have adopted the following policies to provide for guidelines in relation to environmental, social and governance aspects of our business operations.

Environmental protection

Our Group is committed to operating in a manner that complies with applicable environmental laws and regulations. As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, our Group complied with all the applicable laws and regulations in the PRC relating to environmental protection in all material respects, and no penalty was imposed on our Group by any PRC governmental authorities in relation to any environmental matters. For FY17, FY18, FY19 and 1H20, our expenditure in connection with the compliance with the relevant laws and regulations in respect of relevant environmental protection laws amounted to RMB3.8 million, RMB1.8 million, RMB9.4 million and RMB1.0 million, respectively. For further details, please refer to the section headed “Business – Environmental, Social and Governance – Environmental protection”.

Social responsibility

In achieving our social corporate goal in volunteering in the community, our Group has actively endeavoured in funding the development of less developed cities in the PRC by donation to various charitable organisations occasionally. We also put great emphasis on our employees by providing them with a safe and healthy working environment. All-round training courses and events are also held by our Group occasionally for our employees. For further details, please refer to the section headed “Business – Environmental, Social and Governance – Social responsibility”.

Governance

In order to ensure that our components and raw materials meet the requisite safety and quality standards, we adopt stringent criteria in supplier selection and continuously monitor our existing suppliers on a regular basis, based on criteria such as product quality, product defect ratio, delivery punctuality and responsiveness. We also endeavour to uphold the business integrity of our Group by maintaining a risk management and internal control system. For further details, please refer to the section headed “Business – Environmental, Social and Governance – Governance”.

SUMMARY

HIGHLIGHTS OF RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks are set forth in the section headed “Risk factors” section in this prospectus and are summarised below:

- we as a dyeing service provider has been categorised as one of the heavily polluting industries. Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms;
- we derived a significant historical revenue growth attributable to the Regulatory Impact during the Track Record Period, our historical results may not be indicative of our future prospects and results of operations, and our operating results may fluctuate significantly;
- we derived a significant portion of our revenue from our customers in Fujian and Guangdong during the Track Record Period. Failure to retain business relationships with existing customers or secure new business may materially affect our results and financial performance;
- we do not enter into any long term contract with our customers;
- we do not own the intellectual property rights for the lace designs;
- our business operations and financial results may be adversely affected if there is an outbreak of any severe communicable diseases such as COVID-19;
- our success depends on our ability and our customers’ ability to respond to rapid changes in increasing demand for quality and design, consumer preferences and advancement of technologies;
- our business operations and financial performance may be adversely affected if the regulatory measures on environmental protection similar to those implemented in Shantou City, the PRC will be implemented in Fujian;
- we depend on a stable and adequate supply of raw materials and we do not enter into any long-term agreements with our suppliers, fluctuation in the price of raw materials may affect our cost of sales and adversely affect our business operation and profitability;
- increase in labour cost may have an adverse effect on our business, financial condition, results of operations and growth prospects; and

SUMMARY

- extraordinary events such as health epidemics (including the recent outbreak of COVID-19), natural disasters, political unrest and terrorist attack could adversely affect our production and delivery time of our products.

Investor should read the entire section before deciding to invest in the Offer Shares.

SUMMARY FINANCIAL INFORMATION

The following tables set forth our selected consolidated financial information for the periods indicated. For further information, please refer to the section headed “Financial Information” in this prospectus.

Summary of Consolidated Income Statements

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	145,981	172,480	203,443	108,224	95,087
Cost of sales	<u>(118,826)</u>	<u>(127,107)</u>	<u>(136,539)</u>	<u>(70,876)</u>	<u>(63,341)</u>
Gross profit	27,155	45,373	66,904	37,348	31,746
Other income	1,544	296	744	607	3,570
Other (losses)/gains, net	(64)	244	(6)	40	558
Selling and distribution expenses	(2,025)	(1,893)	(2,324)	(1,182)	(1,074)
Administrative expenses	(4,557)	(4,959)	(14,335)	(3,506)	(8,877)
Provision for impairment of trade receivables	<u>(98)</u>	<u>(213)</u>	<u>–</u>	<u>–</u>	<u>(200)</u>
Operating profit	21,955	38,848	50,983	33,307	25,723
Finance costs, net	<u>(2,932)</u>	<u>(2,758)</u>	<u>(1,908)</u>	<u>(1,544)</u>	<u>(272)</u>
Profit before income tax	19,023	36,090	49,075	31,763	25,451
Income tax expense	<u>(2,225)</u>	<u>(4,540)</u>	<u>(7,224)</u>	<u>(4,248)</u>	<u>(4,206)</u>
Profit for the year/period attributable to owners of the Company	<u>16,798</u>	<u>31,550</u>	<u>41,851</u>	<u>27,515</u>	<u>21,245</u>

SUMMARY

During the Track Record Period, there was an overall increasing trend of our revenue, to the best knowledge of the Directors after due and reasonable enquiries, primarily due to the impact from regulatory measures implemented by Shantou City local government. For details, please refer to the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian”.

Summary of Consolidated Statements of Financial Position

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	37,986	73,185	83,348	105,363
(Current liabilities)	(78,436)	(103,308)	(53,130)	(49,816)
Net current (liabilities)/assets	(40,450)	(30,123)	30,218	55,547
Non-current assets	169,965	159,954	151,075	146,509
(Non-current liabilities)	(2,024)	(1,870)	(2,025)	(1,682)
Total equity/Net assets	127,491	127,961	179,268	200,374

Our incurrence of net current liabilities position in FY17 was primarily due to the decrease in cash and cash equivalents resulting from the repayments of bank borrowings of approximately RMB70.0 million and a low contract asset balance due to expedited billing to our customers prior to the end of FY17. There was improvement in our net current assets/liabilities position during the Track Record Period. As at 31 December 2018, we recorded net current liabilities of RMB30.1 million, as compared to our net current liabilities of RMB40.5 million as at 31 December 2017, primarily due to the increase in contract assets, of approximately RMB10.6 million, primarily due to our expedited billing to our customers prior to the end of FY17 causing its lower balance as at 31 December 2017. Despite the improvement in our net current liabilities position in FY18, our incurrence of net current liabilities position in FY18 was primarily due to the increase of trade and bills payables from approximately RMB15.6 million as at 31 December 2017 to approximately RMB26.7 million as at 31 December 2018, resulting from a number of our suppliers holding back their respective invoices as at 31 December 2018, foreseeing the lower value-added tax rates to be enacted in early 2019, the delay in acknowledging the settlement amount by our suppliers made us unable to settle our accrued purchases accumulated in our trade payable balance, resulted an exceptional high level of amount as at 31 December 2018.

Our net current assets amounted to approximately RMB30.2 million, RMB55.5 million and RMB84.6 million as at 31 December 2019, 30 June 2020 and 30 November 2020, respectively.

SUMMARY

Summary of Consolidated Statements of Cash Flows

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Operating cash flows before movements in working capital	38,057	55,982	67,418	41,738	33,832
Changes in working capital	10,381	(288)	(7,766)	(1,984)	(9,167)
Income tax paid	(2,679)	(1,415)	(4,497)	(4,387)	(5,448)
Interest received	47	102	131	72	30
Net cash generated from operating activities	45,806	54,381	55,286	35,439	19,247
Net cash (used in)/generated from investing activities	(15,565)	(8,354)	(8,111)	1,359	(3,450)
Net cash used in financing activities	(31,064)	(23,854)	(42,138)	(31,652)	(7,029)
Cash and cash equivalents at end of the year/period	<u>10,687</u>	<u>33,327</u>	<u>38,480</u>	<u>38,529</u>	<u>47,287</u>

For further information, please refer to the section headed “Financial Information – Liquidity and capital resources – Cash flows of our Group” in this prospectus.

Key Financial Ratios

	FY17	FY18	FY19	1H20
Current ratio (times)	0.5	0.7	1.6	2.1
Quick ratio (times)	0.4	0.6	1.4	2.0
Gearing ratio	43.1%	50.8%	10.0%	6.5%
Net debt to equity ratio	33.3%	23.3%	Net Cash	Net Cash
Interest coverage (times)	7.4	13.6	25.0	85.2
Return on assets	8.1%	13.5%	17.9%	N/A
Return on equity	13.2%	24.7%	23.3%	N/A

The gearing ratio increased from approximately 43.1% as at 31 December 2017 to approximately 50.8% as at 31 December 2018, primarily due to the increase in bank borrowings. The gearing ratio decreased from approximately 50.8% as at 31 December 2018 to approximately 10.0% as at 31 December 2019, and further to approximately 6.5% as at 30 June 2020, as a result of (i) decrease in bank borrowings of approximately RMB52.0 million as at 31 December 2019 due to repayment of bank borrowings of approximately RMB79.0 million; and (ii) the increase in equity base as a result of the capital injection from a Pre-IPO Investor and

SUMMARY

accumulation of profit. During the Track Record Period, we primarily funded our operations and capital expenditures from cash flow generated from our operating activities despite of the decreasing trend of gearing ratio. For each of FY17, FY18, FY19 and 1H20, our net cash generated from our operating activities were RMB45.8 million, RMB54.4 million, RMB55.3 million and 19.2 million, respectively.

For further information, please refer to the section headed “Financial Information – Summary of Key Financial Ratios” in this prospectus.

LISTING EXPENSES

Assuming the Offer Price of HK\$0.45 per Offer Share, being the mid-point of the indicative Offer Price range, the total amount of Listing expenses and commissions in connection with the Share Offer is estimated to be approximately RMB37.0 million, which amounts to approximately 25.5% of the gross proceeds.

Of the aggregate Listing expenses of RMB37.0 million, approximately RMB15.8 million directly attributable to the issue of new Shares will be accounted for as a deduction from equity upon Listing. Listing expenses of approximately RMB7.2 million were charged to the profit or loss for FY19, approximately RMB5.7 million were charged to the profit or loss for 1H20, and the remaining amount of approximately RMB8.3 million will be charged to the profit or loss for the year ending 31 December 2020. Expenses in relation to the Listing are non-recurring in nature.

RECENT DEVELOPMENT

Outbreak of COVID-19

During the COVID-19 outbreak, the government of the PRC imposed a lockdown in the Wuhan City since 23 January 2020 in an attempt to quarantine the city and announced to extend the Chinese New Year holiday and delay the resumption of work in the PRC. Different local governments of the PRC have imposed temporary restrictions or bans on passenger traffic to control the spread of COVID-19. Various countries and territories have also imposed travel restrictions, such as travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days. On 30 January 2020, the World Health Organisation (“WHO”) declared the outbreak of COVID-19 as a Public Health Emergency of International Concern but the World Health Organisation did not recommend any travel or trade restriction based on the information available.

Regarding the delay in the resumption of work, our Directors understand that it is generally the responsibility of both our company and customers to undergo relevant works resumptions following the advice by the relevant PRC authorities. Following the spread of COVID-19 to Fujian, on 4 February 2020, the relevant authorities in Fuzhou City have also imposed epidemic prevention measures such as compulsory temperature checks, closure of public venues and restrictions for factories to resume work during the extended Chinese New Year holiday. In line

SUMMARY

with the government policy, our Group has suspended operation since 4 February 2020 (i.e., after the end of the Chinese New Year holiday) and resumed full operation in early March 2020.

The outbreak of COVID-19 has resulted in a high number of fatalities. The lockdown imposed in many countries, including the PRC has caused disruption of production activities and an adverse impact on the livelihood of the people and the economy globally, including the PRC. During the lockdown, the consumption markets of the PRC such as lingerie and apparel markets, which are downstream of our lingerie material industry, have been adversely affected, which has in turn caused certain delay in placing order from our customers. Therefore, our revenue during January to March 2020 has decreased as compared to the same period in 2019. The situation improved since March 2020 when the pandemic disease has slowed down. As a result, there is a significant increase in terms of revenue in March 2020 compared to the preceding two months. Based on our Group's sales record that our sales from January 2020 to June 2020 has been gradually increasing with diminishing shortfall as compared to the same period in 2019, the revenue for the six months ended 30 June 2020 has decreased by approximately 12.1% when compared to that in the same period in 2019. With the full resumption of business operations of our Group's major customers and suppliers since April 2020, our Directors are of the view that the outbreak of COVID-19 has only caused a short term negative impact to our Group. In respect of transportation and availability of raw materials from suppliers, since most of our major suppliers are located in Fujian which has restricted the travel of people between different provinces rather than transportation of goods, the lockdown arrangement has not adversely affected the local transportation. Further given we have maintained inventory stock of major raw materials such as yarns and dyes for one to two months, we have not encountered any disruption in the supply of raw materials up to the Latest Practicable Date. Also, we have not encountered any cancellation of purchase orders from, nor material delay in payment settlement from our customers up to the Latest Practicable Date. Therefore, our Group is able to discharge its obligations under all existing contracts without any financial compensation or claim from its customers and suppliers up to the Latest Practicable Date.

To the best knowledge and belief of the Directors, the ultimate customers of the Group are mainly domestic customers in the PRC. With the resumption of manufacturing and business activities in China in April 2020 and the various policies to support the recovery of economy announced or launched by the government in China, it is expected that the economy of China could recover gradually. Therefore, the demand from end customers in PRC would experience a rebound accordingly. On the other hand, with the continued wide spread of COVID-19 in overseas countries, the demand from our overseas customers are still negatively affected due to the weak economy. According to CIC, despite the global apparel market has experienced a significant drop in March and April 2020, the major apparel market rebounded afterwards. For the US, supported by the shifting of purchasing habit by the end customers from physical stores to online platforms, its retail sales volume of clothing rebounded by 188% in May 2020 comparing to April 2020; for the United Kingdom, its sales volume of clothing rebounded by 18.6% in May 2020 and 69.1% in June 2020 as compared to that in April 2020. The rebound of global apparel market is expected to relief the burden of international brands end customers.

SUMMARY

In the event that we are forced to temporarily reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control, due to the COVID-19 outbreak, we estimate, and the Sponsor concurs, our existing financial resources as at 30 June 2020 could satisfy our necessary costs for approximately 27 months. In the event that we take into account of only 9.7% of the net proceeds of the Share Offer to be used for general working capital purpose on top of our financial resources as at 30 June 2020, our financial resources could satisfy our necessary costs for approximately 31 months. Our key assumptions include: (i) we will not generate any income due to the suspension of business; (ii) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic factory maintenance cost, staff cost, utilities expenses, fees to be incurred for the purpose of listing such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (iii) the trade receivables would be settled based on historical settlement pattern and the payment of trade payables would be made when due; (iv) the expansion plan is delayed under such condition; (v) there will be no further internal or external financing from Shareholders or financial institutions; and (vi) no dividends will be declared and paid under such situation. The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors assessed that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development, therefore it is possible that the impact to our Group may be out of our control and beyond our estimation and assessment.

Our Directors will continue to (i) assess the impact of the COVID-19 outbreak on our Group's business operations and financial performance; and (ii) closely monitor our Group's exposure to the relevant risks and uncertainties and respond accordingly.

(i) Our customers

None of our major PRC customers are from Wuhan City or other cities in Hubei. Moreover, none of our customers who had placed orders with us before the outbreak of COVID-19 have cancelled their orders and we have been able to perform our contracts with our customers.

Except for the delay in the resumption of business operation or transport restriction due to the government policies as mentioned above, they have confirmed that our business relationships with them will not be materially affected despite the outbreak of COVID-19.

There is also no indication that their ability to settle the sales payment has been adversely affected by the outbreak of coronavirus.

(ii) Our suppliers

Most of our major suppliers, majority of which are based in Fujian and given that our major raw materials are primarily dyes and yarns which are produced and readily available from suppliers in various regions of the PRC, we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease. Moreover, they have informed our Group that they will still be able to fulfil their obligations

SUMMARY

under their respective contracts with our Group. As such, after resumption of works, our Directors consider that we shall not encounter any major difficulties regarding our supply chain.

(iii) Our employees

To the best knowledge of our Directors after making reasonable enquiries, as at the Latest Practicable Date, none of our employees including our Directors or senior management, have been confirmed to be infected by COVID-19. As at the Latest Practicable Date, all staff had resumed work and our Directors consider that there is no material disruption to the day-to-day operations.

(iv) Our sales activities and production facilities

According to the notices announced by the local government, the Chinese New Year holiday was extended to 10 February 2020, and our production and sales activities have been resumed since 18 February 2020. Generally, our production demand is comparatively lower after the Chinese New Year holiday and up to the date of this prospectus, none of our production facilities are located in the Hubei or cities or regions affected by lockdowns which would cause material operational disruption. To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group to undertake various precautionary measures.

(v) Our hygiene and preventive measure

Our Group has established an epidemic prevention and control working group to undertake various precautionary measures. These measures include (i) enhancing the hygienic level of our production plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) performing compulsory daily temperature checks of all our employees before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell.

(vi) Our contingency plan

In case the COVID-19 prolonged and escalated to an adverse extent, we have formulated our business contingency plan in response to the crisis, including mainly (i) encourage employees staying at our staff quarters after work and not to participate in mass social gathering; (ii) evaluate our existing orders on hand and liaise with the relevant customers for possible adjustment of delivery schedule; and (iii) increase our inventory level for our commonly used raw materials for an extra month for prevention of any interruption of existing production plan. Our Directors confirm there will be no material and adverse changes on our Group's financial and operational positions and could mitigate the potential impact effectively.

SUMMARY

Other recent development

Based on our audited accounts for the six months ended 30 June 2020, our revenue, gross profit and gross profit margin for the six months ended 30 June 2020, being approximately RMB95.1 million, RMB31.7 million and 33.4%, respectively, have decreased by 12.1%, 15.0% and 1.1% when compared to that for the same period in 2019. The average contract assets, trade and bills receivables turnover days increased to 76 days in the first half of 2020 when compared to 55 days for the year ended 31 December 2019. This is primarily due to the postponement in the resumption of production and sales activities of our Company and our customers resulting from the outbreak of COVID-19. Due to the gradual resumption of manufacturing and business activities in the PRC since April 2020, subsequent to the Track Record Period, we have recorded a better performance for the five months ended 30 November 2020 as compared to that in the same period in 2019. In respect of our dyeing services, our revenue, sales volume, average selling price, gross profit and gross profit margin have increased by 11.6%, 10.3%, 1.1%, 33.4% and 5.3% (in absolute percentage figure), respectively. In respect of lace, our revenue, sales volume, gross profit and gross profit margin have increased by 10.0%, 19.4%, 34.7% and 8.7% (in absolute percentage figure), respectively, while the average selling price has decreased by approximately 7.8%. In overall, our total revenue, sales volume (by the sum of the absolute amounts), average selling price (calculated by dividing the total revenue by the sum of sales volumes of dyeing services and lace), gross profit and gross profit margin have increased by approximately 11.0%, 10.8%, 0.1%, 34.0% and 6.6% (in absolute percentage figure), respectively. We would expect a continuous improvement in our business and financial performance due to the further recovery and rebound of global economy and, save as the Listing expenses, there will be no material adverse effect on our financial results for FY2020.

Save as the Listing expenses, our Directors also confirm that, since 30 June 2020 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountant's Report set out in Appendix I in this prospectus.

REASONS FOR THE LISTING

Our reasons for the Listing and Share Offer include: (i) potential market growth and implementation of our business strategies; (ii) enhance our corporate image and corporate governance; (iii) adapt to the continuous changes on local environmental protection policies; (iv) provide an equity fund-raising platform for our Group; and (v) obtain additional funding for our operations and capital requirements. Please see the section headed "Future Plans and Use of Proceeds – Reasons for the Listing" for further details.

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer, after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming no over-allotment option will be exercised and an Offer Price of HK\$0.45 per Share, being the mid-point of the indicative range of the Offer Price between HK\$0.4 and HK\$0.5 per Share, will be approximately HK\$100.3 million.

Our Directors currently intend to apply the net proceeds from the Share Offer in the following manner:

- (i) approximately 58.2% or HK\$58.4 million will be used to expand our dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring machineries and facilities;
- (ii) approximately 4.0% or HK\$4.1 million will be used to strengthen our research and development capability and quality control for our dyeing services;
- (iii) approximately 15.9% or HK\$15.9 million will be used for continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas- boiler;
- (iv) approximately 1.1% or HK\$1.1 million will be used to expanding our integrated ERP system;
- (v) approximately 11.1% or HK\$11.1 million will be used for repayment of bank loan; and
- (vi) approximately 9.7% or HK\$9.7 million will be used for our general working capital.

The above allocation of the net proceeds will be adjusted on a pro-rata basis in the event that the Share Offer is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus.

THE NEEQ LISTING AND DELISTING

In August 2016, 88,800,000 shares in Deyun, being the entire issued share capital at that time, became quoted on the NEEQ (stock code: 838472). On 1 November 2018, all the shareholders of Deyun resolved to voluntarily delist Deyun's shares from the NEEQ (the “**NEEQ Delisting**”) at a general meeting. The NEEQ Delisting was approved by shareholders holding 100% of Deyun's total shares (being 88,800,000 shares) entitled to vote on the matter. On 15 December 2018, the regulatory body approved the NEEQ Delisting. On 19 December 2018, the shares of Deyun ceased to be quoted on the NEEQ. For further details, please refer to the

SUMMARY

section headed “History, Development and Reorganisation – Prior listing and subsequent delisting on the NEEQ”.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, and Mr. Lin Chaowen will be interested in a total of 67.5% of our Company’s issued Shares through owning 100% of the issued shares of their common investment holding vehicle Deyong Investment. Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, and Mr. Lin Chaowen are therefore entitled to, through Deyong Investment, control the exercise of a total of 67.5% of the voting power at the general meetings of our Company. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, and Mr. Lin Chaowen entered into an Acting in Concert Agreement to acknowledge and confirm, among other things, that they are parties acting in concert shall continue to do so. For further details of the Acting in Concert Agreement, please refer to the section headed “History, Development and Reorganisation – Acting in Concert Agreement” in this prospectus. Therefore, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen, and Deyong Investment will form and remain as a group of controlling shareholders pursuant to the “Guidance on issues relating to ‘controlling shareholder’ and related listing rules implications” (HKEx-GL89-16) (updated in October 2017, February 2018 and February 2020). Our Controlling Shareholders have confirmed that none of them and their respective close associates is interested in any business which competes or is likely to compete, directly or indirectly, with the business of our Group. For further details of the shareholding interests of the Controlling Shareholders, please refer to the section headed “Substantial Shareholders” in this prospectus.

PRE-IPO INVESTMENT

The Pre-IPO Investor, Mr. Tsoi is the director of Calson Investment Limited, a footwear distribution enterprise supplying leather, PVC, textile shoes, sandals, etc. to customers worldwide. Currently, Mr. Tsoi is also the executive director of Changzhou Qifa Shoes Co., Ltd.* (常州啟發鞋業有限公司), a company engaged in manufacturing and distribution of shoes and Changzhou Qichen Investment Co., Ltd.* (常州啟辰投資有限公司), a company engaged in real estate sales and property management, and a supervisor of Putian Qiming Shoes Co., Ltd.* (莆田啟明鞋業有限公司), a company engaged in manufacturing and distribution of shoes. Mr. Tsoi is also a Standing Committee Member of the 5th Fujian Putian Committee of the Chinese People’s Political Consultative Conference, the chairman of Tung Wah Group of Hospitals from 2019 to 2020, and the vice chairman of Tung Wah Group of Hospitals from 2015 to 2019.

On 19 September 2019, Deyun, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star (as the nominee of the Pre-IPO Investor) entered into a capital increase agreement, pursuant to which the parties agreed to increase the registered capital of Deyun from RMB88,800,000 to RMB98,670,000, whereby Regal Star (as the nominee

SUMMARY

of the Pre-IPO Investor) agreed to subscribe and pay up 100% of the increased capital, which represents 10% of the increased registered capital of Deyun, at the consideration of HKD16,000,000. On 20 December 2019, our Company allotted and issued 8,000 and 2,000 shares of nominal or par value of US\$1.00 to Deyong Investment and Glorious Way (as the nominee of the Pre-IPO Investor), respectively, credited as fully paid at par value. Upon completion of the share allotment of our Company, our Company was held by Deyong Investment and Glorious Way as to 90% and 10%. On 19 December 2019, Deyun Consulting agreed to acquire the entire equity interests in Deyun from the then shareholders Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star at the total cash consideration of RMB5,000,000.

Immediately following the completion of the Reorganisation, the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the Pre-IPO Investor will indirectly hold 7.5% of the issued share capital of our Company. Save for the Pre-IPO Investment, as at the Latest Practicable Date, the Pre-IPO Investor, Regal Star and Glorious Way do not have any other relationship with our Group, our Directors, members of our senior management, any connected persons of our Company and any of their respective associates. For further details regarding the background of the Pre-IPO Investor, please refer to the section headed “History, development and reorganization – Pre-IPO Investment” in this prospectus.

SHARE OFFER STATISTICS

	Based on the maximum Offer Price of HK\$0.50 per Offer Share	Based on the minimum Offer Price of HK\$0.40 per Offer Share
Market capitalisation of our Shares ⁽²⁾	HK\$630 million	HK\$504 million
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$0.26	HK\$0.23

Notes:

1. All statistics in this table are based on the assumption that the Over-allotment Option is not exercised and no options are granted under the Share Option Scheme.
2. The market capitalisation is calculated based on 1,260,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised.

SUMMARY

3. The unaudited pro forma adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II headed “Unaudited pro forma financial information” to this prospectus and on the basis of a total of 1,260,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised.

DIVIDEND AND DIVIDEND POLICY

Dividend of approximately RMB31.1 million paid during the year ended 31 December 2018 represented dividend declared and paid by Deyun to its equity holders. No dividend has been paid by the Company during the Track Record Period. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospect, capital requirements, and economic outlook. Declaration and payment of dividends is also subject to any applicable laws and the Articles of Association. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. Currently, our Group does not have a fixed dividend policy and does not have a pre-determined dividend distribution action.

LEGAL COMPLIANCE

According to our PRC Legal Advisers, save for our failure to make adequate social insurance contributions and housing provident fund contributions for our employees as required by the relevant PRC laws and regulations, details of which are set out in the sections headed “Business – Legal Non-compliance” in this prospectus, during the Track Record Period and up to the Latest Applicable Date, we had been in compliance with the relevant PRC laws and regulations in all material aspects in our business operation, and our Group had obtained all material licenses, approvals and permits issued by relevant regulatory authorities for our business operation.

DEFINITIONS

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

“Accountant’s Report”	the accountant’s report of our Group prepared by our Reporting Accountants set out in Appendix I to this prospectus
“Application Form(s)”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on 16 December 2020 and effective on the Listing Date, as amended or supplemented from time to time, a summary of which is set forth in Appendix III to this prospectus
“associate(s)” or “close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“BOCOM International”	BOCOM International Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities under the SFO, being a joint bookrunner and a joint lead manager of the Listing
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in “Appendix IV – Statutory and General Information – A. Further Information about our Group and our Subsidiary – 5. Resolutions in writing of our Shareholders dated 16 December 2020” in this prospectus

DEFINITIONS

“Cayman Companies Law” or “Companies Law”	the Companies Act (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCB International”	CCB International Capital Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being a joint bookrunner and a joint lead manager of the Listing
“Chairman”	the chairman of the Board
“China” or “PRC”	the People’s Republic of China, but for the purpose of this document only and except where the context requires otherwise, references in this prospectus to “China” or the “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“CIC”	China Insights Industry Consultancy Limited, a market research consultant who is an Independent Third Party
“CIC Report”	The industry report prepared by CIC on the lace weaving and dyeing industry in China
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Co-Lead Managers”	Red Eagle and Yuzhou Financial

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company”	Deyun Holding Ltd., formerly known as Deyun Holding Ltd. (德運控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 4 January 2019
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Deyong Investment
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	Corporate Governance Code set out as Appendix 14 to the Listing Rules
“COVID-19”	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness that was first reported in Wuhan, China
“Dakin Capital” or “Sole Sponsor”	Dakin Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO
“Dakin Securities”	Dakin Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 2 (dealing in future contracts) regulated activities under the SFO, being a joint bookrunner and a joint lead manager of the Listing

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 16 December 2020 entered into by our Controlling Shareholders in favor of our Company (for itself and as trustee for each of the subsidiaries) to provide certain indemnities, particulars of which are set out in “Appendix IV – Statutory and General Information – G. Other Information – 1. Tax and Other Indemnities” to this prospectus
“Deyong Investment”	Deyong Investment Co., Ltd, a limited liability company incorporated in the BVI on 30 November 2018 which is owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen, and is one of our Controlling Shareholders
“Deyun”	Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司), formerly known as Fuzhou Desheng Weaving and Dyeing Co., Ltd.* (福州德盛織染有限公司) and Fujian Deyun Technology Company Limited* (福建德運科技股份有限公司), a limited liability company incorporated in the PRC on 11 December 2002, and an indirectly wholly-owned subsidiary of our Company
“Deyun Consulting”	Fujian Deyun Consulting Services Co., Ltd.* (福建德運諮詢服務有限公司), a limited liability company incorporated in the PRC on 18 December 2019 and an indirectly wholly-owned subsidiary of our Company
“Deyun Holding (HK)”	Deyun Holding (HK) Limited, a limited liability company incorporated in Hong Kong on 13 March 2019 and an indirectly wholly-owned subsidiary of our Company
“Deyun Investment”	Deyun Investment Limited, a limited liability company incorporated in the BVI on 29 January 2019 and a directly wholly-owned subsidiary of our Company
“Director(s)”	the directors of our Company
“Discharge Standard”	Discharge Standard of Water Pollutant for Dyeing and Finishing of Textile Industry (《紡織染整工業水污染物排放標準》)
“EIT”	the PRC enterprise income tax

DEFINITIONS

“EIT Law”	Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法), as amended or supplemented from time to time
“Executive Director(s)”	Executive director(s) of our Company
“Fuzhou Production Facilities”	the production facilities of our Group located at 97 Longjiangnan Road, Longxia Village, Songxia Town, Changle District, Fuzhou Fujian in the PRC* (中國福建省福州市長樂區松下鎮壠下村龍江南路97號)
“FY17”, “FY18”, “FY19”	the financial years ended 31 December 2017, 2018 and 2019, respectively
“Glorious Way”	Glorious Way Investments Limited, a limited liability company incorporated in the BVI on 9 April 2019 and is wholly owned by the Pre-IPO Investor
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we”, “our” or “us”	our Company and its 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 its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Independent Non-executive Director(s)”	independent non-executive director(s) of our Company
“independent third party(ies)”	a person who, as far as our Directors are aware after having made all reasonable enquiries, is not a connected person of our Company
“I Win Securities”	I Win Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) regulated activities under the SFO, being a joint lead manager of the Listing
“Joint Bookrunners”	Dakin Securities, BOCOM International and CCB International
“Joint Lead Managers”	Dakin Securities, BOCOM International, CCB International and I Win Securities
“Latest Practicable Date”	18 December 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares on the Main Board first commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company conditionally adopted on 16 December 2020 and effective on the Listing Date, as amended or supplemented from time to time, a summary of which is set out in Appendix III to this prospectus
“MIIT”	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Chow Kit Ting”	Mr. Chow Kit Ting (周傑霆), an Independent Non-executive Director
“Mr. Lin Bingzhong”	Mr. Lin Bingzhong (林秉忠), an Executive Director and one of our Controlling Shareholders
“Mr. Lin Chaoji”	Mr. Lin Chaoji (林朝基), one of our Controlling Shareholders
“Mr. Lin Chaowei”	Mr. Lin Chaowei (林朝偉), an Executive Director and one of our Controlling Shareholders
“Mr. Lin Chaowen”	Mr. Lin Chaowen (林朝文) (formerly known as Lin Aihong (林愛洪)), an Executive Director and one of our Controlling Shareholders
“Mr. Lin Minqiang”	Mr. Lin Minqiang (林民強), an Executive Director, the Chairman of the Board and one of our Controlling Shareholders
“Mr. Sheng Ziji”	Mr. Sheng Ziji (盛子九), an Independent Non-executive Director
“Mr. Wei Cunzhuo”	Mr. Wei Cunzhuo (魏存灼), an Executive Director
“Mr. Wong Chun Sek Edmund”	Mr. Wong Chun Sek Edmund (黃俊碩), an Independent Non-executive Director
“Mr. Yip Koon Shing”	Mr. Yip Koon Shing (葉冠成) (formerly known as Yip Shing Kee (葉成基)), an Independent Non-executive Director
“Ms. Lin Lili”	Ms. Lin Lili (林莉莉), an Executive Director

DEFINITIONS

“NEEQ”	the National Equities Exchange and Quotations System
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.5 and expected to be not less than HK\$0.4, such price to be determined by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Shares and the Placing Shares
“Over-allotment Option”	the option expected to be granted by us to the Placing Underwriters under the Underwriting Agreement, exercisable by the Stabilising Manager (for themselves and on behalf of the Placing Underwriters), pursuant to which we may be required to allot and issue up to 47,250,000 additional Shares (representing 15% of the initial number of the Offer Shares) at the Offer Price, to cover over-allocations in the Placing, if any, as further described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares by our Company and subject to the terms and conditions as further described in the section headed “Structure and Conditions of the Share Offer” in the prospectus
“Placing Share(s)”	the 283,500,000 new Shares being initially offered by us for subscription pursuant to the Placing together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“Placing Underwriter(s)”	the underwriter(s) for the Placing who is/are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing to be entered into by, among others, our Company and the Placing Underwriters on or about the Price Determination Date, as further described in the section headed “Underwriting” in this prospectus

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Company Law”	Company Law of the PRC* (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on 27 October 2005 and effective on 1 January 2006, revised on 28 December 2013 and effective on 1 March 2014, and further amended and effective on 26 October 2018, as amended, supplemented and otherwise modified from time to time
“Pre-IPO Investor” or “Mr. Tsoi”	Mr. Tsoi Wing Sing (蔡榮星)
“PRC Government” or “Chinese Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context require, any of them
“PRC Legal Advisers”	Beijing DHH (Shanghai) Law Firm, our legal advisers as to the PRC laws
“Price Determination Date”	the date expected to be on or around Monday, 4 January 2021, but no later than Wednesday, 6 January 2021, on which the Offer Price for the purpose of the Share Offer
“Public Offer”	the offer by us of the Public Offer Shares for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Shares”	the 31,500,000 new Shares being initially offered by us for subscription in the Public Offer
“Public Offer Underwriter(s)”	the underwriter(s) listed in the section headed “Underwriting – Underwriters – Public Offer Underwriters and Placing Underwriters”, being the underwriters of the Hong Kong Public Offer in this prospectus

DEFINITIONS

“Public Offer Underwriting Agreement”	the underwriting agreement dated 22 December 2020 relating to the Public Offer entered into by, among others, our Company and the Public Offer Underwriters, as further described in the section headed “Underwriting” in this prospectus
“Red Eagle”	Red Eagle Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) regulated activities under the SFO, being a co-lead manager of the Listing
“Regal Star”	Regal Star Holdings Limited, a limited liability company incorporated in Hong Kong on 17 May 2019 and is wholly owned by Glorious Way
“Regulation S”	Regulation S under the U.S. Securities Act
“Regulatory Impact”	the impact from regulatory measures implemented by Shantou City local government, details of which are set out in the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” in this prospectus
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the reorganisation of our Group in preparation for the Listing, details of which are set out in the section headed “History, Development and Reorganisation – Reorganisation” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局) of its local branches
“SAT”	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 of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 16 December 2020 for the benefit of our Directors, members of senior management employees and other eligible participants defined in the scheme, a summary of the principal terms of which is set forth in “Appendix IV – Statutory and General Information – F. Share Option Scheme” to this prospectus
“Share(s)”	ordinary share(s) with a nominal or par value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Stabilising Manager”	Dakin Securities
“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
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended or supplemented from time to time
“Track Record Period”	FY17, FY18, FY19 and 1H20
“Ultimate Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, collectively refers to Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen
“Underwriter(s)”	the Placing Underwriter(s) and the Public Offer Underwriter(s)
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“U.S. Securities Act”	the United States Securities Act 1933, as amended or supplemented from time to time
“US\$” or “USD”	US dollars, the lawful currency of the United States of America

DEFINITIONS

“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ White Form eIPO ”	the application of Public Offer Shares for issue in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Provider at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WHO”	the World Health Organisation
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“Yuzhou Financial”	Yuzhou Financial Holdings Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, being a co-lead manager of the Listing
“Xingsheng”	Fujian Changle Xingsheng Warp-knitted Fabrics Co., Ltd.* (福建省長樂市興盛經編織物有限公司) (formerly known as Changle Warp Knitted Fabrics Factory* (長樂市經編織物廠)), a former limited liability company incorporated in the PRC on 21 October 1996 prior to its merger with Deyun by way of absorption on 23 January 2006
“1H19”	the six months ended 30 June 2019
“1H20”	the six months ended 30 June 2020
“%”	per cent

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purpose only.*

GLOSSARY

This glossary contains certain definitions and technical terms in this prospectus which relate to our business and the industries and sectors that we operate in. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

“dehydrator”	a machine for carrying out centrifugal dewatering process to remove water from textiles in the process of fabrics dyeing
“ERP system”	enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise-wide resources needed to take, make, distribute and account for customer orders
“greige fabrics”	an unprocessed form of lace and lace fabric just off the weaving machine
“high density lace”	refers to lace with thread count of more than 40S
“ISO”	acronym for International Organisation for Standardisation, a series of international standards, including quality management and quality assurance standards published by the Universal Certification Services Co., Ltd., a non-government organisation for assessing the quality system of business organisations
“ISO 14001”	one of the guidelines of ISO which is applicable to any organisation that wishes to establish, implement, maintain and improved environmental management system
“ISO 9001”	a standard under ISO used for certification or registration and contractual purposes by organisations seeking recognition of the quality management which specifies the requirement for quality management systems for any organisation that needs to demonstrate its ability to consistently provide products that meet its requisite standards
“kg”	kilogramme
“lace”	a fabric patterned with open holds in the work commonly used for decorative purpose for lingerie

GLOSSARY

“nylon”	a fibre known scientifically as polyamide fibre, which has high strengths and resistance to wear and may be weaved or blended into fabrics
“OHSAS”	acronym for Occupational Health and Safety Assessment Specification, which provides a framework for organisations to identify and control its occupational risks and to improve their occupational safety and health performance
“OHSAS 18001”	the requirements for occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
“polyamide filament yarn”	a type of man-made nylon which is manufactured through a chemical process
“polyamide high-stretch filament yarn”	a type of man-made nylon which is manufactured through a chemical process. With a slightly different chemical component, this type of fabric has higher extension index than other polyamide filament
“regular density lace”	refers to lace with thread count of less than or equal to 40S
“scutcher”	a machine in carrying out the repeated process of different actions to flatten the fabrics into a smooth sheet
“setting machine”	a machine which reshape fabrics by heat through modifying the elasticity and structure of the fibres before finishing
“sq.m.”	square metre
“tonnes”	metric tonnes, where one metric tonne equals to 1,000 kilogrammes
“weaving”	a method of textile production in which two distinct sets of filament are interlaced at right angles to form a piece of lace or lace fabric

GLOSSARY

“yarn count” or “thread count”

thickness of a yarn which is based on the relation between length and weight of the yarn and can be represented by the number of fixed lengths of yarn per standard weight. In this prospectus, yarn count or thread count is measured in accordance with the British standard which is expressed in count number with abbreviation “S”. The British standard measures the number of yarn hanks, each of which is 840 yards long, per pound of yarn. Under such system, assuming the raw material used to produce the yarn is being the same, a bigger number generally implies a finer yarn and a smaller number implies a coarser yarn

FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, “shall”, “will” and the negative of these terms and other similar expressions, as they relate to us. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources, which reflect our management’s current view with respect to future events based on the beliefs of our management and assumptions made by and information currently available to our management, and are subject to certain risks, uncertainties and factors, including the risk factors described in the section headed “Risk Factors” of this prospectus. Potential investors of the Offer Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. In light of these, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Group’s plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in the section headed “Risk Factors” of this prospectus. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial part of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment that differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We as a dyeing service provider have been categorised as one of the heavily polluting industries. Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms

Our business of providing dyeing services has been categorised as one of the heavily polluting industries and our operations are subjected to the environmental protection laws and regulations promulgated by the PRC government authorities. These laws and regulations require us to adopt effective measures to control and properly dispose of waste water and other environmental pollutants. We could be exposed to penalties, fines, suspensions or actions in other forms if we fail to comply with these laws and regulations.

Moreover, the environmental laws and regulations in China may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. For example, the Printing and Dyeing Industry Regulation (2017) came into effect on 1 October 2017 stipulates that printing and dyeing enterprises should develop new technologies, processes, equipment and materials in manufacturing textile products in order to manage the discharge of waste water, solid waste and air pollutant. On 20 December 2018, the Guide Opinions on the Transformation and Upgrading of Printing and Dyeing Industry in Fujian Province (“**Guide Opinion**”) was issued, directing the acceleration of planning and construction of printing and dyeing industrial parks, improving equipment and facilities etc. Local government in Fuzhou City set out detailed implementation plans in accordance with the Guide Opinion. Please refer to the section headed “Regulatory Overview – Laws and regulations in relation to our Group’s business in the PRC – Environmental protection” for details.

Our historical revenue growth was significantly contributed by regulatory factors. There is no assurance that the regulatory measures on environmental protection similar to those implemented in Shantou City, the PRC would not be implemented in Fujian. Please refer to the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” for details. Our future business and financial performance may further subject to similar regulatory factors. Furthermore, there is no assurance that we would be able to support changes in technical requirements which could be required as a result of changes to environmental laws and regulations or that our operations would always be in compliance with applicable environmental regulations. In any event that changes to existing laws and regulations require us

RISK FACTORS

to incur additional compliance cost or require costly changes to our production process, the production costs of our Group could increase and we may lose our business with certain customers, which will decrease our market share and thereby materially and adversely affect our business, financial condition and results of operations.

We derived a significant historical revenue growth attributable to the Regulatory Impact during the Track Record Period, our historical results may not be indicative of our future prospects and results of operations, and our operating results may fluctuate significantly

Our historical revenue growth was significantly contributed by Regulatory Impact. For each of the years ended 31 December 2018 and 2019, we recorded revenue growth by approximately RMB26.5 million and RMB30.9 million, respectively, representing approximately 18.2% and 17.9%, respectively, over the preceding year. Please see the section headed “Financial Information – Selected items of consolidated income statements – The contribution of the new demand from Guangdong to the annual revenue growth in FY18 and FY19” for further details.

Despite we experienced significant growth in revenue and profit during the Track Record Period, the improved financial results are not indicative of our future financial performance. Our growth depends on a number of factors, including but not limited to the market trend and demand of our products, our business relationship with our customers, the implementation of our business strategies, the competitive landscape of the industry where we operate as well as the general economic conditions in the PRC, Hong Kong and elsewhere in the world. Historical figures or past results should not be relied on as indicators of our performance. We cannot assure you that our growth will continue in the near future or at all.

We derived a significant portion of our revenue from our customers in Fujian and Guangdong during the Track Record Period. Failure to retain business relationships with existing customers or secure new business may materially affect our results and financial performance

In FY17, FY18, FY19 and 1H20 our customers in Fujian and Guangdong accounted for approximately 75.9%, 81.7%, 86.4% and 88.3% of our total revenue, respectively. Please see the section headed “Business – Sales and Marketing – Our customers” for further details. Given that our Group mainly provide lace manufacture and dyeing services on an order-by-order basis, there is no assurance that our business relationship with our customers in Fujian and Guangdong will continue in the future. As such, the revenue we had derived from our customers in Fujian and Guangdong during the Track Record Period may not be indicative of the amount of revenue we could derive from them in the future. Our results of operations, profitability and liquidity may be materially and adversely affected if we are unable to secure new orders from our customers in Fujian and Guangdong or fail to procure similar level of business from new customers from other cities or countries on comparable commercial terms to offset the loss of revenue from customers in Fujian and Guangdong.

RISK FACTORS

In addition, our business, financial condition and results of operations also depend on the financial condition and commercial success of our customers in Fujian and Guangdong. If most of our customers in Fujian and Guangdong shall become unwilling or unable to make payments, we may be unable to recover significant amounts of trade receivables and our cash flow and financial position may be materially and adversely affected.

We do not enter into any long term contract with our customers

During the Track Record Period, we did not enter into any long-term contracts with our customers. Our customers normally purchase from us on an order-by-order basis according to the amount of lace they require for their lingerie or garment design. We cannot assure that our customers will continue to place orders in the future at the same level as the prior periods. Thus, we cannot accurately predict our future order quantities and the actual sales volume may deviate from our expectations. Consequently, the result of operation may vary from time to time and may even fluctuate in a significant manner in the future.

We do not own the intellectual property rights for the lace designs

We and our customers do not own the intellectual properties of lace designs. To the best knowledge of the Directors after reasonable enquiries, no lace designs, whether they were designed by our Group or initiated by our customers by providing us with conventional design drawings which later turned into computer design drawings by us, were registered during the Track Record Period. Therefore, it is possible that our competitors may use the same lace designs on their products after our lace designs were first used on our products and we have no legal claims against our competitors in such circumstances. Consequently, we may not be able to retain our customers for we are not the only manufacturer which can produce the lace design.

Our business operations and financial results may be adversely affected if there is an outbreak of any severe communicable diseases such as COVID-19

Since the outbreak of the COVID-19 in January 2020, it has resulted in a number of deaths in the PRC and globally. The outbreak of COVID-19 is still ongoing, particularly in certain overseas countries as at the Latest Practicable Date and there is no guarantee that outbreak will come to an end in the near future or without resurgence. Based on our audited accounts for the six months ended 30 June 2020, our revenue and our gross profit margin for the six months ended 30 June 2020, being approximately RMB94.8 million and 33.4%, respectively, decreased by approximately 12.4% and 1.1% when compared to the revenue and gross profit margin for the same period in 2019. If the development of COVID-19 turns severe or intensified, the economic conditions and market sentiment globally, including the PRC may be dampened and affected adversely. This may also result in the re-implementation of stringent pandemic preventive measures to control the spread of COVID-19 by the PRC government, e.g., imposing city lockdowns. If the lockdowns are implemented in areas where our operations, our customers and our suppliers are located, it could cause material interruptions in our business productions and our financial results may as a result be adversely affected. Please refer to the section headed “Summary – Recent Development – Outbreak of COVID-19” in this prospectus for more details.

RISK FACTORS

Our success depends on our ability and our customers' ability to respond to rapid changes in increasing demand for quality and design, consumer preferences and advancement of technologies

Our success largely depends on our ability to respond quickly to rapid changes on the market trend and consumer's preferences. This requires us to develop new types of lace products or patterns or modify the previous lace products or patterns continuously to retain our customers. As our lace products were mainly sold to lingerie or garment manufacturers, changes on the fashion trend of lingerie or garment products with lace may affect us if we are not able to utilise advanced technologies to create or improve our products in response to the market trend. Demand for our product will decrease. Also, as the standard of living for Chinese citizen increase rapidly in the past years, their demand on the quality of lingerie or garment products with lace will generally increase. If we are not able to produce high quality products by improving our production machineries and techniques, we may lose the market opportunity and our business would suffer as a result of our inability.

In light of the above, our Directors are of the view that our research and development is vital to our capability to satisfy our customers' changing product specifications, facilitating changes in market demands and trends and to enhance our competitiveness in the future. As at the Latest Practicable Date, we had seven computer software copyright for design of lace pattern, five invention patents in respect of dyeing process and 39 utility model patents in respect of certain types of laces. We also had one invention patent and 10 utility model patent applications in the PRC which were pending registration. For FY17, FY18, FY19 and 1H20 our expenditure in connection with our research and development which include staff costs and research and development project expenses, amounted to approximately RMB8.7 million, RMB8.1 million, RMB10.9 million and RMB4.2 million, respectively, representing approximately 6.0%, 4.7%, 5.4% and 4.4% of our total revenue, respectively, for the same periods. However, there is no assurance that we will be successful in developing products or techniques for producing new products with the desired features or market demand, or that such research and development plans may be completed within our desired time frame at reasonable costs.

Likewise, the demand for our products also depends on whether the end-user of our lace products such as lingerie brand owners are able to create lingerie or garment products with sufficient market appeal. If they are not able to create appealing end-products that follow the market trend, the demand for the end-product may decrease and subsequently lead to the decrease in size of product orders placed with us. Our success has a direct relationship with the performance of the end-user of our lace products in the market.

We and our customers both cannot assure you that we must respond to the changes in quality and design demand or consumer preference in a timely manner.

RISK FACTORS

We depend on a stable and adequate supply of raw materials and we do not enter into any long-term agreements with our suppliers, fluctuation in the price of raw materials may affect our cost of sales and adversely affect our business operation and profitability

Raw material cost constitutes the major part of our cost of sales. In each of the FY17, FY18, FY19 and 1H20, our cost of raw materials amounted to RMB60.1 million, RMB68.3 million, RMB67.6 million and RMB29.2 million and accounted for approximately 50.6%, 53.7%, and 49.5% and 46.1% of our total cost of sales, respectively. Please see the section headed “Business – Procurement – Major raw materials” for further details.

Most of our customers rely on our procurement service and request us to select and provide dyes and polyamide filament yarn for the dyeing service or production of lace at a fixed price and we are generally responsible for all the cost. As a result, our production volume and cost depend largely on our ability to source quality materials at competitive prices. Since we did not enter into any long-term agreement with our current raw material suppliers, if any interruption, reduction or termination of the supply of raw materials occurs, or the price of the raw material increase due to an increase in demand, we have to bear the risk of such fluctuations and may not be able to shift such risk to our customers.

There is no assurance that our suppliers will not significantly increase the prices of raw materials in the future, in particular when the market prices of or the market demand for such raw materials increase. There is also no assurance that we will be able to pass the increase in the cost of raw materials to our customers in a timely manner or at all to avoid adverse impacts on our profitability.

Hence, any increase in the price of the raw materials will directly affect our profitability if we fail to accurately estimate the cost of the raw materials to fulfil the purchase order when we fixed the price with our customers.

Please refer to the section headed “Financial Information – Sensitivity Analysis – Hypothetical fluctuations in cost of raw materials” in this prospectus for the sensitivity analysis of the impact of hypothetical fluctuations in the cost of raw materials.

Increase in labour cost may have an adverse effect on our business, financial condition, results of operations and growth prospects

We rely on our employees to carry out production and other operating activities. Our need for production personnel will increase in aligning with the expansion of our production capacity and increase of our production volume.

Moreover, the labour costs in the PRC have been increasing in recent years and may continue to increase in the future. For FY17, FY18, FY19 and 1H20, our cost of direct labour amounted to RMB25.8 million, RMB24.8 million, RMB34.2 million and RMB17.7 million and accounted for approximately 21.7%, 19.5%, 25.1% and 28.0% of our total cost of sales, respectively. Please see the section headed “Financial Information – Selected items of

RISK FACTORS

consolidated Income statements – Cost of sales” for further details on our cost of direct labour. There is no assurance that we will not experience any labour shortage for our production or that the costs of labour in the PRC will not continue to increase in the future.

Furthermore, if labour costs continue to increase in the PRC, our production cost will increase correspondingly and we may not be able to shift these extra costs to our customers due to competitive pricing pressures among our competitors.

In addition, as the competition for skilled workers is increasingly intensive, we may need to enhance our remuneration package and welfare to our employees in order to recruit and retain staff. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate any increase in demand for our products. Hence, our business, prospect, financial conditions and results of operations would be materially and adversely affected.

We may be unable to obtain financing on favourable terms, or at all, to meet our funding requirements

Currently, we fund our operation and capital expenditure primarily from cash flow generated from our operating activities and bank loans. As we are planning to expand our dyeing service capacity and enhance efficiency by way of upgrading, replacement and acquiring of dyeing machineries and facilities in the future, we may need to obtain further financing from external sources to increase our liquidity. With regard to obtaining external financing in the future, we are subject to some uncertainties, including: (i) our financial condition, operation results, cash flow, credit history and business reputation; and (ii) the condition of domestic and global financial market.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our Group’s borrowings were approximately RMB42 million, RMB65 million, RMB13 million and RMB13 million, respectively, to finance our business operations and to fulfil working capital requirements. Please see the section headed “Financial Information – Indebtedness – Bank borrowings” for further details.

Yet, we cannot assure you that we are able to obtain bank loans or renew our existing facilities on favourable terms in the future or at all. Furthermore, we cannot promise that we will not be affected by fluctuation on interest rates on external financing secured or to be secured to fund our planned upgrading replacement and acquiring of dyeing machineries and facilities and daily operations.

We incurred net current liabilities and had a high gearing ratio as at 31 December 2017 and 2018.

We incurred net current liabilities of approximately RMB40.5 million and RMB30.1 million as at 31 December 2017 and 2018, respectively, primarily due to our capital expenditure and business expansion plans were financed through significant amount of short-term borrowings.

RISK FACTORS

Our outstanding balance of borrowings from banks, as at 31 December 2017 and 2018 were approximately RMB42 million and RMB65 million, respectively. Our gearing ratio was approximately 43.1% and 50.8%, respectively, as at 31 December 2017 and 2018.

High gearing ratio will negatively affect our performance and financial position, including but not limited to (i) increase in the finance costs which will reduce our net profit; (ii) increase in the cash outflow for the repayment on the principal and interest of the borrowings; (iii) reduce the cash available for the use of our operation, business planning and capital expenditures; (iv) increase our business risk if there is any adverse change in economy or industry conditions; and (v) increase our exposure to interest rate risks.

We cannot assure you that we will not record net current liabilities again in the future. A net current liability position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables will primarily depend on our ability to generate adequate cash inflows from our operating activities. If we experience a shortage in cash flow generated from operations, our liquidity position may be materially and adversely affected, which, in turn, may impact our ability to execute our business strategies. If such event occurs, our results of operations and financial position will be materially and adversely affected.

Any change or discontinuation of preferential tax treatment we currently enjoy would increase our tax liability, thus adversely affecting our business operation and revenue

During the Track Record Period and as at the Latest Practicable Date, we enjoyed preferential tax treatments granted by the PRC government authorities. For each of FY17, FY18, FY19 and 1H20, the preferential tax treatment we received was approximately RMB0.7 million, RMB0.9 million, RMB1.2 million and RMB0.5 million, respectively. For further details, please refer to Note 11 in the Accountant's Report set out in Appendix I. Since we have obtained the status of "High and New Technology Enterprise" (高新技術企業) since 2016 in recognition of our strong research and development capability, we are able to enjoy a preferential tax treatment for three years. According to applicable PRC laws and regulations, during the period of the grant of such status, we are entitled to the reduced enterprise income tax rate of 15% after making a declaration to the relevant tax authority. We could not guarantee that we will continue to be accredited with this status after expiration of the certificate issued in 2019. Furthermore, we cannot assure that the current preferential tax treatment will remain.

We are exposed to credit risk of our customers

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our balance of trade receivables due from third parties was approximately RMB10.8 million, RMB14.3 million, RMB12.5 million and RMB23.2 million, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our bills receivable amounted to approximately RMB0.05 million, RMB0.6 million, RMB3.1 million and nil, respectively. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the average trade and bill receivables turnover days were approximately 46.6 days, 27.2 days, 27.4 days and 37.2 days, respectively.

RISK FACTORS

During the Track Record Period, our average trade and bill receivables turnover days fluctuated slightly. Given that the amount of our trade and bill receivables was on an increasing trend during the Track Record Period, should the credit worthiness of our customers deteriorate or should a significant number of our customers fail to settle their trade and bill receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment by our Group's customers from their respective credit period, which in turn may also result in an impairment loss provision. There is no assurance that we will be able to fully recover our trade and bill receivables from the customers or that they will settle our trade and bill receivables in a timely manner. In the event the settlements from the customers are not made on a timely manner, the financial position, profitability and cash flow of our Group may be adversely affected.

Failure to bill and receive our contract assets in full may affect our liquidity and financial position

Contract assets represented the Group's rights to consideration for work completed but unbilled for its business. Contract assets are recognised when our Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our contract assets were approximately RMB3.6 million, 14.2 million, 16.6 million and 24.3 million, respectively. There is no assurance that we will be able to bill and receive our contract assets in full as we may not be able to reach an agreement with the customers on the value of our work done. Given that the amount of our contract assets was on an increasing trend during the Track Record Period, failure to bill and receive the full amount of contract assets may adversely affect our results of operation, liquidity and financial position.

Our plan to expand dyeing service capacity and related production facilities may not be successful or such expansion may result in significant increase in our cost of sales, thus affecting our operation and financial conditions

In order to support our growing operation and number of orders, we plan to replace and upgrade our existing key equipment for our dyeing process by replacing our existing five setting machines and acquiring two sets of combined dehydrators and scutchers, replacing 40 dyeing machines, and acquiring a centralised control automation system. The investment costs of the net proceeds from the Share Offer for the expansion on our dyeing service capacity (excluding hiring of technicians) will be approximately HKD57.3 million. Please see the section headed "Future plans and use of proceeds – Use of proceeds" for further details. However, the risks of our expansion plan includes: (i) depending on the demand of our products, which may be affected by market trend, our actual production volume may vary; (ii) labour costs and depreciation costs will increase; and (iii) there might be delay for purchasing the new machineries.

RISK FACTORS

Any failure or delay in implementing parts of the plans may result in decrease or lack of production capacity to support the market expansion, thus may materially affect our operation and financial conditions.

We rely on our key management personnel and failure to retain our key management may adversely affect our results of operations

Our expansion plans depends on the continuous service of the key members of our management team. If we were to lose the service of any of the existing key management members without a suitable replacement, or were unable to attract new qualified members with suitable experience to join our management team, there could be adverse impact to our business operation. Our chairman and Director, Mr. Lin Minqiang, and our Director Mr. Wei Cunzhou, each possesses more than 31 years and 25 years of relevant experience, respectively, in the lace manufacturing and dyeing service industry and have made significant contributions to the development of our Group. We cannot assure you that one or more of these key personnel may stay with us in the future and it could be time consuming and difficult to find their replacement.

Further, our continued success also depends on the contribution of experienced staffs, such as our head of research and development department, Mr. Dong Jianren* (董建人), who has over 14 years of experience in research and development. If we are not able to recruit and retain experienced with the required experience, our research and development capabilities will be adversely affected.

Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance and housing provident fund contributions for their employees and entities failing to make such contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines. During the Track Record Period, we were not in strict compliance with the requisite contribution requirements in relation to our PRC employees. According to the social insurance laws and regulations in the PRC, the relevant social insurance authority is entitled to order our Group to pay the outstanding social insurance contributions within a given period and impose a late charge 0.05% per day of the underpaid social insurance contributions. If our Group fails to pay the underpaid social insurance contributions within the given period, a fine ranging from one to three times of the amount due may be imposed. Please see the section headed “Business – Legal Non-compliance” for further details.

There is no assurance that we will not be ordered to settle the outstanding contributions and/or subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents. There is also no assurance that there will not be any employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm our corporate image and may have an adverse effect on our financial condition and results of operations.

RISK FACTORS

Unexpected disruptions to our production facilities or production process may materially and adversely affect our business operations

Our business operation are heavily dependent on smooth operations of our Fuzhou Production Facilities, where all our production machinery and equipment are situated. These production machinery and equipment are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortage or strike, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our Fuzhou Production Facilities happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner or at all. As a result, our relationship with our customers could be adversely affected due to our failure and we may also be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial conditions and results of operations.

We may be subject to possible product returns and product liability claims which may affect our business reputation

We believe that our reputation for product quality, timely delivery and customer service has contributed significantly to the success of our business. Defects in our products and failure to meet delivery schedules would result in damage to our reputation and business relationships and result in decreased sales and product liability claims and litigation. Should there be any product liability claims, we may incur significant legal costs regardless of the outcome of any claim of alleged defect. If we face any product liability claims, our business, financial condition and results of operations may be materially and adversely affected.

Our customers such as lingerie brand owners have become increasingly sensitive about their reputation with respect to environmental and social responsibility. Accordingly lingerie brand owners may require their suppliers, including us, to fulfil certain environmental standards, and/or corporate social responsibility standards set forth by governmental or non-governmental labour organisations. In the event that we fail to fulfil these standards if we are publicly perceived to have failed to fulfil these standards or if we are otherwise publicly associated with poor environmental or social responsibility standards, it would affect our business relationships with customers which could affect our business, financial condition and result of operations and profitability.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material product return request, nor had we received any material complaint from our customers on the quality of our products, and none of our customers made any material warranty claims against us. Our Directors believe that it was largely attributable to our ability to supply products of high and consistent quality.

Furthermore, we currently do not have insurance coverage to protect us from these claims in our market worldwide. Even if we have insurance coverage, we may still incur significant costs in excess of our available insurance coverage and product returns and liability claims could significantly reduce our profitability.

RISK FACTORS

We may face intellectual property infringement claims which could negatively impact our business

We may face intellectual property infringement claims or otherwise become aware of potentially relevant patents and other intellectual property rights held by other parties. In addition, if our customers face any intellectual property infringement claims in the future, they may still require us to indemnify them for products marketed under their brand names. If such claims are brought against our customers and regardless of whether our customers have merits, we would need to spend a significant amount of money defending these claims. As a result, we may need to bear significant legal costs and pay for damages. We may also be subject to an injunction to refrain from using such intellectual property. All these could negatively impact our business as well as our reputation in the market. To the best information and knowledge of our Directors, we have not received any complaint from our customers alleging any potential claims relating to infringement of intellectual properties of third parties.

We may be subject to intellectual property rights disputes, which could adversely affect our business, results of operations and financial conditions

Our business success is built on our research and development capability to develop new and functional lace and dyeing methods that attract new customers. There is no assurance that the steps we have taken may be adequate to prevent the misappropriation of our product design. Any unauthorised use or infringement of our intellectual property rights (including those unregistered or undergoing registration application) may have an adverse impact on our business.

If we have to resort to litigation to enforce our intellectual property rights, we may incur significant costs. On the other hand, we cannot assure you that we will not be subject to infringement claims against us from third parties. Should such claims be brought against us, we may incur significant legal costs to defend our position and/or be required to pay substantial damages by the order of a judicial court or through mediation. This may materially and adversely affect our business reputation, financial conditions and results of operations.

We are subject to certain risks relating to the delivery of our products to overseas customers outside Fuzhou City

We rely on third party logistics companies for the delivery of our products to overseas customers located outside Fuzhou City, the PRC. If any unforeseen events which are beyond our control happen i.e., poor handling of our finished lace products, transportation barriers, natural disaster or labour strikes, the delivery service could be suspended and interrupt the supply of our products. Our revenue and market reputation could be adversely affect by the late deliveries.

RISK FACTORS

Failure to maintain an effective quality control system, including initial quality control on raw materials, quality control on greige fabrics and finished lace products

We adopt strict quality control measures which includes four stages, (i) initial quality check for raw materials, (ii) checking against our prototype of greige fabrics according to the specification from our customers, such as pattern and dimension of our lace and obtain approval from our customers before bulk production; (iii) inspecting finished lace against any snagged yarns to ensure the number of weaving defects is below the agreed level and (iv) conduct various types of test to ensure appropriate elasticity of the products.

If we fail to maintain our effective quality control, we may fail to detect defective or sub-standard lace and lace fabrics. This may result in damage of our reputation and business relationship with our customers once the defective products have been delivered to our customers without prior amendments. If there are any claims raised by our customers with regard to the quality of our lace products, we may incur significant legal cost regardless of the outcome of any claim or alleged breach of contract. If we face any claim on defective lace products, our business reputation and financial operation may be severely affected.

We maintain inventories of raw materials and our inventories may become obsolete

Our Group typically places orders for raw materials on an order-by-order basis though we keep certain amount of inventories, work-in-progress and finished products where we consider necessary as our sales volume increases. Our inventories may become obsolete due to reduction of customer amount in our industry and market preference. Thus, our financial results could be adversely affected.

Extraordinary events such as health epidemics, natural disasters, political unrest and terrorist attack could adversely affect our production and delivery time of our products

We require our operations to be uninterrupted in order to meet our customer orders from time to time. However, our production facilities, our customers and our suppliers are located in areas that may be susceptible to risks beyond our control including, among others, health epidemics, natural disasters, adverse weather conditions, political unrest, terrorist attacks and other catastrophes which could materially and adversely affect our operations and financial performance. For example, in 2003, certain Asian countries and regions were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS, a form of atypical pneumonia. This kind of serious outbreak of health epidemics, especially in areas where our operations, our customers and our suppliers are located could cause material interruptions in our production, procurement and sales process as well as our logistics for transportation of raw materials and products. We may not be able to meet our customers' demands or deliver our products, which may materially and adversely affect our financial conditions and reputation.

In addition, other extraordinary events such as natural disasters, adverse weather conditions, political unrest and terrorist attacks could significantly affect our business if they occur close to our production facilities, our suppliers or our customers. If we are unable to react

RISK FACTORS

promptly to such incidents, we could incur casualties, loss of inventory, and damage to our properties including our production facilities and interruptions to our production processes. Significant expenditure and time may also be required to rectify the damage caused to our business and there is no assurance that the insurance policies maintained by us will adequately cover all such losses to our business. On a macro level, such events are also likely to cause a degree of damage to the regional or national economy, which may affect the demand for our products if our customers and their downstream markets are affected. As such, our business operations and financial performance may be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRY

Our business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of the PRC

Our business and results of operations are subject to the economic and social conditions of the PRC, as our principal business operations are conducted in the PRC. The economy of the PRC differs from the economics of most developed countries in many respects, including, among others, the degree of government involvement, the level of development, the growth rate, the control of foreign exchange and the resource allocation. Given that the economy of the PRC has been undergoing a transition from a planned economy to a market-oriented economy, the PRC Government has adopted various measures emphasising the utilisation of market forces for economic reforms, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises. There is no assurance that the PRC Government will not introduce more restrictive or onerous policies in the future and any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect our prospects and business growth.

Our industry is affected by the economic and market conditions globally

As our products are ultimately sold to consumers in the retail market, any drop in consumer spending power could lead to a drop in the amount of purchases from our customers. According to the CIC Report, the textile industry in some low-labour-cost areas, including India and Southeast Asia, has achieved rapid development in recent years. As a result, textile manufacturers in China are facing increasing global competition and some portion of our products was sold to non-PRC customers. As such, it may decrease the demand for our products thereby adversely affecting our sales and profitability and may in turn adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE PRC

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

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the commencement of the PRC government's effort to

RISK FACTORS

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

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

Any failure to comply with the safety and health laws and regulations in the PRC could adversely affect our Group's operation

Our business and operations in the PRC are required to comply with the occupational safety and health standards and requirements in relation to our production process. Furthermore, under the PRC Labour Law (《中華人民共和國勞動法》) and the Law of the PRC on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》), we must ensure that our Group's facilities comply with the work safety and health standards and requirements for employees. Any failure to meet the relevant standards and requirements on production safety and labour safety could subject us to warnings from the relevant regulatory authorities, governmental orders to rectify such non-compliance within a specified period of time and fines by the relevant regulatory authorities. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

Introduction of new laws or changes to existing laws by the PRC government may adversely affect our business

Our business and operations in the PRC are governed by the legal system of the PRC. The legal system in the PRC is based on statutory law. Under this system, prior court decisions may be cited for references but do not have binding precedential effect. Accordingly, the outcome of dispute resolution may not be consistent or predictable as in other common law jurisdictions.

RISK FACTORS

Interpretation and enforcement of the PRC laws and regulations, including those regulating the lace weaving and dyeing industry and foreign investments may be subject to changes in policies and political environment. Different regulatory authorities may have different interpretation and enforcement of the lace weaving and dyeing industry policies and foreign investment policies, which requires companies to meet the policies requirements issued by relevant regulatory authorities from time to time, and obtain approvals and complete filings in accordance with the relevant regulatory authorities' interpretation and enforcement of such policies. If there are any future changes in applicable laws, regulations, administrative interpretations or regulatory documents, or stricter enforcement policies by the relevant PRC regulatory authorities, more stringent requirements could be imposed on the industries we are currently engaged in. Compliance with such new requirements could impose substantial additional costs or otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to meet such new rules and requirements relating to approval, construction, environmental or safety compliance of our operations, we may be ordered by the relevant PRC regulatory authorities to change, suspend construction of or closure of the relevant production facilities. Alternatively, these changes may also relax some requirements, which could be beneficial to our competitors or could lower market entry barriers and increase competition. As a result, our business, financial condition and results of operations could be materially and adversely affected. In addition, since the PRC economy is developing at a faster pace than its legal system and the PRC laws and regulations regarding the lace weaving and dyeing industry and foreign investments are relatively new and evolving, there may be uncertainties as to whether and how existing laws and regulations will apply to certain circumstances or events, and until the development of the legal system is kept abreast of economic reforms and development in the PRC, such uncertainties are likely to remain. We cannot assure you that introduction of new laws and amendments to existing laws by the PRC government may not adversely affect our profitability and prospects. For details regarding some of the relevant PRC laws and regulations to which our Group is currently subject, please refer to the section headed "Regulatory Overview" in this prospectus.

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

RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises ("FIEs") are required to apply to SAFE or banks for Foreign Exchange Registration Certificates.

Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE or banks. We cannot assure you that the PRC

RISK FACTORS

regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

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

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

The trade-war and Brexit in 2019 have adversely affected the United States, the European countries and other world economies. The ongoing uncertainties in the global investment environment may cause fluctuations in exchange rates which may in turn adversely affect the value of our net assets, earnings or any declared dividends. Also, any unfavourable movement in the exchange rate or the value of USD may lead to an unfavourable exposure to foreign exchange losses, which could in turn materially and adversely affect our financial condition and results of operations.

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

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries.

Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of distributable after-tax profit, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profit that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profit under PRC accounting principles is different in many respects from Hong Kong accounting principles.

Distributions by our subsidiary in the PRC to our subsidiary in Hong Kong may be subject to certain procedural requirements and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our overseas subsidiaries to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by PRC governmental authorities. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities from banks in the

RISK FACTORS

future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

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

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in BVI and Hong Kong. The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) and its implementation rules were enacted on 16 March 2007 and 6 December 2007, respectively, and both of which have become effective as at 1 January 2008 and newly amended on 29 December 2018. If our subsidiary in Hong Kong is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our subsidiary in Hong Kong, unless our subsidiary in Hong Kong is entitled to reduction or elimination of such tax, including by tax treaties. Under the Arrangement between the Mainland and HKSAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income (《內地和香港特別行政區關於所得避免雙重徵稅和防止偷漏稅的安排》), such dividend withholding tax rate is reduced to 5% if a Hong Kong tax resident enterprise owns over 25% of equity interests in the PRC company distributing the dividends. Pursuant to the Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (《非居民納稅人享受協定待遇管理辦法》) (“**2020 Administration Measures**”) released by the State Administration of Taxation on 14 October 2019 and became effective on 1 January 2020, prior approval from or Administration of Taxation is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, simultaneously compiles and retains the relevant materials pursuant to the provisions of the 2020 Administration Measures for future inspection, subject to the follow-up administration by the relevant tax authority. During the follow-up administration, the PRC tax authorities shall verify if the non-resident taxpayer is eligible for the tax preferential treatment, ask for supplemental documents from the non-tax resident or, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment, the competent tax authorities shall recover the tax pursuant to the law and pursue the non-resident taxpayer’s liability for deferred tax payment. Any new enactment of PRC tax law affecting tax exemptions on dividends may reduce the amount of dividends that could be distributed to our Company and Shareholders.

In addition, the PRC Enterprise Income Tax Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organisation” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to statutory enterprise income tax at the rate of 25% on its worldwide income. Substantially all members of our management are located in the PRC, we may be deemed as a PRC tax resident enterprise and therefore subject to a statutory enterprise income tax rate of 25% on our worldwide income, excluding the dividends received directly from another PRC tax resident. As a result of these changes described above, our historical operating results will not

RISK FACTORS

be indicative of our operating results for future periods and the value of the Shares will be adversely affected.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Share Offer, no public market for our Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Share Offer.

In addition, we cannot assure you that our Shares will be traded in the public market subsequent to the Share Offer at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement among the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of Shares could be materially and adversely affected.

The trading prices of our Shares may be volatile, which could result in substantial losses to you

The trading prices of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the trading price performance of other restaurant companies based in Asia may affect the trading price of our Shares. Various broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance. In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

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

The application for our Public Offer Shares will close on Thursday, 31 December 2020. The Offer Price of our Shares is expected to be determined on the Price Determination Date on Monday, 4 January 2021. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be on Wednesday, 13 January 2021. The gap between the closing date of the application lists and the Listing Date is longer than the usual market practice of six days. As a result, investors may not be able to sell or otherwise deal in

RISK FACTORS

our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Furthermore, the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the return monies, if any, will be returned to the applicants without interest on 12 January 2021.

The sale or availability for sale of substantial amounts of our Shares could adversely affect their trading price

Sales of substantial amounts of our Shares in the public market after the completion of the Share Offer, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares.

The Shares owned by our Controlling Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sale will have on the market price of our Shares.

There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme

We have adopted the Share Option Scheme, details of which are set out in the section headed “Statutory and General Information – F. Share Option Scheme” in Appendix IV to this prospectus. Issuance of Shares pursuant to the exercise of options granted or to be granted under the Share Option will result in an increase in the number of Shares in issue after the issuance and thereby will cause dilution to the percentage of ownership of the existing Shareholders, the earnings per Share, and net asset per Share.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands laws and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company’s minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix III to this prospectus.

RISK FACTORS

Certain statistics and forecasts in this prospectus were derived from third party sources and have not been independently verified

This prospectus includes certain statistics and facts that have been extracted from official government sources and publications or other sources and we cannot guarantee neither the quality nor the reliability of such source material. They have not been prepared or independently verified by us, the Sole Sponsor, the Underwriters or any of its or their respective affiliates or advisers, and therefore we take no representation as to the accuracy of such facts and statistics. In addition, the section headed “Industry Overview” of this prospectus contains certain forecast data which were based on certain assumptions which, by their nature, are subjective and uncertain. We cannot guarantee the accuracy or adequacy of such assumptions and accordingly, the forecast data. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place, on such facts, statistics and forecasts in this prospectus.

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

This prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising our Group, which are based on the beliefs of our management as well as assumptions made by and information currently available to our management. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus.

You should not rely on any information contained in press articles or other media regarding our Group and the Share Offer

Prior to the publication of this prospectus, there may be certain press and media coverage regarding our Group and the Share Offer which may include certain information relating to business operations, financial information, industry comparisons and other information about our Group that does not appear in this prospectus. We did not authorise the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any investment decision.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

INFORMATION AND REPRESENTATION

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in this Share Offer. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications in relation to subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attaching to them). It is emphasised that none of us, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, any of the Underwriters, any of their respective directors, agents, advisers, employees, personnel or any other persons or parties involved in the Share Offer accepts responsibility for any tax affairs or liabilities of any person resulting from the subscription for, purchase, holding or disposing of, dealing in our Shares, or the exercise of any rights attaching to our Shares.

Issuer	Deyun Holding Ltd.
The Share Offer	<p>The Share Offer of initially 315,000,000 Shares comprising (i) 31,500,000 new Shares for subscription by the public in Hong Kong (subject to reallocation) and (ii) initially 283,500,000 new Shares for subscription under Placing (subject to reallocation and the Overallotment Option).</p> <p>If the Over-allotment Option is exercised in full, our Company will be issuing up to 47,250,000 additional new Shares.</p>
Offer price range	Not more than HK\$0.50 per Share and not less than HK\$0.40 per Share
Share borrowing arrangements in connection with settlement	The Stabilising Manager or any person acting for it may borrow from Deyong Investment up to 47,250,000 Shares (assuming the Over-allotment Option is exercised in full).
Over-allotment Option	Up to 47,250,000 additional new Shares to be issued by our Company
Procedure for application for Public Offer Shares	Please refer to the section headed “How to Apply for Public Offer Shares” in this prospectus and on the relevant Application Forms.
Conditions of the Public Offer	Details of the conditions of the Public Offer are set out in “Structure and Conditions of the Share Offer – Conditions of the Share Offer in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Lock-up undertakings by our Company and the Controlling Shareholders	See the sections headed “Underwriting – Underwriting Arrangements and Expenses – Undertakings to the Stock Exchange Under the Listing Rules” and “Underwriting – Underwriting Arrangements and Expenses – Undertakings pursuant to the Public Offer Underwriting Agreement” in this prospectus.
Share register	Our principal register of members will be maintained by our Company’s principal share registrar, Appleby Global Services (Cayman) Limited in Cayman Islands and our Hong Kong branch register of members will be maintained by our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.
Stamp duty	<p>Dealings in the Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.</p> <p>Transfers of the Shares registered on our principal register of members in Cayman Islands will not be subject to Cayman Islands stamp duty unless our Company holds an interest in land in the Cayman Islands.</p>
Application for listing on the Stock Exchange	Application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, our 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), the Capitalisation Issue and any Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. No part of the Share or the loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Restrictions on offers and offers
for sale

No action has been taken to permit a public offer of the Offer Shares in any jurisdiction other than 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 circumstance 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.

Eligibility for CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and compliance of the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day (as defined in the Listing Rules) after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Language

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Rounding of figures

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place and figures in this prospectus are in approximate figures. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

Exchange rate

For the purpose of illustration only and unless otherwise specified in this prospectus, the following exchange rates are adopted:

$$\begin{aligned}\text{RMB1.00} &= \text{HKD1.12} \\ \text{RMB1.00} &= \text{USD0.13}\end{aligned}$$

No representation is made that the relevant amounts in any particular could have been, or could be, converted into such other currencies or vice versa at such rates or at any other rate on such date or on any other date.

Commencement of dealing in the Shares

Dealings in our Shares on the Main Board are expected to commence at 9:00 a.m. (Hong Kong time) on Wednesday, 13 January 2021. Shares will be traded in board lots of 5,000 Shares each.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

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

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily resident in Hong Kong.

Currently, save for our Independent Non-executive Directors Mr. Chow Kit Ting, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund, all of our Directors are based in PRC, given that our principal business operations are primarily located, managed and conducted in PRC. Our management and operation has been under the supervision of our Executive Directors and has proven to be effective, therefore the Board is of the view that the appointment of two additional Executive Directors to reside in Hong Kong or the relocation of our Executive Directors to Hong Kong would not only increase the administrative expenses of our Group, but would also reduce the effectiveness and responsiveness of the decision making process of the Board, especially when business decisions are required to be made within a short period of time. Therefore, our Company does not and will not in the foreseeable future have two Executive Directors ordinarily residing in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules on the following conditions to ensure that effective communication is maintained between the Stock Exchange and our Company:

- (i) our Company will appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives to be appointed are Mr. Lin Minqiang, the chairman of the Board and an Executive Director and Ms. Xu Jing, the company secretary of our Group. Ms. Xu Jing is ordinarily residing in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange within a short notice upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (ii) both of the authorised representatives have means to contact all members of the Board (including the Independent Non-executive Directors) and of the senior management team of our Company promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company will implement a policy that (a) each Executive Director and Independent Non-executive Director will have to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses to the

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

authorised representatives and his or her respective alternates; (b) in the event that an Executive Director or Independent Non-executive Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorised representatives; and (c) all the Executive Directors and Independent Non-executive Directors and authorised representatives will provide their office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses to the Stock Exchange;

- (iii) our Company will promptly inform the Stock Exchange of any changes on the authorised representatives;
- (iv) all Directors (including the Independent Non-executive Directors) who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong when so required and would be able to come to Hong Kong and meet the Stock Exchange within a reasonable period of time when required; and
- (v) our Company has appointed Dakin Capital Limited to act as the additional channel of communication with the Stock Exchange for the period commencing on the date of the initial listing of the shares of our Company on the Main Board of the Stock Exchange and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the date of its initial Listing.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Lin Minqiang (<i>Chairman</i>) (林民強)	Room 1703, Building 12 Golden Beach Housing Estate Sanfeng Road Hanghua Community Wuhang Sub-district, Fuzhou Fujian, the PRC	Chinese
Mr. Lin Chaowei (林朝偉)	Room 1202 Block 2, Zone A Jinjiang Century Residence No. 351 Sanfeng Road Hangcheng Sub-district Changle District, Fuzhou Fujian, the PRC	Chinese
Mr. Lin Chaowen (林朝文)	Room 501, 8/F Jinjiang Garden, Zhenghe Road Hangcheng Sub-district Changle District, Fuzhou Fujian, the PRC	Chinese
Mr. Lin Bingzhong (林秉忠)	Room 1202 Block 1, Zone A Jinjiang Century Residence No. 351 Sanfeng Road Hangcheng Sub-district Changle District, Fuzhou Fujian, the PRC	Chinese
Mr. Wei Cunzhuo (魏存灼)	Room 1302 Block 2, Zone A Jinjiang Century Residence No. 351 Sanfeng Road Hangcheng Sub-district Changle District, Fuzhou Fujian, the PRC	Chinese

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

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	<i>As to PRC law</i> Beijing DHH (Shanghai) Law Firm 62/F, Shanghai Tower 501 Middle Yincheng Road Pudong New Area Shanghai, the PRC
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	<i>As to PRC law</i> Beijing Dentons Law Offices, LLP 7/F, Building D Parkview Green FangCaoDi No.9, Dongdaqiao Road Chaoyang District Beijing, the PRC
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Industry consultant	China Insights Industry Consultancy Limited 10/F Block B, Jing'an International Center 88 Puji Road Jing'an District Shanghai, the PRC

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Internal control consultant

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CORPORATE INFORMATION

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Place of business in Hong Kong	Unit 1705, 17/F Strand 50 50 Bonham Strand Sheung Wan Hong Kong
Company's website	www.ds-lace.com (<i>information contained in this website does not form part of this prospectus</i>)
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CORPORATE INFORMATION

Remuneration committee

Mr. Yip Koon Shing (葉冠成) (*Chairman*)
Mr. Sheng Zijiu (盛子九)
Mr. Wong Chun Sek Edmund (黃俊碩)
Mr. Chow Kit Ting (周傑霆)

Nomination committee

Ms. Lin Lili (林莉莉) (*Chairman*)
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Fujian, the PRC

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Changle District, Fuzhou

Fujian, the PRC

China Merchants Bank, Fuzhou Branch,

Wusi Sub-branch

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Fujian, the PRC

INDUSTRY OVERVIEW

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

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company founded in Hong Kong and engaging in the provision of professional consulting services across multiple industries, to conduct an analysis of and report on the lace weaving and dyeing industry in China. The CIC Report was prepared by CIC independent of our influence. The fees paid for the preparation of the CIC Report was RMB590,000, which we believe reflects the market rate for such reports.

The information and data collected by CIC have been analysed, assessed, and validated using CIC's in-house analysis models and techniques. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysing market data obtained from several publicly available data sources, such as releases from the Governments of the research countries, company annual reports, and CIC's internal database. The methodology used by CIC is based on analysing the information gathered from multiple levels and ensures that this information is cross-referenced for reliability and accuracy.

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) the global economy is likely to maintain a steady growth trajectory during the forecast period; (iii) related key industry drivers are likely to propel continued growth of China's lace weaving and dyeing industry throughout the forecast period, including the growing retail value of women's outerwear and underwear, wider application of lace fabrics, expansion of online retailing, and improved trading efficiency brought about by the development of B2B e-commerce; and (iv) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way. CIC believes that the assumptions used in preparing the CIC Report, including those used to make future projections, are factual, correct, and not misleading.

INDUSTRY OVERVIEW

The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors as well as the choice of primary and secondary sources.

Our Directors confirm that after taking reasonable enquiries, there had been no material adverse change in the market information since the date of the CIC Report which may qualify, contradict, or have an impact on the information set out in this section.










Except otherwise mentioned, all data and forecasts contained in this section are extracted from the CIC Report.

OVERVIEW OF CHINA'S LACE WEAVING AND DYEING INDUSTRY

The definition and categorisation of lace

Lace is a delicate fabric made of yarn or thread with holes in it. Lace is normally used for decoration on garments and home textile products. Approximately 90% of lace is made of chemical fibres, such as nylon, polyester, and spandex, and the remaining 10% is made of natural materials such as cotton, silk, and flax.

Lace can be categorised into three major segments based on weaving technique: 1) warp knitting lace, 2) embroidery lace, and 3) hand-made lace. Among the three categories, warp knitting lace constitutes around 65% of total sales due to its competitive price and the huge demand from mid- and low-end garments driven by the emergence and proliferation of online shopping.

Categorisation of lace by weaving techniques						
	Definition	Proportion of total sales	Price	Complexity	Production volume	Application
Warp knitting lace	<ul style="list-style-type: none"> Warp knitting lace is made by a knitting method in which the yarn zigzags along the length of the fabric. 	~65%	 Relatively low	 Relatively low	 High	<ul style="list-style-type: none"> Mid- and low-end underwear Some underwear Home textile products
Embroidery lace	<ul style="list-style-type: none"> Embroidery lace is made by embroidering a lace shape on a layer of gauze with a thread, then cutting off the outer profile. 	~30%	 Relatively high	 Relatively high	 Relatively low	<ul style="list-style-type: none"> Mid- and high-end underwear Underwear Some home textile products
Hand-made lace	<ul style="list-style-type: none"> Hand-made lace is knitted or embroidered by hand; it is normally used for high-end customized products. 	~5%	 High	 High	 Low	<ul style="list-style-type: none"> High-end underwear High-end underwear High-end home textile products

Source: CIC

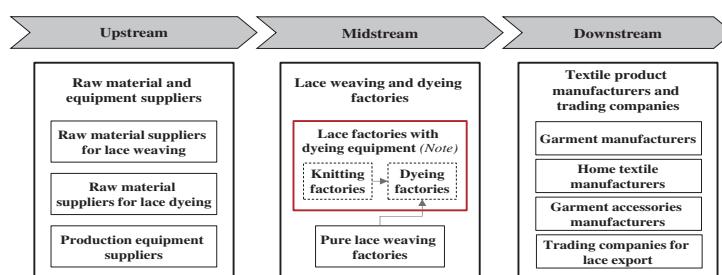
INDUSTRY OVERVIEW

Value chain of China's lace weaving and dyeing industry

Upstream: The upstream of the lace weaving and dyeing industry includes raw material suppliers and equipment suppliers. Specifically, the raw materials for lace weaving primarily include nylon yarns, polyester yarns, and spandex, whereas raw materials for lace dyeing include various types of dyes, such as acid dyes, disperse dyes, and reactive dyes. Raw material cost accounts for approximately 50% to 60% of the overall operating costs of lace manufacturers. Thus, the stability of raw material supply and the volatility of raw material prices greatly affect the product quality and profitability of lace weaving and dyeing factories.

Midstream: The midstream of the lace weaving and dyeing industry involves weaving and dyeing factories. Lace weaving factories carry out a series of processes such as the warping, winding, twisting, and knitting of raw materials in order to form gray cloth. Lace dyeing factories, on the other hand, are responsible for dyeing, dehydrating, shaping, sanding, shearing, and finishing the gray cloth obtained from knitting factories. Dyeing business is greatly affected by environmental policies. With the continuous tightening of environment and waste disposal policies, dyeing factories that do not meet pollutant discharge requirements are being gradually eliminated. As a result, lace weaving factories who are not capable to proceed with in-house dyeing have to look for external lace factories that are equipped with high-standard dyeing facilities to complete their dyeing process.

Downstream: The downstream of the lace weaving and dyeing industry includes textile product manufacturers and trading companies for lace export. In 2019, around 60% of the lace fabrics produced in China were used for women's outerwear, around 25% was used for women's underwear, and the remaining was used for other purposes, such as home textile products. In terms of sales destination, around 60% of lace was sold in the domestic market and around 40% was exported to international markets.



Note: It is not an industry norm that lace manufacturers also have dyeing facilities.

Source: CIC

Impact of COVID-19 on global lingerie market

Due to the prolonged and wide spread of COVID-19 since January 2020, a large portion of the general public has changed to purchase from online platforms instead of physical stores. Thus, notable numbers of renowned lingerie brand producers have changed their business models: shifting resources from physical stores to various online platforms.

INDUSTRY OVERVIEW

Nevertheless, many production processes could not be done online. The operations of the international brand lingerie producers based in different countries will still be highly affected by the local development of COVID-19 and the corresponding local anti-pandemic measures taken.

With that said, when the general public get used to purchase most of their daily necessities online, the consumption is expected to go back to pre-COVID-19 level. Lingerie brands who put too much resources on physical stores will suffer the most, some of them may face financial distress, while lingerie brands who can successfully transform their offline business to online business will recoup. Moreover, while the operation will be disrupted in severe region, manufacturers based in countries that the pandemic is under control will stand out and capture more of the market shares going forward.

Impact of COVID-19 on China's lingerie landscape

In year 2019, Chinese consumption of lingerie was approximately 40% on overseas brands and 60% on domestic brands, and it was changed to approximately 33% on overseas brands and approximately 67% on domestic brands for the six months ended June 2020.

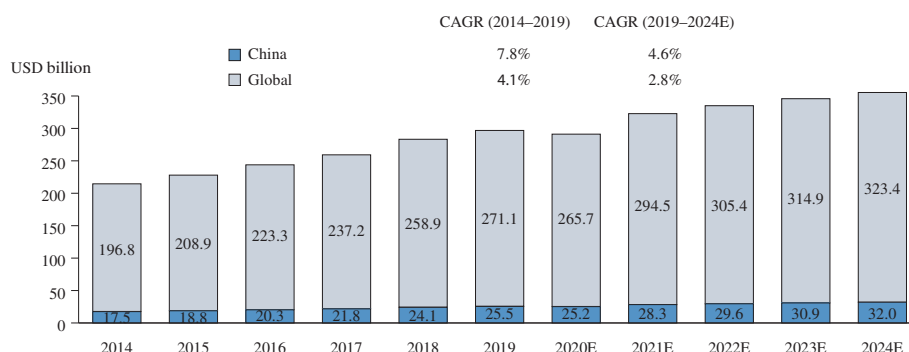
Since the operation of the international brands based overseas would be affected by the severity of COVID-19 spread in their countries, international brands located in severe regions may not conduct their economic activities as usual. International brands who relies on overseas designers may not launch new design or new product as scheduled, promotion activities could not be conducted as planned, given social distancing measures, travel restrictions or even city lockdown. Without new products, new designs and promotion activities, the domestic consumers would likely lose their interest on these international brands. On the other hand, China has resumed its economic activities since April 2020, domestic brands with domestic designers could launch their new designs and new products as planned, continue to join promotion campaigns or exhibitions held across China without seriously concerning social distancing measures and travel restrictions, the domestic consumers' awareness would tend to be attracted towards domestic brands. As such, it is expected that the global supply of international brand lingerie will shrink, and therefore domestic consumption on international brand lingerie is expected to decrease and replaced by domestic brand lingerie that relentlessly release new designs and products.

For the six months ended 30 June 2020, the revenue contribution from the customers focus on international brand lingerie dropped from approximately 12.4% of the Group's total revenue for 1H19 to approximately 5.2% of the Group's total revenue for 1H20, demonstrating the demand for the end products in the PRC market shifting towards domestic brand products.

As such, there will be ample of room for domestic lingerie players continue to grow amid shrinking supply of the international brands.

INDUSTRY OVERVIEW

Lingerie market by retail sales value, China and Global, 2014–2024E



Source: China National Garment Association, CIC

With the continuous improvement of the macro economy, the per capita disposable income in China has enjoyed robust growth at a CAGR of 8.8% during the 2014–2019 period, and is expected to maintain growth at a CAGR of 7.7% between 2019 and 2024. The improvement of people’s living standards has ensured a stable, growing demand for apparel. Meanwhile, the number of middle class households in China has expanded at a rapid CAGR of 8.2% from 56.0 million in 2014 to 83.1 million in 2019. The growth of the middle-class has resulted in a sustained increase in demand for exquisite clothing and home decoration. The total retail sales value of lingerie in China increased from USD17.5 billion in 2014 to USD25.5 billion in 2019, representing a CAGR of 7.8% between 2014 and 2019. As one of the most vital fabrics for decorating women’s lingerie, the demand for lace is likewise expected to continue increasing in the next five years. And for global lingerie market, China accounted for approximately 9.4% in 2019 and such market share is expected to further increase to approximately 9.9% in 2024. The retail sales value of lingerie market in China is expected to further reach USD32.0 billion in 2024, representing a CAGR of 4.6% between 2019 and 2024.

Market size of lace weaving industry in China

The total sales revenue of lace in China increased from approximately RMB21.7 billion in 2014 to approximately RMB30.1 billion in 2019, growing at a CAGR of 6.8%. Sales of lace increased steadily from 2014 to 2015, then experienced a fast growth in 2016 and 2017 due to the boom of E-commerce and the entry of reputable apparel brands. However, the market size of lace weaving decreased in 2019 due to (i) the decrease in China’s export given the on-going China-United States trade war, (ii) the overestimation of online performance and over stocking in 2017 and 2018, which made 2019 run into a destocking cycle, and (iii) the demand for new lace orders dropped slightly. However, due to the outbreak of COVID-19 in January 2020, lace weaving and dyeing factories in Fujian and Guangdong were mandated to postpone reopening time for at least one week after the Chinese New Year, and there were migrant workers who were unable to return to jobs immediately. As a result, the production capacity of China’s lace weaving and dyeing were negatively impacted in the first half of 2020. From the second half of 2020, the impact brought by COVID-19 within China is expected to be gradually alleviated, and with the rising online and offline garment retailing, as well as increasing downstream demand

INDUSTRY OVERVIEW

for women's outerwear and underwear after the outbreak of COVID-19, the sales revenue of lace in China will partially rebound. The market size of lace weaving decreased in 2020 was caused by the negative impact of COVID-19.

According to the announcement dated 20 October 2020 published by the National Statistics Bureau, year-to-date GDP growth in China turned positive, the year-to-date GDP 2020 (for the first three quarter in 2020) recorded an increase of 0.7% over the same for 2019, demonstrating the economic activities has resumed and recovered to pre-COVID-19 level. In particular, it demonstrated that COVID-19 has been effectively controlled and managed by the relevant authority in China, leading the economic activities in China to recover in an orderly manner.

With the completion of destocking and the relief of COVID-19 situation in China from April 2020, in the absence of large scale new cases reported in China, having considered the effective administration of the government authorities over disease control has already led to recovery of economic activities comparable to pre-COVID-19 level, the market size for lace weaving is expected to gradually rebound in 2021. However, with the outbreak of COVID-19 outside China, the export of women's apparel was greatly impacted, which has reduced the lace demand from Chinese apparel factories who focus on export businesses. Thus for the year of 2020, the sales revenue of lace in China is expected to decline to approximately RMB24.9 billion, among which the revenue generated from customers whose final sales destination is domestic market is expected to reach approximately RMB16.6 billion in 2020, showing a decrease of approximately 8.0% comparing to 2019; while the revenue generated by customers whose final sales destination is international market is expected to reach approximately RMB8.3 billion, showing a decrease of approximately 31.5% comparing to 2019. In the long run, as garment and clothing are the basic needs of people's living, with the growing population and continuous improvement of people's income level and living standard, the sales of garment is therefore expected to continue to grow steadily. In addition, with the relief of COVID-19 situation in China, both the demand for lace weaving and external lace dyeing is expected to rebound. According to the National Bureau of Statistics of the PRC, the retail value of garment, shoes, hats, and knit goods in the PRC already saw a gradual increase from April 2020. From March 2020 to April 2020, the retail value of garment, shoes, hats, and knit goods in the PRC increased by 16.0%; from April 2020 to May 2020, the retail value increased by 27.4%; and from May 2020 to June 2020, the retail value increased by 4.0%. For the US, its retail sales of clothing rebounded by 188% in May comparing to April; for the Great Britain, its sales volume of clothing rebounded by 18.6% in May, and another 69.1% in June. Thus as the macro economy and people's life gradually return to normal, the demands for garment and its upstream lace weaving and dyeing industries are expected to pick up in second half of 2020.

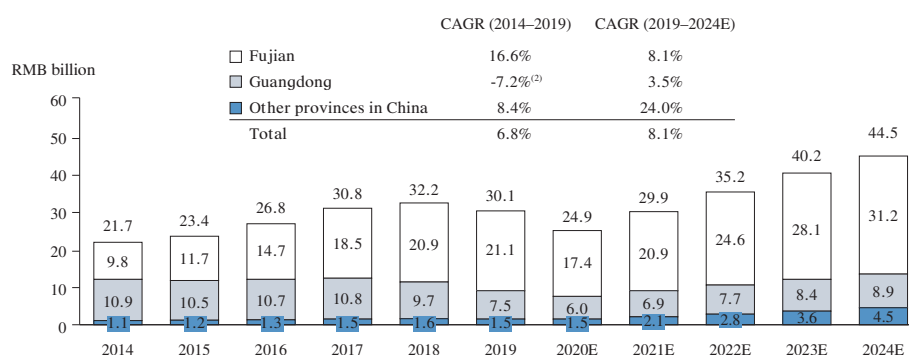
In the coming future, the market drivers, including growing retail value of women's outerwear and lingerie, wider application of lace fabric, the further expansion of online retailing and improved trading efficiency brought by the development of B2B E-commerce had, are likely to continue drive the lace market in the PRC and Fujian in the forecast period.

INDUSTRY OVERVIEW

With the fact that the year-to-date GDP in China for the first three quarters in 2020 has returned to pre-COVID-19 level comparable to that in 2019, the impact of the outbreak of COVID-19 gradually fade out, and the PRC government had successfully controlled the outbreak, the market is expected to recover in 2021. Thus, it is expected that the lace market in the PRC and Fujian will enjoy a sustainable growth in the forecast period to 2024. Furthermore, thanks to the established industry value chain and industrial cluster in Fujian and Guangdong for lace industry, Fujian and Guangdong have accumulated extensive experience in provision of high quality lace and dyeing services, as well as supported by a stable supply of skilled labours and expertise which the other competitors in Southeast Asia could not easily replicate and compete with, the domestic market will still show a positive growth in the future, given the existing value chain established as a strong barrier for competition and empower PRC lace industry a strong competitive advantage comparing to Southeast Asia, as well as the recovery of economy from COVID-19 in China is tremendously out-performed the other Southeast Asia countries did.

With the improvement of people's income and living standard after the relief of COVID-19, the unemployment rate is expected to fall down, and the China's and global garment industry is expected to continue growing in 2021, which will bring increasing demand for lace weaving and dyeing. Thus, the total sales revenue of lace in China is expected to continue rising to reach approximately RMB44.5 billion by 2024, with a CAGR of 8.1% between 2019 and 2024.

Market size⁽¹⁾ of lace (in terms of sales revenue), China, 2014–2024E



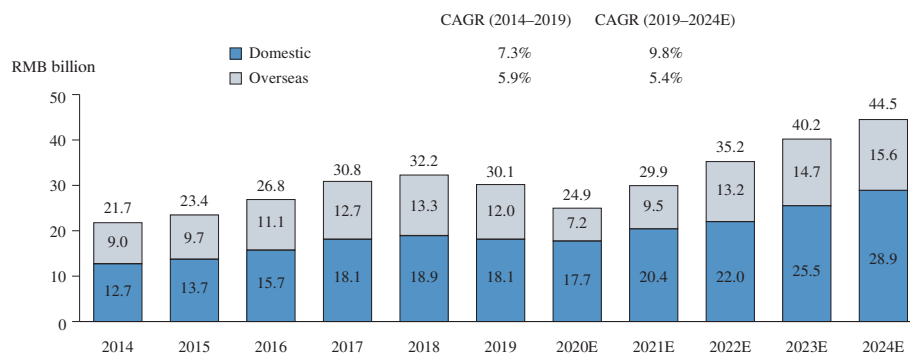
Notes:

- (1) The market size refers to the sales revenue of lace that are weaved in Fujian, Guangdong, and other provinces, which were then sold in China.
- (2) There were regulatory measures implemented in Shantou City to shut down numerous printing and dyeing enterprises by the end of 2018, which originally accounted for approximately 90% of lace dyeing services providers in Guangdong. As such, lace weaving enterprises in Guangdong who originally relying on these enterprises should source dyeing services from elsewhere, of which its overall production cost would increase in view of the higher transportation cost, or otherwise should reduce its production capacity. Therefore, the revenue of lace weaved in Guangdong recorded a CAGR of approximately -7.2% between year 2014 to 2019.

Source: China National Textile And Apparel Council, CIC

INDUSTRY OVERVIEW

Sales revenue of domestic lace weaving industry by final sales destination of end products, China, 2014–2024E



Source: General Administration of Customs, CIC

The end consumer of the domestic market of lace weaving industry are categorized into domestic and overseas segment. The total sales revenue of domestic segment accounted for approximately 60% in 2019. The share of domestic segment is expected to reach 71.2% in 2020 due to the weak demand in overseas market due to the outbreak of COVID-19. However, with the expectation that the impact of the outbreak to gradually fade out in the forecast period. The share of domestic segment is expected to return to a level of 65% in 2024.

Market size of lace weaving industry in Fujian and Guangdong, China

The lace weaving enterprises in China were concentrated in Fujian and Guangdong. The lace weaving enterprises in Fujian were concentrated in Fuzhou while the lace weaving enterprises in Guangdong were concentrated in Shantou City. In 2019, the market size of lace weaving industry in Fujian and Guangdong accounted for approximately 70% and 25%, respectively, to the overall market size in the PRC, whereas the market size of lace weaving industry in Fuzhou accounted for more than 60% of the overall market size of Fujian and the market size of lace weaving industry in Huizhou and Qinyuan, respectively, accounted for approximately 40% and 30%, respectively, of the overall market size of Guangdong, whereas Shantou City used to accounted for approximately 90% to the overall market size in Guangdong prior to the implementation of regulatory measures by the end of 2018.

The market size of lace that are weaved in Fujian and sold in China increased from RMB9.8 billion in 2014 to RMB21.1 billion in 2019, showing a CAGR of 16.6%. Due to the migration of lace weaving capacity from Guangdong and the emergence of Changle District in Fujian as a new hub of lace production, the proportion of Fujian's lace weaving increased from approximately 45% to 70% between 2014 and 2019. From 2014 to 2019, the market size of lace that are weaved in Guangdong and sold in China decreased from RMB10.9 billion to RMB7.5 billion, showing a negative CAGR of 7.1%. Textile industry used to be one of the pillar industries for Guangdong, as Guangdong contributes approximately 50% of lace weaving industry in 2014. However, as the manufacturing cost including rental cost and utility cost is much higher in Guangdong comparing to Fujian, lace weaving business became less profitable in

INDUSTRY OVERVIEW

Guangdong, thus many small- and medium-sized lace weaving factories gradually exited Guangdong, and the production capacity was then absorbed by other provinces, majorly Fujian. In 2020, the market size of lace weaved in Fujian and Guangdong both are expected to see a drop due to the impact of COVID-19.

From 2019 to 2024, the market size of lace weaved in Fujian is expected to increase from RMB21.1 billion to RMB31.2 billion, representing a CAGR of 8.1%. The market share of Guangdong is expected to continue declining slightly due to the province has been transferring its development focus from traditional manufacturing industries to high-tech industries, and the market size of lace weaved in Guangdong is expected to increase from RMB7.5 billion to RMB8.9 billion, showing a CAGR of 3.4%.

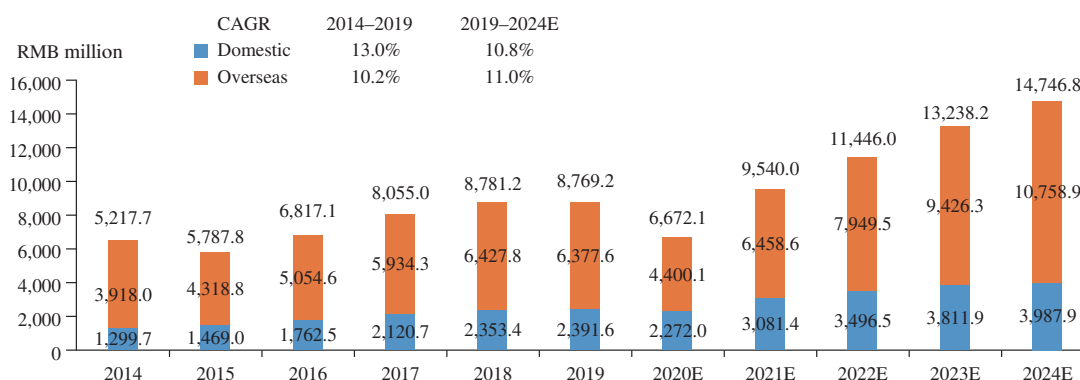
Market size of lace dyeing industry in China

The market size of lace dyeing services provided to external lace weaving manufacturers increased from approximately RMB5,217.7 million in 2014 to approximately RMB8,769.2 million in 2019, showing a CAGR of 10.9%, which is higher than that of the overall lace industry. Following the trend of the overall lace market, the lace dyeing market saw a growth between 2014 and 2018, which was followed by a slight drop in 2019. As approximately 70% of lace that is exported from China to international markets is dyed in domestic factories, the market size of China's lace dyeing is contributed by the lace demand from both domestic and international markets. For the dyeing service that is provided to the lace that is sold internationally, its revenue followed the declining trend of China's lace market in 2019; while for the dyeing service that is provided to the lace that is sold domestically, despite the price of lace sold internationally generally fell in 2019, its revenue arising from provision of dyeing services recorded an increase in 2019 with the steadily growing demand from the domestic market. As a result, the downturn of international demand in 2019 was partially offset by the growth of domestic demand, and comparing to 2018, the market size of lace dyeing services provided to external lace weaving manufactures decreased by only 0.1% in 2019. In addition, the tightening of environmental policies is considered to be another vital driver that is boosting the development of the dyeing industry. According to the 13th Five-Year Plan for the Protection of Ecological Environment (《“十三五”生態環境保護規劃的通知》) and the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》), all small-scale dyeing projects that do not conform to national industrial pollutants discharge policies shall be banned, and by 2020, all dyeing enterprises that fail to meet pollutant discharge standards will be reorganized. With increasingly stringent environmental supervision, an increasing number of small-scale lace manufacturers are becoming unable to afford the required high-standard dyeing and waste treatment facilities, so they must approach large-scale lace factories to complete the dyeing process for them. As a result, the proportion of lace weaving factories that purchase dyeing services from large-scale factories who are capable of adhering to new dyeing standards is expected to further improve. In 2020, besides the decline of lace sales in China that was brought by COVID-19, the disease has also undermined the export business of lace, which has caused, and may continue to cause a material adverse impact on the lace dyeing business in 2020, as approximately 70% of lace exported is dyed domestically. It is expected that the market size of lace dyeing services provided to external lace weaving manufacturers will pick up in the

INDUSTRY OVERVIEW

second half of 2020 with the demand recovery from domestic market, and rebound in 2021 with the alleviation of global COVID-19 situation. For the demand comes from domestic clients whose final sales destination is also within the country, the revenue is expected to decrease by approximately 5.0% in 2020 comparing to 2019; for the demand comes from foreign clients and domestic clients whose final sales destination is international market, the revenue is expected to decrease by approximately 31.0% in 2020 comparing to 2019. Considering the growth of lace sales market from 2021, as well as the growing proportion of lace weaving factories who purchase dyeing services from external factories, the market size of lace dyeing services provided to external lace weaving manufacturers is expected to grow at a CAGR of 11.0% between 2019 and 2024, which is significantly faster than the overall lace industry during the same time period, reaching RMB14,746.8 million by 2024.

Sales revenue of domestic lace dyeing industry by final sales destination of end products, China, 2014–2024E



Market size of lace dyeing industry in Fujian and Guangdong, China

The lace dyeing enterprises in China were concentrated in Fujian and Guangdong, whereas the lace dyeing enterprises in Fujian were concentrated in Fuzhou. In 2019, the market size of lace dyeing industry in Fujian and Guangdong accounted for approximately 71.8% and 10%, respectively, to the overall market size in the PRC. The market size of lace dyeing industry in Fuzhou accounted for more than 80% to the overall market size in the Fujian.

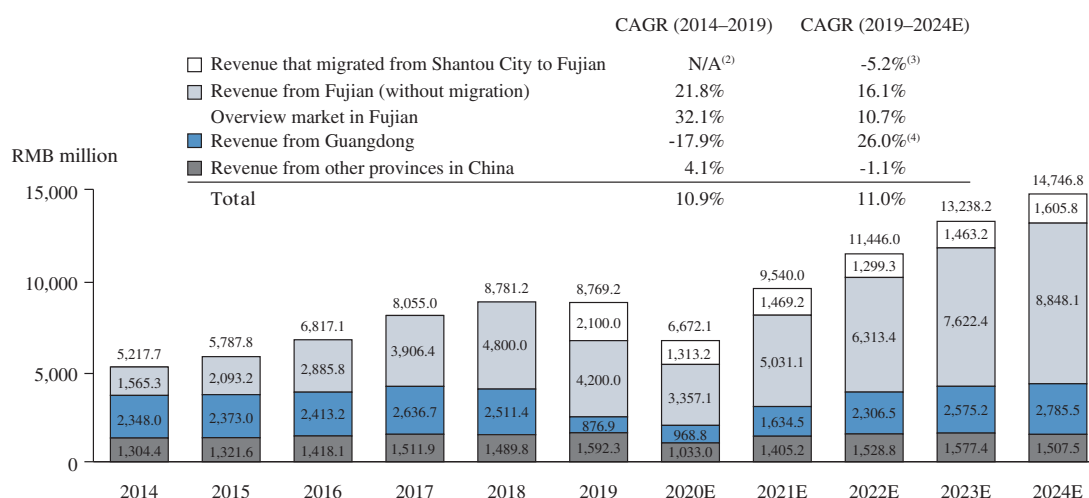
As for lace dyeing, similar to lace weaving, Guangdong used to contribute approximately 45% of the overall market size of China's external lace dyeing services in 2014. However, as the lace dyeing is a water consumption intensive industry and it generates a substantial amount of wastewater, lace dyeing causes serious environmental problems to rivers in Guangdong. In order to relief the environmental issues, the Government of Guangdong revised the Regulations of Guangdong on Environmental Protection (《廣東省環境保護條例》) in January 2015, which mentioned that the unified planning and management of heavy pollution industries such as printing and dyeing, electroplating and hazardous waste disposal will be strengthened, and new industrial enterprises shall enter industrial parks, and those that have not settled in industrial parks shall be equipped with pollution prevention and control facilities and ensure their normal operation. From 2018, Guangdong started to shut down small, poorly-managed, and

INDUSTRY OVERVIEW

heavily-polluting enterprises. In 2018, Guangdong shut down over 20,000 industrial enterprises, including over 180 printing and dyeing enterprises. As a critical textile manufacturing city in Guangdong, Shantou City contributed over 50% of Guangdong's lace dyeing market size. However, all lace dyeing factories (over 180 factories) were shut down compulsorily, and could not reopen until they move into industrial parks, in accordance with the notice that was issued by the Shantou City Chaoyang District Environmental Protection Bureau in June 2018. Thus, the lace dyeing demand of Shantou City migrated to surrounding cities and provinces, among which 70% migrated to Fujian due to the Regulatory Impact. Thus, the market size of Guangdong's external lace dyeing services decreased from RMB2,348.0 million in 2014 decreased to RMB876.9 million in 2019, showing a negative CAGR of 17.9%, while the market size of Fujian's external lace dyeing services increased from RMB1,565.3 million in 2014 to RMB6,300.0 million in 2019, showing a CAGR of 32.1%.

There was no printing and dyeing industrial park in Shantou City until January 2020. Three printing and dyeing industrial parks were planned in Shantou City, among which Chaonan Printing and Dyeing Park opened in January 2020 without any lace production commenced, Jieyan Printing and Dyeing Park is expected to open early 2021, and Chaoyan Printing and Dyeing Park has not been commenced construction and there is no specific timetable of opening. Assuming all the three industrial parks are completed by 2024 by stages, the estimated production capacity of them in terms of sales revenue would be approximately RMB0.5 billion, RMB1.1 billion, RMB1.3 billion and RMB1.5 billion in 2021, 2022, 2023 and 2024 respectively.

Market size⁽¹⁾ of lace dyeing services provided to external lace weaving manufacturers (in terms of sales revenue), China, 2014–2024E



Notes:

- (1) The market size refers to the sales revenue of external lace dyeing services that are offered by service providers located in Fujian, Guangdong, and other provinces.
- (2) The market size of lace dyeing services did not migrate from Shantou City to Fujian before 2018, since the lace dyeing enterprises in Shantou City were still able to obtain their pollutant discharge permits. The migration was mainly initiated by the policy disallowing extending pollutant discharge permits and therefore growth is not applicable for the period between years 2014–2019.

INDUSTRY OVERVIEW

- (3) Although certain market size has migrated to Fujian since 2019, it is expected to decline at CAGR of -5.2% considering that certain enterprises would return to Guangdong gradually along with the completion of construction of industrial parks. However, after number of years relying on dyeing services provided by regular suppliers in Fujian, not all enterprises are expected to return to Guangdong, especially for those require reliable dyeing quality who may not risk themselves to shift sourcing from new suppliers in Guangdong.
- (4) It is assumed that Guangdong will gradually recover, to a market size comparable to that in 2017, by 2023 to 2024 by assuming all the industrial parks in Shantou City will complete in stages by 2024, and the respective CAGR would be 26.0% based on the data in 2019 which was a devastated market in Guangdong immediate after implementation of regulatory measures in Shantou City.

Source: China National Textile And Apparel Council, CIC

As advised by CIC, it is expected that lace weaving factories who originally relying lace dyeing factories in Shantou City would consider to continue their business by acquiring the lace dyeing services in Fujian to support their production. Such manufacturers may have established their supply chain and logistics network in Fujian, especially for those require high quality dyeing services who have developed reliable suppliers in Fujian to satisfy their customers' requirements, could be reluctant to change the established arrangement. Moreover, it is also estimated that the annual production capacity of the three industrial parks, even when they may complete construction by 2024, which is estimated to be approximately RMB1.5 billion in terms of sales revenue by year 2024, could not accommodate the original market size which was shut down in Shantou City, which was approximately RMB3.0 billion in year 2017. Therefore, CIC is of the view that, the demand on lace dyeing services, which was migrated from Shantou City to Fujian, would in certain extent to remain in Fujian in the long run. As such, even assuming the industrial parks in Shantou City could be in full operation by 2024, it is expected that certain revenue attributable to the migration from Shantou City to Fujian would continue to contribute the revenue from Fujian by 2024.

Migration of lace dyeing demand from Shantou City to Fujian

Since 2014, Shantou City has put efforts on the environment renovation of its printing and dyeing industry. In July 2014, the Municipal Government of Shantou City issued the Notice on Printing and Distributing the Implementation Plan of Unified Planning and Designated Place for the Printing and Dyeing Industry in Shantou City, which stipulated that by 2018, all the existing textile printing and dyeing enterprises in Shantou City have to move into industrial parks or bases for operation. In June 2018, the Environmental Protection Bureau of Chaoyang District, Shantou City issued the Notice on No Longer Extending the Pollutant Discharge Permit, which stipulated that from 1 January 2019, Chaoyang and Chaonan District may not extend the pollutant discharge permits of textile printing and dyeing enterprises that locate outside textile printing and dyeing treatment centers (i.e., industrial parks). Since relocation of printing and dyeing facilities would incur a significant amount of cost, including transportation, dismantling and re-installation of equipment fixed to the factories, as well as purchase of new equipment if the existing one could not fit into the layout of the new premises. Furthermore, in anticipation of the increasingly stringent requirement on environmental protection in the future that may require further injection of capital investment, some printing and dyeing factories might be unable/unwilling to afford the expenses and do not continue to operate. As a result, as at 31 December 2018, more than 180 printing and dyeing plants in Shantou City were shut down,

INDUSTRY OVERVIEW

whereby approximately 60% were in Chaonan and 40% were in Chaoyang, and the demand for dyeing process that originally took place in Shantou City migrated to surrounding provinces and cities. After the mandatory shut down of dyeing and printing factories in Shantou City in 2019, approximately 70% of the lace dyeing demand was migrated from Shantou City to Fujian due to the Regulatory Impact, and the lace dyeing revenue provided to external manufacturers in Fujian increased from approximately RMB4.8 billion in 2018 to approximately RMB6.3 billion in 2019, showing a growth rate of 31.3%.

For further information regarding our returning customers and new customers during the Track Record Period, please refer to the section headed “Financial Information – Selected items of consolidated income statements – Revenue – Revenue by customer types” in this prospectus.

During the relevant time of the Regulatory Impact, dyeing factories in Fujian, to a certain extent, gave up their recurring orders to satisfy the new demand. As the number of dyeing enterprises was restricted by the relevant environmental regulation, Shantou City demand flocked to Fujian tensed up Fujian supply, and thus resources that were meant to fulfill the recurring orders were diverted to fulfill new orders from Guangdong, in particular, when they were willing to pay for a higher price.

Besides other factors, the Company’s competitors in Fujian also benefit from the Regulatory Impact to a similar extent, having considered the following basis: (i) there were observable numbers of dyeing factories who focus on domestic brand clients expanded their workforce and recorded revenue growth during relevant period, (ii) there were individual cases that the benefit brought by Regulatory Impact was offset with the impact from rising China-United States trade tension over the same period, primarily attributable to the dyeing factories’ heavy reliance on export business, and (iii) the lace dyeing revenue in Fujian as a whole kept increasing from RMB3.9 billion in 2017, to RMB4.8 billion in 2018, and further to RMB6.3 billion in 2019.

The following table illustrates the number of printing and dyeing factories in Shantou City between 2018 and 2019, along with the size and capacity (in terms of annual revenue) of those who shut down in that period, who were capable to provide lace dyeing services:

	No. of factories ^{Note 4}	Size and capacity (RMB billion)
End of 2017	>185	>3.0
Shut down in 2018	>135	2.2
End of 2018	Approximately 50	Note 3
Shut down in 2019 ^(Notes 1, 2)	>45	0.8
End of 2019 ^(Note 2)	<5	Estimated to be minimal and immaterial when compared to that of the market

INDUSTRY OVERVIEW

Notes:

1. There were at least 46 factories having their deregistration records dated 1 January 2019, based on the information published on the National Pollution Discharge Permit Management Information Platform* (全國排污許可證管理信息平台), which is administrated by the Ministry of Ecology and Environment. These companies were included in the numbers of factories shut down in 2019, despite the actual date of cessation of operation might be earlier and could be traced back to 2018.
2. There were no other shut down records being found in 2019 after the shutdown of 46 factories dated 1 January 2019, and there were four surviving factories found to be remained in the market by the end of 2019, of which their size and capacity were estimated to be minimal and immaterial when compared to that of the market. The four surviving factories only keeps daily operation of management business, while the production is also shut down as well.
3. To provide the market size and capacity by the end of 2018 would be no longer meaningful, as the vast majority should mandatory shut down on 1 January 2019.
4. The exact number of printing and dyeing factories in Shantou City prior to 1 January 2019 were not published by the PRC government. Therefore, only estimated figures based on (i) the past market researches conducted by the CIC and (ii) the relevant data available on the National Pollution Discharge Permit Management Information Platform* (全國排污許可證管理信息平台), which only published de-registration records of factories in Shantou City since 2019, can be provided.

Sources: the National Pollution Discharge Permit Management Information Platform (全國排污許可證管理信息平台) administrated by the Ministry of Ecology and Environment and CIC*

After the mandatory shut down of the dyeing and printing factories in Shantou City, there were less than five observable surviving factories in Shantou City, and their production capacity could not compare to, and was unable to absorb, the demand of that of the original market size when there was over 180 dyeing factories in Shantou City.

Moreover, having such a large scale mandatory shut down, it became less attractive for enterprises to seek lace dyeing services in Shantou City.

Furthermore, having said that the aspiration of the migration requirement was announced in 2014, there was no printing and dyeing industrial park in Shantou City built or readily available before 2020.

There were (i) two industrial parks planned to be built in Shantou City, namely (a) Chaonan Printing and Dyeing Centre, and (b) Chaoyang Printing and Dyeing Centre, and (ii) one industrial park planned to be built near Shantou City, namely Puning Printing and Dyeing Centre, located in Xieyang City.

Despite handful of printing and dyeing enterprises purported that they have moved in since 2020, to the best knowledge of the Directors after due and careful enquires, constructions of these three industrial parks were still in progress as at the Latest Practicable Date, and there are no published timeframe of completion of all constructions by the respective industrial parks.

Regardless of the location, printing and dyeing enterprises must hold valid pollutant discharge permit before conducting printing and dyeing business. Therefore, the production scale

INDUSTRY OVERVIEW

of these industrial parks indeed depends on the players moved in and their allowable pollutant discharge level under their permits.

By the end of August 2020, there were less than five enterprises holding pollutant discharge permit in relation to lace dyeing business in the whole Shantou City (including its industrial parks), and the operation scale of them as a whole, is not significant compared to the whole market.

Factories that were shut down in 2018 and 2019 and wish to re-establish their premises and production facilities in industrial parks still need to comply with the environmental regulations and obtain valid pollutant discharge permit. Challenges faced by them includes: heavy capital investment to install infrastructure to comply environmental regulatory requirements, re-hiring dyeing technician who may already migrated to other cities, re-establish their clientele given at least 1.5 year suspension of business since 1 January 2019, and face competitions from the other players who has already taken up the market shares.

Having considered the above despite industry parks provide the land for enterprises to re-establish their business, players who shut down in 2018 and 2019 and wish to strike it big in industrial parks still face heaps of entry barriers. As such, there is no material indication that the industrial parks in Shantou City could bring short run significant competition to the current industrial players in Fujian.

Regulatory measures similar to those implemented in Shantou City in the rest of Guangdong Province

It is the usual practice that there would be communication between the PRC regulatory authorities and the industry participants to disseminate information relating to major environmental policies prior to its implementation to facilitate the advance preparatory work of industry participants, such as equipment or technology upgrade. The Gaoming Branch of Department of Ecology and Environment of Foshan City, Guangdong has promulgated their plan in June 2020 to reduce pollutant discharge for better environmental protection by strengthening their supervision and monitoring on different heavy pollution industries, including dyeing enterprise. At least 10 dyeing and printing services factories would be forced to shut down by end of 2020 accordingly. Therefore, there exists chance that regulatory measures similar to those implemented in Shantou City may be implemented in the rest of Guangdong, which would be a further favourable drive to the growth in Fujian market.

Market drivers of China's lace weaving and dyeing industry

(i) Growing retail value of women's outerwear and underwear

With the continuous improvement of the macro economy, the per capita disposable income in China has enjoyed robust growth between 2014 and 2019 with a CAGR of 8.8%, and is expected to maintain a CAGR of 7.7% between 2019 and 2024. The improvement of people's living standards has ensured a stable, growing demand for apparel. Meanwhile, the number of

INDUSTRY OVERVIEW

middle class households in China has expanded at a rapid CAGR of 8.2% from approximately 56.0 million units in 2014 to approximately 83.1 million units in 2019. The growth of the middle-class has resulted in a sustained increase in demand for exquisite clothing and home decoration. As a result, the retail value of both women's outerwear and underwear in China have shown relatively high growth rates of 7.8% and 6.2%, respectively, from 2014 to 2019. Women's outerwear and underwear are expected to continue growing at 4.7% and 3.8% from 2019 to 2024, respectively. As one of the most vital fabrics for decorating women's garments, the demand for lace is also expected to continue increasing in the next five years.

(ii) Wider application of lace fabrics

With the development of the macro economy and the transformation of people's perceptions towards outer appearance, women have become gradually more focused on the comfort, functionality, and fashion of garments in order to better highlight and express their personal tastes and characteristics. With the transformation of people's perception as well as the growing preference for lace, lace has been applied more broadly in women's garments. In the past decades, the use of lace as main fabrics for newly launched women's underwear was becoming more popular, and there was increasing trend for women's outerwear to use lace as decoration as well as the main fabric materials. In addition, lace has been used for wider downstream applications. The application of lace further expanded from traditionally on women's garments to the innovative use in home textile products. Since lace is being used in an increasing proportion of women's garments, and a larger amount of lace is being consumed for each unit of final product as demonstrated by the increase in garments that use lace as a main fabric and increased application to home textile products, the demand for lace is expected to be further stimulated in the near future.

(iii) Expansion of online retailing

With the rise of e-commerce as well as the entry of reputable retail brands and self-operated B2C online malls, the market scale of online retail in China has been rocketing in the past five years. The Gross Merchandise Volume ("GMV") of online retailing increased from approximately RMB2,789 billion in 2014 to approximately RMB10,632 billion in 2019, showing an explosive CAGR of 30.7%. The emergence of E-commerce and new retail has greatly improved the convenience of shopping and the accuracy of matching consumers with products. As one of the largest segments under retailing, the sales of garments has also been stimulated. From 2014 to 2019, the GMV of online garment retailing increased from approximately RMB394 billion to approximately RMB1,782 billion, showing a CAGR of 35.2%, which is even higher than the CAGR of overall online retailing. In the next five years, the GMV of online garment retailing is predicted to continue growing at a CAGR of 10.1%. Being a major decoration fabric for garments of all kinds, the demand for lace and related lace weaving and dyeing is expected to grow even further.

(iv) Improved trading efficiency brought by the development of B2B E-commerce

Apart from its benefits to online retailing, E-commerce has also accelerated the development of B2B (Business to Business) trading. From 2014 to 2019, the GMV of B2B E-commerce increased from approximately RMB10,611 billion to approximately RMB24,178 billion, representing a CAGR of 17.9%. The development of B2B E-commerce has brought about a series of benefits to manufactures, including lower client acquisition cost (due to better exposure to clients and easier-to-reach small-scale clients), higher trading efficiency, intelligent purchasing management, and transparent price comparison and competition. With the rapid growth of online retailing, numerous small-scale garment factories have emerged, and B2B E-commerce has provided these garment manufactures with a platform to reach lace suppliers more easily. As for lace providers, B2B E-commerce helps to greatly enhance revenue by lowering client acquisition costs and improving trading efficiency. In the next five years, the GMV of B2B E-commerce is expected to continue growing at a CAGR of 9.4% and lace providers will keep benefiting from the further development of B2B E-commerce.

Future trends of China's lace weaving and dyeing industry

(i) More stringent environmental protection policies and more concentrated lace dyeing market

In recent years, the Chinese government has been actively introducing environmental protection policies to regulate pollutants discharge from the dyeing industry. According to the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》), all small-scale dyeing projects that do not conform to the national industrial policies shall be banned, and the existing high-pollution dyeing enterprises in built-up urban areas shall be relocated and reorganised or closed by law. In addition, the MIIT has issued the Standard Conditions for the Printing and Dyeing Industry (2017) (《印染行業規範條件2017年版》) to further standardise the location, production process and equipment, wastewater discharge, and quality management of dyeing enterprises. As a result of these and future environmental protection policies being placed on industrial companies, the lace dyeing industry is going to become more concentrated.

(ii) Wider application in home textile products

Over the past few decades, lace has been applied to a wider downstream field. In the 2000s, lace was mainly used for the decoration of women's garments, while in recent years, lace has gradually been applied to home textile products such as bed sheets, curtains, and tablecloths. Compared to women's outerwear and underwear, home textile products usually require a larger volume of lace for each unit of final product being manufactured. In the future, the proportion of home textile products as the downstream application of lace is expected to further increase, thus stimulating the demand for lace.

(iii) Better protection of intellectual properties for newly-designed lace patterns

The design and innovation of lace patterns is vital for lace manufacturers in strengthening their competitive position in the market. With improving attitudes regarding the protection of intellectual property, an increasing number of lace weaving and dyeing factories registering original lace patterns as intellectual property. The enhanced protection of intellectual property is expected to improve the fairness of competition and further standardise the industry.

(iv) Digitalisation and intelligentisation of the lace weaving and dyeing process

Technological improvement has brought significant changes to the lace weaving and dyeing industry in China over the past few years, demonstrated by disruptive innovations such as ultrasonic lace sewing machines as well as the emergence of artificial intelligence (“AI”). Ultrasonic lace machines can weld through material without needlework, effectively avoiding broken yarn joints, and can improve production efficiency significantly. In addition, the application of artificial intelligence brings technologies such as AI quality inspection, automated counting and winding, as well as fashion trend forecast to the lace manufacturing industry. In the future, an increasing number of advanced technologies are expected to be applied in the lace weaving and dyeing industry which will further upgrade the industry.

Future trends of Fujian and Guangdong’s lace weaving industry

According to the *Catalog for Guiding Industry Transfer (2018 Version)* 《產業轉移指導目錄(2018年本)》 (“**the Catalog**”) issued by the Ministry of Industry and Information Technology of the PRC in 2018, Fujian, Guangdong, Shanghai, Jiangsu, Zhejiang and Shandong are listed as the key areas to undertake the development of textile and clothing industry. Major products in Fuzhou City include high-quality textile fabrics, branded clothing and household textiles, biomass fiber. Fuzhou is the most important textile and lace manufacturing base in Fujian, as it contributes the largest proportion in terms of sales volume. According to the Catalog, the key future development catalogue of both Fuzhou and Guangdong include high-quality textile fabrics, which is high-quality textile fabrics is highly related to lace production, thus the sales revenue of lace that is weaved in Fujian and Guangdong is expected to further increase in the next few years. In addition, the Catalog also encouraged the local government authorities to build Textile Intelligent Manufacturing Demonstration Base (紡織智能製造示範基地) to foster the development of leading industry players, thus the lace weaving industry of Fujian and Guangdong is expected to be benefited by the local government support in future to upgrade or transform its production facilities to achieve a more intelligent and high-tech integrated level, for instance, the use of more advanced machines and centralised control automation system in the lace weaving production process which will help lower the labour costs, increase production capacity and ensure the consistent delivery of high-quality products for lace weaving companies.

Future trends of Fujian and Guangdong's lace dyeing industry

Guangdong has been implementing various environmental protection actions since 2018, and thousands of printing and dyeing enterprises which were majorly located in Shantou City, Puning, and Dongguan have been suspended. Comparing to the production capacity in Fujian, the production capacity of the printing and dyeing enterprises who are still surviving in Guangdong amount to an insignificant portion to the whole market. The printing and dyeing enterprises in Guangdong who relocated to industrial parks still face number of constraints to restore their production capacity, such as the current pollutants discharging infrastructure of the industrial parks could only support them to maintain a production scale much less than their previous one. As such, Fujian is expected to continue to take up majority of the market share in the near future. In the absence of any indication that similar regulatory measures implemented in Shantou City could be implemented in Fujian in near future, Fujian is expected to have an increasing lace printing and dyeing demand, and it is expected to focus more on developing new technologies and equipment for energy conservation and emission reduction during printing and dyeing process according to the *Catalog for Guiding Industry Transfer (2018 Version)*.

Challenges of China's lace weaving and dyeing industry

(i) Fluctuation of raw material prices

The fluctuation of raw material prices is considered as the most prominent challenge to the lace weaving and dyeing industry. Due to the rebounding demand for downstream apparel and home textile products, as well as rising costs of raw materials, the price of yarns has continued to grow between 2016 and 2018, followed by a decline in 2019 as a result of shrinking demand for textile products from the United States caused by the China-United States trade war. Meanwhile, increasingly-stringent environmental policies have restricted the supply of dyes, which has driven up the price of dyes since 2017. In the future, the prices of raw materials may keep fluctuating, and it is expected to continue impacting the profitability of lace weaving and dyeing enterprises.

(ii) More stringent policies on wastewater discharge

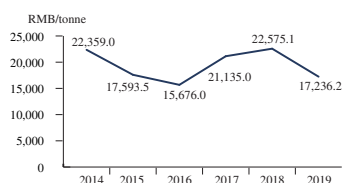
The Chinese government has been announcing a series of stringent environmental regulations on the wastewater discharge of dyeing factories for a number of years. The National Environmental Protection Agency and the State Bureau of Technical Supervision have jointly issued the Discharge Standard to stipulate the emission limit, detection, and monitoring requirements for water pollutants in textile dyeing and finishing enterprises. The heightened supervision on wastewater discharge will place higher emphasis on the technical strength, management capacity, and cost control ability of lace dyeing enterprises.

INDUSTRY OVERVIEW

Major raw materials for China's lace weaving and dyeing industry

Lace weaving: The major raw materials for lace weaving include nylon yarns, polyester yarns, rayon, and spandex. Taking nylon yarn and polyester yarn as indicative examples, the prices of both fully drawn nylon yarn and fully drawn polyester filament yarn (150D/96F) have demonstrated downward trends from their 2014 values. However due to the rebound in the demand for downstream apparel and home textile industries, as well as the rising raw material costs, the prices of fully drawn nylon yarn and fully drawn polyester filament yarn (150D/96F) experienced an increase from 2016 to 2018. In 2019, influenced by shrinking demand for textile products from the United States caused by the China-United States trade war, along with limited purchasing power of downstream textile factories due to excessive stocking of textile materials, the prices of fully drawn nylon yarn and fully drawn polyester filament yarn (150D/96F) decreased to approximately RMB17,236.2 per tonne and RMB8,327.1 per tonne in 2019, respectively.

Average price of fully drawn nylon yarn, China, 2014–2019



Average price of fully drawn polyester filament yarn (150D/96F), China, 2014–2019



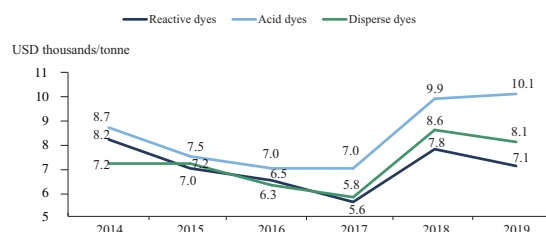
Note: 150D/96F stands for 9000 kilometres yarn weight 150 grams, and each yarn is consisted of 96 velvets. Fully drawn polyester filament yarn 150D/96F is used as national benchmark in 流通領域重要生產資料市場價格變動情況 as published by the National Bureau of Statistics of the PRC, and it is the only one standard to represent filament yarn, to indicate the overall pricing of filament yarn over time. Although the filament yarn used in production could be differ in its weight and number of velvets for different production requirements, fully drawn polyester filament yarn 150D/96F provides referential value to all types of filament yarn in China and they typically share similar pricing trend over time. As such, as advised by CIC, despite fully drawn polyester filament yarn 150D/96F was not the only one standard the Company used in its production, the pricing trend of the fully drawn polyester filament yarn 150D/96F is indicative of the pricing trend of the major principal raw materials of the Group.

Source: National Bureau of Statistics of China, CIC

Lace dyeing: The major raw materials for lace dyeing include reactive dyes, acid dyes, and disperse dyes. The prices of reactive dyes, acid dyes, and disperse dyes dropped significantly during 2014 and 2017. This decline can mainly be attributed to the excess production capacity in the dyes production industry. Since 2017, under the background of structural reform from the supply side and heightened regulatory supervision on environmental protection, small- and medium-sized dyes manufacturers have been gradually phased out. As a result, the supply of dyes continued to shrink, which resulted in a substantial increase in the prices of reactive dyes, acid dyes, and disperse dyes from 2017 to 2018. Under the backdrop of tightening supply of dyes, along with shrinking demand from the downstream textile industry, the prices of reactive dyes, acid dyes, and disperse dyes remained relatively stable in 2019.

INDUSTRY OVERVIEW

Average export price of dyes, China, 2014–2019



Source: General Administration of Customs, CIC

COMPETITIVE LANDSCAPE OF LACE WEAVING INDUSTRY IN CHINA

Ranking of China's lace sales industry

As at 31 December 2019, there were over 5,000 lace weaving enterprises in China, and they were mainly concentrated in Fujian and Guangdong. In 2019, nine of the top ten lace weaving and dyeing enterprises were located in Fujian or Guangdong. In terms of market concentration, the lace industry remains fairly fragmented. In 2019, the total combined lace sales revenue of the top ten lace manufacturers in China was approximately RMB1,071.9 million, accounting for a total market share of approximately 3.6%. With its domestic lace sales revenue of approximately RMB83.0 million and a market share of 0.3%, our Group ranked sixth among all lace manufacturers in 2019.

The following table sets forth the top ten players in China's lace sales industry, in terms of lace revenue generated in China:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Sales revenue of lace in China in 2019 (RMB million)	Market share in 2019
1	Company A	Private ownership	Guangzhou, Guangdong	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Lace dyeing 	240.0	0.8%
2	Company B	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric 	141.1	0.5%

INDUSTRY OVERVIEW

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Sales revenue of lace in China in 2019 (RMB million)	Market share in 2019
3	Company C	Private ownership	Jinjiang, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Stretch mesh fabric • Lace dyeing 	113.4	0.4%
4	Company D	Private ownership	Shantou City, Guangdong	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Webbing • Cotton lace • Lace dyeing 	100.8	0.3%
5	Company E	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Industrial cloth • Lace dyeing 	94.5	0.3%
6	Our Group	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Warp knitting lace • Lace dyeing 	83.0	0.3%
7	Company F	Private ownership	Shantou City, Guangdong	<ul style="list-style-type: none"> • Embroidery lace 	81.9	0.3%
8	Company G	Private ownership	Guangzhou, Guangdong	<ul style="list-style-type: none"> • Embroidery lace • Water soluble lace • Special lace 	76.5	0.3%
9	Company H	Private ownership	Suzhou, Jiangsu	<ul style="list-style-type: none"> • Embroidery lace 	73.4	0.2%

INDUSTRY OVERVIEW

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Sales revenue of lace in China in 2019 (RMB million)	Market share in 2019
10	Company I	Private ownership	Xiamen, Fujian	<ul style="list-style-type: none"> • Stretch lace • Low-stretch lace • Lace dyeing 	67.3	0.2%
Sub total					1,071.9	3.6%
Others					29,029.0	96.4%
Total					30,100.9	100.0%

Source: National Enterprise Credit Information Publicity System, CIC

Note:

Company A is a leading lace producer specialising in warp knitting, producing over 22,000 lace patterns in total. Its distribution network covered up to 30 countries around world.

Company B mainly produces and sells high-grade stretch lace and stretch lace fabrics for women's underwear and outerwear, with an annual output of more than 45 million meters.

Company C is a leading lace producer located in Jinjiang City, specializing in producing mid- and high-grade stretch lace, stretch mesh fabric and stretch fabric.

Company D is a leading supplier of lace for intimate apparel. The clientele of Company D includes top brands in the United States, Europe, and Asia. Company D's lace production capacity is around 70 tonnes per month.

Company E is a sizable lace enterprise specialising in producing high-grade warp knitting lace and functional apparel fabrics, integrating research and development, design, weaving and dyeing processes. Company E offered over 10,500 lace patterns in total.

Company F is a professional lace manufacturing enterprise in China. Company F's manufacturing facilities have a gross floor area of 40,000 sq. m., and its staff consists of more than 400 employees.

Company G is a professional lace manufacturing enterprise in China specialising in producing embroidery lace and water-soluble lace.

Company H is a leading professional lace manufacturer specialising in designing and producing exclusive embroidery lace. Company H is wholly invested by a Swiss enterprise.

Company I is a professional lace manufacturer focusing on offering one-stop production solution that includes lace design, knitting and dyeing. Company I is capable of designing a large variety of laces, including multibar, jacquardtronic lace, textronic lace, etc.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF LACE DYENG INDUSTRY IN CHINA

Ranking of China's lace dyeing industry

Similar to lace sales, the market of lace dyeing services that are provided to external lace weaving manufacturers is also concentrated in Fujian and Guangdong. However, this industry is more concentrated compared to general lace sales due to the ever-stringent environmental regulations and the resultant shutdown of small-scale dyeing factories. As at 31 December 2019, there were approximately 1,400 enterprises principally engaged in textile related industry equipped with printing and dyeing capabilities in China. Most of these enterprises were not specialized on lace dyeing services but were allowed to provide similar services ancillary to their core business. In 2019, the top five lace dyeing enterprises regarding revenue generated from lace dyeing services that are provided to external lace weaving factories recorded a combined revenue of approximately RMB671.5 million, accounting for a market share of 7.5%. Our Group ranked fourth in this industry segment, with a sales revenue generated from lace dyeing services that are provided to external lace weaving manufacturers of approximately RMB117.9 million and a market share of 1.3% in 2019.

The following table sets forth the top five players in China's lace dyeing industry, in terms of revenue generated from lace dyeing services provided to external lace weaving manufacturers in 2019:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Revenue generated from lace dyeing services provided to external lace weaving manufacturers in China in 2019 (RMB million)	Market share in 2019
1	Company J	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Chemical fiber weaving • Chemical fiber dyeing • Lace dyeing 	170.1	1.9%
2	Company C	Private ownership	Jinjiang, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Stretch mesh fabric • Lace dyeing 	153.1	1.7%

INDUSTRY OVERVIEW

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Revenue generated from lace dyeing services provided to external lace weaving manufacturers in China in 2019 (RMB million)	Market share in 2019
3	Company E	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Industrial cloth • Lace dyeing 	126.7	1.4%
4	Our Group	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Warp knitting lace • Lace dyeing 	117.9	1.3%
5	Company K	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Lace dyeing 	103.7	1.2%
Sub total					671.5	7.5%
Others					8,097.7	92.5%
Total					8,769.2	100.0%

Source: National Enterprise Credit Information Publicity System, CIC

Note: Company J is a comprehensive, sizable, and high-tech chemical fiber textile weaving and dyeing enterprise. It focuses on research and development, weaving and dyeing, and trading businesses. Company K is a Hong Kong enterprise focuses on textile knitting, dyeing, and finishing, along with researching and sale, with branches at Singapore, Korea, Guangzhou, as well as six manufacturing sites of textile knitting, dyeing, and finishing at Changle.

COMPETITIVE LANDSCAPE OF LACE WEAVING INDUSTRY IN FUJIAN

Ranking of Fujian's lace sales industry

As at 31 December 2019, there were approximately 2,500 to 3,000 lace weaving enterprises in Fujian. In 2019, the total combined lace sales revenue of the top five lace manufacturers in Fujian was approximately RMB499.3 million, accounting for approximately 2.3% market share of Fujian.

INDUSTRY OVERVIEW

The following table sets forth the top five players in Fujian's lace sales industry, in terms of lace revenue generated in China in 2019:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Sales revenue of lace in China in 2019 (RMB million)	Market share in 2019
1	Company B	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric 	141.1	0.7%
2	Company C	Private ownership	Jinjiang, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Stretch mesh fabric • Lace dyeing 	113.4	0.5%
3	Company E	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Industrial cloth • Lace dyeing 	94.5	0.4%
4	Our Group	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> • Warp knitting lace • Lace dyeing 	83.0	0.4%
5	Company I	Private ownership	Xiamen, Fujian	<ul style="list-style-type: none"> • Stretch lace • Low-stretch lace • Lace dyeing 	67.3	0.3%
Sub total					499.3	2.3%
Others					20,570.7	97.7%
Total					21,070.0	100.0%

Source: National Enterprise Credit Information Publicity System, CIC

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF LACE WEAVING INDUSTRY IN GUANGDONG

Ranking of Guangdong's lace sales industry

As at 31 December 2019, there were approximately 1,000 lace weaving enterprises in Guangdong. In 2019, the total combined lace sales revenue of the top five lace manufacturers in Guangdong was approximately RMB511.1 million, accounting for approximately 7.3% market share of Guangdong.

The following table sets forth the top five players in Guangdong's lace sales industry, in terms of lace revenue generated in China in 2019:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Sales revenue of lace in China in 2019 (RMB million)	Market share in 2019
1	Company A	Private ownership	Guangzhou, Guangdong	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Lace dyeing 	240.0	3.2%
2	Company D	Private ownership	Shantou City, Guangdong	<ul style="list-style-type: none"> • Stretch lace • Stretch fabric • Webbing • Cotton lace • Lace dyeing 	100.8	1.3%
3	Company F	Private ownership	Shantou City, Guangdong	<ul style="list-style-type: none"> • Embroidery lace 	81.9	1.1%
4	Company G	Private ownership	Guangzhou, Guangdong	<ul style="list-style-type: none"> • Embroidery lace • Water soluble lace • Special lace 	76.5	1.0%
5	Company L	Listed company	Dongguan, Guangdong	<ul style="list-style-type: none"> • Stretch fabric • Stretch webbing • Lace 	51.9	0.7%
Sub total					511.1	7.3%
Others					6,973.9	92.7%
Total					7,525.0	100.0%

Source: National Enterprise Credit Information Publicity System, CIC

Note: Company L is a public company listed on main board of the Stock Exchange of Hong Kong. It is a lingerie material manufacturer that provides a one-stop solution, focusing on export sales of stretch fabric and stretch webbing.

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF LACE DYEING INDUSTRY IN FUJIAN

Ranking of Fujian's lace dying industry

As at 30 June 2020, there were less than 20 lace dyeing enterprises holding a valid Pollutant Discharge Permit of dyeing and finishing of chemical fiber fabrics* (化纖織物染整精加工) in Fujian, who principally engaged in providing lace dyeing services and specialized on lace products, among which there are approximately 14 to 17 lace dyeing companies are located in Fuzhou, where approximately 10 to 12 are located in Changle District of Fuzhou. On the other hand, there are hundreds of other enterprises principally engaged in textile related industry but not focusing on lace dyeing businesses. These enterprises hold other categories of pollutant discharge permits (such as 棉紡織及印染精加工, 毛紡織及染整精加工, 麻紡織及染整精加工, etc) and are not specialized on lace dyeing services. However, these pollutant discharge permits also allow enterprises to involve in lace dyeing business, and they have also provided lace dyeing services ancillary to their core business.

The following table sets forth the top five players in Fujian's lace dyeing industry, in terms of revenue generated from lace dyeing services provided to external lace weaving manufacturers in 2019:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Revenue generated from lace dyeing service provided to external lace weaving manufacturers in 2019 (RMB million)	Market share in 2019
1	Company J	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> Chemical fiber weaving Chemical fiber dyeing Lace dyeing 	170.1	2.7%
2	Company C	Private ownership	Jinjiang, Fujian	<ul style="list-style-type: none"> Stretch lace Stretch fabric Stretch mesh fabric Lace dyeing 	153.1	2.4%
3	Company E	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> Stretch lace Stretch fabric Industrial cloth Lace dyeing 	126.7	2.0%
4	Our Group	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> Warp knitting lace Lace dyeing 	117.9	1.9%
5	Company K	Private ownership	Fuzhou, Fujian	<ul style="list-style-type: none"> Stretch lace Stretch fabric Lace dyeing 	103.7	1.6%
Sub total					671.5	10.6%
Others					5,628.5	89.3%
Total					6,300.0	100.0%

Source: National Enterprise Credit Information Publicity System, CIC

INDUSTRY OVERVIEW

COMPETITIVE LANDSCAPE OF LACE DYEING INDUSTRY IN GUANGDONG

Ranking of Guangdong's lace dyeing industry

As at 31 December 2019, there were less than 15 lace dyeing enterprises holding valid pollutant discharge permit in Guangdong who principally engaged in provide lace dyeing services, specialized on lace products and direct compete with our Group. On the other hands and similar to that in Fujian, there are hundreds of other enterprises principally engaged in textile related industry not focusing on lace dyeing business but provided lace dyeing services ancillary to their core business and contributed to the whole market.

The following table sets forth the top five players in Guangdong's lace dyeing industry, in terms of revenue generated from lace dyeing services provided to external lace weaving manufacturers in 2019:

Ranking	Company name	Listing status	Headquarters location	Product portfolio	Revenue generated from lace dyeing service provided to external lace weaving manufacturers in 2019 (RMB million)	Market share in 2019
1	Company M	Private ownership	Foshan, Guangdong	<ul style="list-style-type: none"> • Denim fabric • Knit fabric • Fabric • Lace dyeing 	93.3	10.6%
2	Company N	Private ownership	Zhaoqing, Guangdong	<ul style="list-style-type: none"> • Chemical fiber • Spinning • Fabric dyeing • Lace dyeing 	46.7	5.3%
3	Company O	Private ownership	Foshan, Guangdong	<ul style="list-style-type: none"> • Fabric dyeing • Lace dyeing • Leather dyeing 	15.4	1.8%
4	Company P	Private ownership	Huizhou, Guangdong	<ul style="list-style-type: none"> • Fabric dyeing • Lace dyeing • Wool dyeing 	13.9	1.6%
5	Company Q	Private ownership	Foshan, Guangdong	<ul style="list-style-type: none"> • Cotton dyeing • Wool dyeing • Lace dyeing 	12.3	1.4%
Sub total					181.5	20.7%
Others					695.4	79.3%
Total					876.9	100.0%

INDUSTRY OVERVIEW

Source: National Enterprise Credit Information Publicity System, CIC

Note:

Company M is a textile enterprise specializing in the weaving, printing and dyeing, and finishing of denim fabric, knit fabric, and lace.

Company N is a comprehensive textile enterprise that capable for cotton spinning, jet spinning, rotor spinning, wool spinning, knitting, dyeing, printing and finishing of variety of textile products.

Company O is an OEM and ODM enterprise specializing in fabric dyeing, lace dyeing, and leather dyeing.

Company P is a professional fabric provider, specializing in fabric dyeing, lace dyeing, and wool dyeing.

Company Q is a textile enterprise specializing in the printing and dyeing of various materials including cotton, wool, lace, and flax.

Entry barriers of China's lace weaving and dyeing industry

(i) Stringent environmental protection standards

The increasingly stringent environmental protection policies have formed a high technical barrier for new entrants in the lace weaving and dyeing industry. The Chinese government has issued a series of strict entry standards for dyeing enterprises in terms of wastewater treatment, discharge and reuse. As a result, new entrants in the market may lack sufficient capital and experiences for effective pollutant treatment and it will, thus, be difficult for them to meet the environmental requirements for green lace dyeing in the short term.

(ii) High capital requirement

The lace weaving and dyeing industry is a capital-intensive industry. One the one hand, the purchase of equipment such as warp weaving machines, dyeing machines and water treatment equipment, as well as the maintenance of equipment in the later stage require a large amount of capital. On the other hand, regulatory authorities and consumers have set higher requirements for the creativity and outer appearance of lace products. As a result, small-scale enterprises without the financial strength to purchase production equipment and facilities, or to support the research and development of lace products, will find it difficult to survive.

(iii) Lack of business relationships with clients

The downstream customers of lace products are primarily garment and home textile product manufacturers. These enterprises normally prefer to work with suppliers that possess rich industry experience and maintain long-term cooperative relationship with enterprises that they select. It usually takes years to establish a well-maintained relationship with downstream customers, thus new entrants to the industry may find it difficult to expand business in the short term.

(iv) Lack of experienced technical personnel

The lace weaving and dyeing industry involves key technologies including warp weaving, threading, dyeing and post-finishing, and research and development of lace products needs to be carried out continuously in order to remain competitive. Therefore, the lace weaving and dyeing industry requires experienced technical personnel who are capable to perform lace pattern design, research and development, and equipment operation and maintenance. Such experienced personnel are usually industry experts with years of experience in the lace field, and new market entrants are normally less competitive in attracting them.

Key success factors of China's lace weaving and dyeing industry

(i) Well-maintained business relationships with clients

Lace weaving and dyeing enterprises with strong design capabilities, consistent high quality products and the ability to perfectly execute customer's order are more likely to establish long-term business relationships with leading garments and home textile manufacturers. First, downstream manufacturers tend to purchase from suppliers that they have long-term cooperative relationship with. Second, lace weaving and dyeing enterprises that have well-maintained business relationships with their clients may better understand clients' demand, thereby will be able to deliver high-quality lace products that meet clients' requirements more efficiently and better maintain a cooperative relationship with clients.

(ii) Implementation of internal environmental protection measures

The newly issued environmental protection policies regarding wastewater discharge and treatment regulation have significantly raised the technical and environmental requirements of lace dyeing enterprises. As a result, lace dyeing enterprises who have already implemented environmental protection measures, such as establishing high-standard wastewater treatment facilities, are able to better meet pollutant discharge requirements and better control production costs. Thus, with the further tightening of environmental protection policies, lace dyeing enterprises that implement high-standard environmental protection measures will be immune from policy changes, and their competitive strength in the industry will be strengthened as others fail to keep up with these standards.

(iii) Strong innovation and research and development capabilities

With strong innovation and research and development capabilities, lace weaving enterprises can quickly turn the latest design concepts into new products in order to meet evolving consumer demands and provide newly-developed lace products to customers on an exclusive basis. Furthermore, lace weaving enterprises with lace pattern patents can benefit from the collection of patent exploitation fees, thereby obtaining additional revenue without additional resource costs. Thus, continuous investment in innovation and research and development enables lace manufacturers to maintain their competitive edge in the industry.

(iv) Capabilities to provide high-quality and customised products

With the continuous consumption upgrade, consumers, especially female consumers, have put forward higher requirements for the design of clothes and home textiles. As a result, garments and home textile manufacturers have put more emphasis on the uniqueness of design when selecting lace suppliers. Thus, lace weaving and dyeing enterprises who are able to regularly conduct research on fashion trends, design suitable lace fabrics, and provide customised high-quality lace products are able to meet consumers' rapidly-evolving demand, thereby capturing market opportunities and retaining key customers.

REGULATORY OVERVIEW

LAWS AND REGULATIONS IN RELATION TO OUR GROUP'S BUSINESS IN THE PRC

Our business operations are subject to extensive supervision and regulation in the PRC. This Regulatory Overview sets out a summary of the principal laws, regulations and policies to which we are subject.

Regulations and policies relating to the industry

Pursuant to *the Catalogue for the Guidance of Industrial Structure Adjustment* (《產業結構調整指導目錄》) (2019 Version) promulgated by the National Development and Reform Commission (“NDRC”) on 30 October 2019 and came into effect on 1 January 2020, manufacture of new-type and functional textiles (including high-grade textile fabrics manufactured by all kinds of advanced technologies, high-grade carpet, drawnwork and embroidery, among others) are the industries being encouraged.

Foreign investment

Pursuant to the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) promulgated on 15 March 2019 and came into effect on 1 January 2020, and the Implementation Regulations for the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法實施條例》) promulgated by the State Council on 26 December 2019 and came into effect on 1 January 2020, the State implements a management system of national treatment before the entry of foreign investment plus a negative list. If the investment conducted by investors from Hong Kong Special Administrative Region and Macau Special Administrative Region, the Foreign Investment Law and the Implementation Regulations for the Foreign Investment Law shall apply.

Foreign investments in different industries in the PRC are regulated through *the Special Management Measures for Market Entry of Foreign Investment (Negative List) (2020 Version)* (《外商投資准入特別管理措施(負面清單) (2020年版)》) (“**Negative List**”), which was promulgated by the NDRC and MOFCOM jointly on 23 June 2020 and came into effect on 23 July 2020 and *the Negative List for Market Access (2020 Version)* (《市場准入負面清單(2020年版)》) (“**Market Access Negative List**”) which was promulgated by the NDRC and the MOFCOM jointly on 10 December 2020. According to the 2020 version of *the Negative List* and *the Market Access Negative List*, all kinds of market players may enter into industries, fields, business and so on outside the Market Access Negative List in a legal and equal way. Areas beyond *the Negative List* shall be managed in accordance with the principle of consistency between the domestic and the foreign enterprises. We are a weaving and dyeing service provider in the PRC offering knitted and functional fabrics to companies and customers and this industry has not been included in *the Negative List* and *the Market Access Negative List*.

Real property

In accordance with *the Property Law of the PRC* (《中華人民共和國物權法》) promulgated on 16 March 2007 and came into effect on 1 October 2007, the creation, change, transfer or elimination of the real right of a real property shall be registered according to the law. The creation, change, transfer or elimination of the real right of a real property shall become effective after it is registered according to the law; it shall have no effect if it is not registered according to the law, except it is otherwise prescribed by any law.

In accordance with *the Land Administration Law of the PRC* (《中華人民共和國土地管理法》) promulgated on 25 June 1986 and amended on 29 December 1988, 29 August 1998 and 28 August 2004, land in urban areas is owned by the State. Land in rural and suburban areas, except those of which the ownership belongs to the State according to the law, is collectively owned by peasants; and homestead and private plots in fields or on hillsides are collectively owned by peasants. Land owned by the State and land collectively owned by peasants may be lawfully determined to be used by entities or individuals. No entity or individual is allowed to occupy, trade, or otherwise illegally transfer land. Land use rights may be legally transferred. Any entity or individual that needs land for the purposes of construction must apply for the use of state-owned land by law, however land that is collectively owned by peasants and used by collective economic organizations for establishing local enterprises or building residential housing, or land collectively owned by peasants approved by law for use in the construction of township (town) public facilities or for public welfare projects are excepted. The land use rights of farmer collectives shall not be leased, conveyed, or rented for non-agricultural construction, except in the case of legal transfer of the land that conforms to the comprehensive land use plan and is carried out legally by enterprises as a result of bankruptcy or acquisition. Subsequently, *the Land Administration Law of the PRC* was amended on 26 August 2019 and came into effect on 1 January 2020, where the right of use of rural collectively-owned commercial construction land obtained by buying or other means can be transferred, exchanged, provided as funds or capital, granted or mortgaged, except as otherwise stipulated in laws and administrative regulations or in the written contract signed by the land owner and the land user.

Intellectual property

Patent

In accordance with *the Patent Law of the PRC* (《中華人民共和國專利法》) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008, respectively, the patent administration division of the State Council shall be responsible for the patent administration throughout the PRC, and shall accept and examine patent applications and grant patent rights in accordance with laws. The patent administration department of the people's governments of provinces, autonomous regions or municipalities shall be responsible for the patent administration within their respective own jurisdictions.

REGULATORY OVERVIEW

Pursuant to *the Patent Law*, to be granted a patent, an invention or a utility model shall be novel, inventive and practically applicable. Generally, only one patent right will be granted for each invention, utility model and design. The patent right for inventions shall be valid for 20 years, and the patent right for utility models and designs shall be valid for 10 years, in both cases shall be from the initial filing date of the patent application. The patentee shall pay an annual fee since the year in which the patent right was granted. In any of the following cases, the patent right shall cease before the expiration of its duration:

- where an annual fee is not paid as prescribed;
- where the patentee abandons his or its patent right by a written declaration.

Any cessation of the patent right shall be registered and announced by the patent administrative department of the State Council.

Trademark

In accordance with *the Trademark Law of the PRC* (《中華人民共和國商標法》) promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 and came into effect on 1 November 2019, the Trademark Office of the administrative department for industry and commerce under the State Council shall be responsible for the registration and administration of trademarks in the PRC. The administrative department for industry and commerce under the State Council shall establish a Trademark Review and Adjudication Board to be responsible for handling trademark disputes. Any natural person, legal person, or other organisations that needs to acquire the exclusive right to use a trademark in the production and operation activities shall file an application for trademark registration with the Trademark Office.

Registered trademarks shall be valid for 10 years from the date when the registration is approved. If a registrant needs to continue to use the registered trademark after its expiration, an application for registration renewal shall be made within 12 months before the expiration date. If the registrant fails to apply in a timely manner, an extension period of an additional six months may be granted. If no application has been filed before the extension period expires, the registered trademark shall be deregistered. Each renewal of registration shall be valid for 10 years.

Copyright

According to *the Copyright Law of the People's Republic of China* (《中華人民共和國著作權法》) promulgated on 7 September 1990 and revised on 27 October 2001 and 26 February 2010, respectively, *the Regulations for the Implementation of the Copyright Law of the People's Republic of China* (《中華人民共和國著作權法實施條例》) promulgated on 30 May 1991 and revised on 2 August 2002, 8 January 2011 and 30 January 2013, respectively, and *the Regulation for Computer Software Protection* (《計算機軟件保護條例》) promulgated on 4 June 1991 and revised on 20 December 2001, 8 January 2011 and 30 January 2013, works of citizens, legal persons or other organizations of the PRC, whether published or not, enjoy copyright protection under this Law. According to *the Measures for the Registration of Computer Software Copyright* (《計算機軟件著作權登記辦法》) promulgated and came into effect on 20 February 2002, such measures are applicable to registration of software copyright, exclusive licensing contracts for software copyright and transfer contracts of software copyright. The state copyright administrative department shall encourage software registration and give priority to the protection of the registered software.

Domain name

According to *the Administrative Measures for Internet Domain Names* (《互聯網域名管理辦法》) promulgated by the MIIT on 24 August 2017 and coming into effect on 1 November 2017, the MIIT shall be responsible for supervising and administering nationwide domain name services and the communications administrations of all provinces, autonomous regions and municipalities directly under the central government shall supervise and administer domain name services within their respective administrative region. The “.CN” and the “.zhongguo (in Chinese character)” shall be China's national top-level domain names. Chinese domain names are an integral part of the internet domain name system of China. The State shall encourage and support the technical research, promotion and application of the Chinese domain name system.

According to *the Measures on Domain Name Dispute Resolution of China Internet Network Information Centre* (《中國互聯網絡信息中心域名爭議解決辦法》) amended by China Internet Network Information Centre on 1 September 2014, domain name disputes relating to the usage and registration of the domain name “.CN” and the “.zhongguo (in Chinese character)” shall be submitted to the institutions recognised by the China Internet Network Information Centre for settlement.

Production safety

The principal law on production safety is *the Production Safety Law of the PRC* (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, respectively. Pursuant to *the Production Safety Law*, manufacturing companies should establish a control system for production safety and improve work conditions as provided by this law and other relevant laws, administrative regulations and national standards or industrial specifications.

REGULATORY OVERVIEW

Product quality

According to *the PRC General Principles of Civil Law* (《中華人民共和國民法通則》) promulgated on 12 April 1986 and revised on 27 August 2009, manufacturers and sellers of defective products are subject to civil liability for damages or injuries by their products.

Productions in the PRC are subject to *the Product Quality Law of the PRC* (《中華人民共和國產品質量法》) which was promulgated on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018 respectively. According to *the Product Quality Law*, industrial products that impose potential health or safety threats to human being or property must comply with relevant national and industry standards. Production and sale of industrial products that are inconsistent with such standards and requirements are prohibited. A manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that:

- it has not circulated the product;
- the defect did not exist at the time when the product was circulated;
- scientific or technological knowledge at the time when the product was circulated did not allow the defect to be discovered.

According to *the Regulations on Quality Responsibility for Industrial Products* (《工業產品質量責任條例》) promulgated on 5 April 1986 and came into effect on 1 July 1986, manufacturers shall ensure that the quality of their products meets the requirements of relevant laws and regulations, quality standard and contracts. Moreover, manufacturers must set up a well-knit, coordinating and effective quality assurance system to stipulate accountability of product quality.

According to *the Tort Law of the People's Republic of China* (《中華人民共和國侵權責任法》) promulgated on 26 December 2009 and came into effect on 1 July 2010 and *the Opinions of the Supreme People's Court of Several Issues concerning the Application of the Tort Law of the People's Republic of China* (《最高人民法院關於適用中華人民共和國侵權責任法若干問題的通知》) promulgated and came into effect on 30 June 2010, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation for the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek compensation from the manufacturer upon compensation for the victim.

Import and export sale of products

According to *the Foreign Trade Law of the People's Republic of China* (《中華人民共和國對外貿易法》) promulgated on 12 May 1994 and revised on 6 April 2004 and 7 November 2016 as well as *the Measures for the Archival Filing and Registration of Foreign Trade Business Operators* (《對外貿易經營者備案登記辦法》) promulgated on 25 June 2004 and revised on 18 August 2016 and 30 November 2019, foreign trade operators engaged in the import and export of commodities or technologies shall be filed with the competent department of foreign trade under the State Council or an institution entrusted by it, except those exempt from doing so pursuant to laws, administrative regulations and rules of the competent department of foreign trade under the State Council. Foreign trade operators failing to go through relevant filing formalities accordingly shall not be permitted to proceed to declaration and Clearance at the Customs. According to *the Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Right to Foreign Trade by Foreign-funded Enterprises* (《商務部關於外商投資企業外貿權備案登記有關問題的通知》) promulgated by the MOFCOM and came into effect on 17 August 2004, any foreign-funded enterprise lawfully established before 1 July 2004 that has not applied for changing its scope of business or adding any import/export business or any foreign-funded enterprise lawfully established after 1 July 2004 that undertakes import/export of self-use or self-produced goods and technologies of this enterprise need not complete the formalities of record-keeping and registration of foreign trade operators.

According to *the Customs Law of the People's Republic of China* (《中華人民共和國海關法》) promulgated on 22 January 1987 and revised on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, unless otherwise provided for, consignees and consignors of import or export commodities may go through declaration formalities on their own or entrust an agent to do so for them on the condition that both the said consignees and consignors and agents entrusted with such declaration formalities have been legally registered with the Customs.

According to *the Provisions on Administration of Registration of Customs Declaration Entities of the People's Republic of China* (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated on 13 March 2014, and revised on 20 December 2017, 29 May 2018, customs declaration entities shall be registered with the Customs in accordance with these provisions unless otherwise prescribed by laws, administrative regulations or customs rules. The registration of customs declaration entities includes the registration of customs declaration enterprises and the registration of the consignees or consignors of imported/exported goods. A customs declaration enterprise may not provide customs declaration services until it has obtained a registration license from the local customs office directly under the General Administration of Customs or a subordinate customs office authorised by it. A consignee or consignor of imported/exported goods may directly go through the registration procedure at the local customs office.

REGULATORY OVERVIEW

According to *the Law of the People's Republic of China on Import and Export Commodity Inspection* (《中華人民共和國進出口商品檢驗法》) promulgated on 21 February 1989 and revised on 28 April 2002, 29 June 2013, 27 April 2018 and 29 December 2018, *the Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection* (《中華人民共和國進出口商品檢驗法實施條例》) promulgated on 23 October 1992 and revised on 31 August 2005, 18 July 2013, 6 February 2016, 1 March 2017 and 2 March 2019 and the *Administration of Entry-Exit Inspection, Quarantine and Inspection and Quarantine Reporting* (《出入境檢驗檢疫報檢規定》) promulgated on 17 December 1999 and revised on 6 March 2018, 28 April 2018, 29 May 2018 and 23 November 2018, the General Administration of Customs and the entry and exit inspection and quarantine agencies and branches thereof established by the General Administration of Customs at provinces, autonomous regions, centrally-administered municipalities as well as ports, distribution centres for imports and exports are in charge of the inspection of imported and exported commodities nationwide and locally respectively.

Import and Export Duties

According to *the Regulations of the People's Republic of China on Import and Export Duties* (《中華人民共和國進出口關稅條例》) promulgated on 7 March 1985 and revised on 12 September 1987, 18 March 1992, 23 November 2003, 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017, all goods permitted to be imported into or exported out of and all articles allowed to enter into the People's Republic of China shall, unless otherwise provided for by the State Council, be subject to payment of customs duties on imports or exports.

Environmental protection

According to *the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) promulgated on 26 December 1989 and amended on 24 April 2014, the former Ministry of Environmental Protection is responsible for implementing uniform supervision and administration of environmental protection nationwide and establishing the national waste discharge standards. Local environmental protection bureaus are responsible for environmental protection in their respective jurisdictions. Enterprises discharging pollutant and hazardous materials must incorporate environmental protection measures into their business planning and establish environmental protection systems. Such enterprises must also adopt effective measures to prevent the release of pollutant or hazardous materials to the environment.

According to *the Law of the People's Republic of China on Environmental Impact Assessment* (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and revised on 2 July 2016 and 29 December 2018, *the Regulations on the Administration of Construction Project Environmental Protection* (《建設項目環境保護管理條例》) promulgated on 29 November 1998, revised on 16 July 2017, *the Classification Management Directory of the Construction Project Environmental Impact* (《建設項目環境影響評價分類管理名錄》) promulgated on 2 September 2008 and revised on 9 April 2015, 29 June 2017 and 28 April 2018, the Chinese government practices the construction project environmental impact evaluation system and manages environmental impact assessment according to the environmental impacts. The

REGULATORY OVERVIEW

construction enterprise required to prepare an environmental impact report or environmental impact statement shall submit environmental impact report or environmental impact statement to relevant environmental protection authority for approval, and without the approval of relevant environmental protection authority, no aforesaid enterprise shall carry out its construction project.

According to the *Printing and Dyeing Industry Regulation (2017)* (《印染行業規範條件(2017)版》) promulgated by the MIIT on 31 August 2017 and came into effect on 1 October 2017, printing and dyeing enterprises should develop and produce green products with low consumption and low pollution, and are encouraged to use new technologies, processes, equipment and materials to develop textile products with intellectual property rights and high added value. Wastewater coming out of printing and dyeing shall be treated by the enterprises themselves or connected to the centralized wastewater treatment facilities. Water quality analysis and monitoring during wastewater treatment and operation shall be strengthened. The wastewater discharge shall be monitored online to keep the discharging process stable and up to standard. The high-efficiency and energy-saving treatment process shall be adopted to recycle solid waste and dispose it harmlessly. Pollutant discharge license shall be obtained according to the law and the pollutant shall be discharged in strict accordance with the license. The reuse rate of water should be over 40%. No specific deadline as to the compliance of the requirements under the Printing and Dyeing Industry Regulation (at Ministry level) was stipulated in such regulation. Instead, it requires the government authority at provincial/city level to set their own deadlines in relation to the completion of the technical transformation as required under the Printing and Dyeing Industry Regulation. The Discharge Standard was promulgated by the former Ministry of Environmental Protection on 19 October 2012 and was revised on 27 March 2015. The Discharge Standard provides a clear numerical caliber for the emission of pollutants and requires all dyeing production facilities to set up a real-time monitor system in order to keep track on the level of pollutants emitted.

According to the Opinion on Accelerating the Use of Natural Gas(《加快推進天然氣利用的意見》) promulgated on 23 June 2017 industrial enterprises shall, in accordance with the elimination criteria and time limits stipulated in the action plans of air pollution prevention and control, focus on replacing coal-burning or fuel-burning industrial boilers whose capacity is no less than 20 tons with natural-gas-boilers in the “high pollution fuel prohibition zone”. Industrial enterprises shall also strictly control the use of coal, heavy oil, petroleum coke and artificial gas as fuel for newly-built, rebuilt and expanded industrial boilers and kilns. Industries of glass, ceramics, building materials, electromechanical and light textile are encouraged to replace with and utilize natural gas.

According to the Guide Opinions on the Transformation and Upgrading of Printing and dyeing Industry in Fujian Province (《福建省印染行業轉型升級指導意見》) issued by Fujian Provincial Department of Industry and Information Technology (福建省工業和信息化廳) and other relevant Fujian Provincial authorities on 20 December 2018, the relevant local government authorities should accelerate the planning and construction of printing and dyeing parks, improve public facilities such as central heating and pollution control, and promote centralized and intensive development. In principle, if relocation of printing and dyeing services enterprises

REGULATORY OVERVIEW

have been planned by the local government authorities, these enterprises should follow such relocation plan or no new printing and dyeing production enterprises will be allowed.

According to the requirements of the Guide Opinions on the Transformation and Upgrading of Printing and dyeing Industry in Fujian Province and the actual situation in Fuzhou, the Department of Industry and Information Technology of Fuzhou City promulgated the Opinion on Transformation and Upgrading of Printing and Dyeing Industry in Fuzhou (《福州市印染行業轉型升級實施意見》) on 3 July 2019, which stipulates that, (i) all printing and dyeing enterprises in Changle District that do not have central heating should complete the transformation of “coal to gas” or use other clean energy that meets the national environmental protection requirements, so as to realize coal free production before 31 December 2021; (ii) the printing and dyeing enterprises in Changle District shall also meet the requirements under *the Printing and Dyeing Industry Regulation (2017)* by technical transformation and apply for the announcement accordingly before 31 December 2021; (iii) enterprises that are unable to comply with the Catalogue for the Guidance of Industrial Structure Adjustment (《產業結構調整指導目錄》) and the Environmental Protection Law requiring comprehensive transformation and upgrading of production facilities, equipment and technology and would seriously affect the environment should be shut down before 2021, whereas according to the confirmation dated 21 August 2020 from the Department of Ecology and Environment of Changle District, Fuzhou City, we are in compliance with these regulatory requirements; (iv) when no printing and dyeing industrial parks is planned in the area, no new printing and dyeing enterprises in the relevant area shall be allowed whereas, as at the Latest Practicable Date, we are not aware of any specific construction plan for printing and dyeing industrial parks in Fuzhou City; and (v) enterprises with certain production scale and meeting the requirements under national printing and dyeing industrial standard can remain to be located in the same area if they are conducting business in non-environmental sensitive areas.

In response to the “coal to gas” heating transformation requirement, the Group has already planned to fulfill such requirement by the end of 2021. Please see the section headed “Business – Our Business Strategies – Continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-burning boiler” for details. The Group has been in compliance with the requirements under the Printing and Dyeing Industry Regulation (2017) and relevant announcement is planned to be made in mid-2021. Save as the above, there is no other impacts to the Group arising from the Guide Opinions.

According to *the Water Pollution Prevention and Control Law of the People’s Republic of China* (《中華人民共和國水污染防治法》) promulgated on 11 May 1984 and revised on 15 May 1996, 28 February 2008, 27 June 2017, environmental impact assessment shall be conducted legally to new construction, expansion or reconstruction projects or construction projects and other marine facilities which directly or indirectly discharge pollutants into water. Enterprises, public institutions and other business entities which directly or indirectly discharge industrial waste water and medical sewage water or which are required to obtain pollutant discharge licenses before discharging waste water and sewage water must obtain pollutant discharge licenses; and entities operating facilities for the concentrated treatment of urban sewage must also obtain pollutant discharge licenses Pollutant discharge licenses shall specify requirements

REGULATORY OVERVIEW

including categories, concentrations, gross quantities and discharging directions of the pollutants discharged to water.

According to *the Law of the PRC on the Prevention and Control of Atmospheric Pollution* (《中華人民共和國大氣污染防治法》) promulgated on 5 September 1987 and revised on 29 August 1995, 29 April 2000, 29 August 2015 and 26 October 2018, when construction projects that have an impact on atmospheric environment, enterprises, public institutions, and other business entities shall conduct environmental impact assessments and publish the environmental impact assessment documents according to the law; when discharging pollutants to the atmosphere, they shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants. Enterprises and public institutions discharging industrial waste gases or the toxic or hazardous atmospheric pollutants listed in the catalogue of toxic or hazardous atmospheric pollutants, the producers and operators of the coal heating sources of central heating facilities, and other entities subject to pollutant discharging licensing administration, shall obtain pollutant discharge licenses. The specific measures and implementation steps for pollutant discharge licensing shall be determined by the State Council. Atmospheric pollutant discharge outlets shall be set according to the laws, regulations, and the provisions of the environmental protection administrative department under the State Council.

According to *the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* (《中華人民共和國固體廢物污染環境防治法》) promulgated on 30 October 1995, newly revised on 29 April 2020 and came into effect on 1 September 2020, entities discharging industrial solid waste shall set up and optimise the liability system about the whole process of emergence, collection, storage, transportation, utilization and disposal of industrial solid waste, establish management account keeping the actual record of the type, quantity, route, storage, utilization, disposal and other information of industrial solid waste for tracking and looking up, and take measures to protect environment from industrial solid waste.

According to *the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise* (《中華人民共和國環境噪聲污染防治法》) promulgated on 29 October 1996 and revised on 29 December 2018, every project under construction, expansion or renovation must conform to the regulations of the state governing environmental protection. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for environmental protection of the local people's government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of the equipment

REGULATORY OVERVIEW

that produces environmental noise pollution, in the noise level or facilities for prevention and control of such pollution must submit a report without delay and take prevention and control measures.

According to *the Law of the People's Republic of China on Promoting Clean Production* (《中華人民共和國清潔生產促進法》) promulgated on 29 June 2002 and revised on 29 February 2012, the enterprises may, on the principle of free will and in accordance with the national regulations on verification by the environmental management system, apply for verification to the verification authorities acknowledged by the verification and supervision department under the State Council, so as to raise their standards of clean production. Enterprises shall monitor the consumption of resources and the generation of wastes in the production and rendering of services, and where it is necessary, shall carry out clean production checks over their production and services. The clean production of the following enterprises shall be compulsorily reviewed, if they fall within one of the following conditions: discharge pollutants in excess of the standard specified by the State or local authorities, or not exceeding the above standard but exceeding the total controlling indicator of the main pollutants discharge; exceed the limited energy-consumption standards allowed for unit products, resulting in high energy consumption; use toxic or harmful raw materials for production or discharge toxic or harmful substances in the course of production.

In addition, in accordance with *the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation)* (《排污許可管理辦法(試行)》) promulgated by former Ministry of Environmental Protection and came into effect on 10 January 2018 and revised by the Ministry of Ecology and Environment on 22 August 2019, the former Ministry of Environmental Protection shall lawfully formulate and issue the catalog of classified management of pollutant discharge licenses for stationary pollution sources, and define the scope of stationary pollution sources included in pollutant discharge licensing management and the time limit for the application for pollutant discharge licenses. Enterprises, public institutions and other production operators (the “**pollutant discharge entities**”) included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge license as per the prescribed time limit; and, it is temporarily unnecessary for pollutant discharge entities not included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources to apply for a pollutant discharge license. If water or air pollutants are discharged in excess of the discharge standards or the total emission control targets for major air pollutants and key water pollutants, the competent environmental protection department at or above the county level shall, in accordance with the relevant environmental protection laws, order the pollutant discharge entities to make corrections, restrict or stop producing for rectification, and such entities shall be fined not less than RMB100,000 but not more than RMB1 million; such entities shall be ordered to suspend operation or shut down by authorised government if the circumstances are serious. Pollutant discharge entities shall, as per provisions in the pollutant discharge license thereof, install or use monitoring equipment in conformity to relevant state environmental monitoring, measurement and authentication provisions, maintain monitoring facilities, conduct independent monitoring, and keep the original monitoring records. Pollutant discharge entities subject to the key pollutant discharge licensing management shall install automatic monitoring equipment as

REGULATORY OVERVIEW

per the pollutant discharge license provisions, and connect with the network of the monitoring and control equipment of the competent department for environmental protection.

According to *the Classification and Administration Lists of Pollutant Discharge Permits for Stationary Pollution Sources (Version 2019)* (《固定污染源排污許可分類管理名錄(2019年版)》) promulgated by the Ministry of Ecology and Environment on 20 December 2019, the existing enterprises and public institutions and other producers and operators which engage in textile industry with pretreatment, dyeing, printing and finishing processes, and scouring, hemp degumming, silk reeling, water-jet weaving processes, etc. should apply to get the pollutant discharge permits or submit the pollutant discharge registration form within the execution period in accordance with the requirements under the List.

Labour protection

Labour contracts

Pursuant to *the Labour Law of the PRC* (《中華人民共和國勞動法》) which was promulgated on 5 July 1994 and was amended on 27 August 2009 and 29 December 2018, *the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and was amended on 28 December 2012, and *the Regulations on the Implementation of Labour Contract Law of the PRC* (《中華人民共和國勞動合同法實施條例》) which was promulgated on 18 September 2008, the labour contract is the basic form of employment adopted by the PRC enterprises, and, employers shall enter into labour contracts with employees within one month since the date of employment.

Social insurance

According to *the Law of Social Insurance of the PRC* (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and was amended on 29 December 2018, the Chinese social security system basically consists of five major types of social insurances, namely maternity insurance, endowment insurance, medical insurance, unemployment insurance and industrial injury insurance, and each company in the PRC is required to contribute social insurance for its employees. If any company fails to fully pay the social insurance premiums, the social insurance contributions collecting agency shall place an order with the employer demanding full payment within a prescribed period, and an overdue payment at the rate of 0.05% shall be levied as of the date of indebtedness. When the payment is not made at the expiry of the prescribed period, a fine above the overdue amount but less than its triple shall be demanded by the authoritative administrative department.

Under *the Interim Regulation on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》) promulgated on 22 January 1999 and revised on 24 March 2019, employers and individuals shall pay social insurance premiums timely in full amount. At the same time, it clarified that if an employer fails to pay and withhold social insurance premiums, the labour insurance administrative department or the tax authority shall order it to pay within a

REGULATORY OVERVIEW

prescribed time limit. When the payment is not made at the expiry of the prescribed time limit, 0.2% of the amount of arrears per day shall be collected.

Housing provident fund

According to *the Regulation on Management of Housing Provident Fund* (《住房公積金管理條例》) promulgated on 3 April 1999 and amended on 24 March 2002 and revised on 24 March 2019, employers in the PRC must register with the housing provident fund management centre. Employers will then need to open housing fund accounts for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.

Any entity fails to make payment and deposit registration of housing provident fund or go through the formalities for opening housing provident fund account for its employees will be ordered by the housing provident management centre to process the foregoing within prescribed period, otherwise it will be imposed a fine ranging from RMB10,000 to RMB50,000. Any entity fails to make payment of housing provident fund timely or have shortfall in payment of housing provident fund will be ordered to make the payment or make up the shortfall within the prescribed time limit, otherwise, the housing provident management centre is entitled to apply for compulsory enforcement with the people's court.

Tax

Enterprise income tax (EIT)

According to *the EIT Law of the PRC* (《中華人民共和國企業所得稅法》) which was promulgated on 16 March 2007 and was amended on 24 February 2017 and 29 December 2018, and *the Regulation on Implementation of the EIT Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) which was promulgated on 6 December 2007 and revised on 23 April 2019, unless specified, a uniform income tax rate of 25% applies to all enterprises within the territory of the PRC. These enterprises are classified as either resident companies or non-resident companies. Under *the EIT Law*, enterprises established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC are considered “resident enterprises” and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. Also, *the Regulation on Implementation of the EIT Law* defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”.

According to *the EIT Law*, certain high-tech enterprises are entitled to a reduced EIT rate of 15%. *The Administrative Measures for the Determination of High and New Technology Enterprise* (《高新技術企業認定管理辦法》), which was promulgated on 14 April 2008 and revised on 29 January 2016, provides that, a company that is to be certified as a High-tech Enterprise shall meet certain criteria under relevant laws and regulations. Once an enterprise obtains the high-tech enterprise qualification, it may apply for the tax reduction or exemption with the competent tax authorities as of 1 January 2016.

REGULATORY OVERVIEW

According to *the Announcement of the State Administration of Taxation on Issuing the Revised Measures for the Handling of Matters concerning Preferential Enterprise Income Tax Policies* (《國家稅務總局關於發佈修訂後的企業所得稅優惠政策事項辦理辦法的公告》), which was issued and became effective on 25 April 2018, preferential enterprise income tax refers to those preferences prescribed in the EIT Law and those developed by the State Council and ethnical autonomous areas upon authorization by the EIT Law. An enterprise shall, based on its operating conditions and related tax regulations, determine on its own whether it meets the conditions stipulated in the preferential items. Those enterprises who meet the conditions may calculate the tax deductions accordingly and may enjoy EIT preferences by filing an EIT return. Such enterprises shall collect and save relevant documents for future reference. *The Measures for the Handling of Matters concerning Preferential Enterprise Income Tax Policies* (《企業所得稅優惠政策事項辦理辦法》) applies to annual EIT settlement of and after 2017.

Withholding Tax on Dividends

According to *the Arrangements between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which was signed on 21 August 2006, the withholding tax rate for dividends paid by the PRC resident enterprise to a Hong Kong resident enterprise is 5%, if the Hong Kong enterprise holds at least 25% of equity interests of the PRC enterprise directly. According to *the Notice of the State Administration of Taxation on Issues Concerning the Implementation of the Dividend Clauses of Tax Agreement* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on 20 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner's equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

Regulations on Transfer Price

According to *the Circular of the SAT on Printing and Distributing the Implementing Measures for Special Tax Adjustments (for Trial Implementation)* (國家稅務總局關於印發《特別納稅調整實施辦法(試行)》的通知) promulgated by SAT on 8 January 2009 and became effective on 1 January 2008 and newly revised on 15 June 2018, business transactions between an enterprise and its related parties shall follow the arm's length principle. According to the *Implementation Regulations for the EIT Law* (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and revised on 23 April 2019, for the transactions between the enterprise and its related parties, if not meeting the arm's length principle, or if done by the enterprise for unreasonable commercial purpose, the tax authority may adjust the taxable revenue or income in compliance with reasonable methods (including

REGULATORY OVERVIEW

comparable uncontrolled price method, resale price method, cost-plus method, transactional net profit method, profit split method and other methods that meet the arm's length principle).

Value-added tax (VAT)

Pursuant to *the Interim Regulations of the PRC on Value-added Tax* (《中華人民共和國增值稅暫行條例》) promulgated on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017 respectively, and *the Detailed Rules for Implementing the Interim Regulations of the PRC on Value-Added Tax* (《中華人民共和國增值稅暫行條例實施細則》) promulgated on 25 December 1993, amended on 15 December 2008 and 28 October 2011, all enterprises and individuals engaged in sale of goods, provision of processing, repair and replacement services, sale of services, intangible assets and, or real estate, and the importation of goods within the territory of the PRC shall pay VAT. For general VAT taxpayers selling or importing goods other than those specifically listed in relevant laws and regulations, the VAT rate is 17%, and in certain limited circumstances the VAT rate is 11%. For taxpayers exporting goods, the tax rate shall be 0%, except as otherwise stipulated by the State Council.

Pursuant to *the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates* (《財政部、國家稅務總局關於調整增值稅稅率的通知》) which was issued by the Ministry of Finance and the State Administration of Taxation on 4 April 2018 and became effective on 1 May 2018, the tax rates of 17% and 11% applicable to any taxpayer's VAT taxable sale or import of goods shall be adjusted to 16% and 10% respectively.

Pursuant to the Announcement 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》) which was issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, the tax rates of 16% and 10% applicable to any taxpayer's VAT taxable sale or import of goods were adjusted to 13% and 9% respectively.

Urban maintenance and construction tax and education surcharges

Pursuant to *the Interim Regulations of the PRC on Urban Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》) which was promulgated by the State Council on 8 February 1985, amended and became effective on 8 January 2011, all entities or individuals who are required to pay consumption tax, value-added tax and business tax shall also be subject to urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the amount of the consumption tax, value-added tax and business tax actually paid by the taxpayer and shall be made simultaneously. The rates of urban maintenance and construction tax shall be set at 7%, 5% and 1% for a taxpayer located in a city, in a county town or town and in a place other than a city, county town or town, respectively.

REGULATORY OVERVIEW

In accordance with *the Interim Provisions on the Collection of Education Surcharges* (《徵收教育費附加的暫行規定》) which was promulgated by the State Council on 28 April 1986 and amended on 7 June 1990, 20 August 2005, 8 January 2011 respectively, all entities and individuals who pay consumption tax, value-added tax and business tax, except for those paying rural education surcharges in accordance with *the Notice of the State Council on Raising Operational Funds of Rural School* (《國務院關於籌措農村學校辦學經費的通知》), shall also be subject to education surcharges. The rate of education surcharges is set at 3% of the amount of value-added tax, business tax and consumption tax actually paid by each entity or individual, and the education surcharges shall be paid simultaneously with the value-added tax, business tax and consumption tax.

Environmental protection tax

The Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) (the “**Environmental Protection Tax law**”) was promulgated on 25 December 2016 and amended on 26 October 2018. The *Implementation Rules of the Environmental Protection Tax Law of the PRC* (《中華人民共和國環境保護稅法實施條例》) was promulgated on 25 December 2017 and came into force on 1 January 2018. According to the Environmental Protection Tax Law and its implementation rules, within the territory of the PRC and other sea areas under the jurisdiction of the PRC, the enterprises, public institutions and other producers or operators that directly discharge taxable pollutants to the environment such as air pollutants, water pollutants, solid wastes and noises as prescribed in the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax and the Schedule of Taxable Pollutants and Equivalent Values shall pay environmental protection tax. However, an enterprise, a public institution or any other producer or operator falls under any of the following circumstances, it shall not be deemed as directly discharging pollutants to the environment and shall be exempt from the environmental protection tax on the corresponding pollutants:

- It discharges taxable pollutants to a centralised sewage or domestic garbage treatment site established in accordance with law.
- It stores or disposes solid wastes at a facility or site that meets the national and local environmental protection standards.

Foreign exchange

According to *the Foreign Exchange Control Regulations of the PRC* (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, foreign exchange receipts of domestic institutions or individuals may be transferred to the PRC or deposited abroad; the conditions for transfer to the PRC or overseas deposit, time limit and other details will be specified by the foreign exchange control department of the State Council. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaging in the settlement of foreign exchange in accordance with relevant regulations. For foreign exchange proceeds under the capital accounts, approval from the State Administration of Foreign Exchange (“SAFE”) is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the State. Accordingly, domestic institutions or individuals that make direct investments abroad or are engaging in the overseas distribution or trade of valuable securities or derivative products should register according to the provisions of the foreign exchange control department of the State Council. Relevant institutions or individuals should submit relevant documentation for examination and approval or for record-filing prior to foreign exchange registration, if they are required to file with, or receive approval from, the competent administration departments in advance as required by the State. However, no prior approval from the SAFE is required for a foreign invested enterprise to convert after-tax dividends into foreign exchange and to remit abroad such foreign exchange from their bank accounts in the PRC. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

According to *the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in the Investment and Financing and Round-trip Investment Conducted by the PRC Residents via Special Purpose Vehicles* (SAFE Circular No. 37) (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which was promulgated and implemented by the State Administration of Foreign Exchange on 4 July 2014, domestic residents (including domestic institutions and resident individuals) are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests.

Pursuant to *the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies of Direct Investment* (SAFE Circular No.13) (《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》(匯發[2015]13號)) which was promulgated on 13 February 2015 and became effective on 1 June 2015, foreign exchange registration for domestic direct investment and foreign exchange registration for overseas direct investment shall be directly reviewed and handled by banks in accordance with the SAFE Circular No.13 and its appendix *the Direct Investment Foreign Exchange Operating Guidelines for Foreign Exchange Business in Direct Investment* (《直接投資外匯業務操作指引》).

REGULATORY OVERVIEW

According to *the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (Hui Fa [2016] No.16)* (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016] 16號)), which was promulgated and implemented by the SAFE on 9 June 2016, the tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjustment of the SAFE in due time in accordance with international revenue and expenditure conditions. The use of foreign exchange incomes of capital accounts by domestic institutions shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in RMB obtained by the domestic institutions from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
- directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations;
- used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and
- used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

According to the Circular of the State Administration of Foreign Exchange on Further Promoting Cross-Border Trade and Investment Facilitation (Hui Fa [2019] No.28) (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》(匯發[2019] 28號)), which was promulgated and implemented by the SAFE on 23 October 2019, non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise of no violation of the Negative List and the authenticity and compliance with the regulations of domestic investment projects.

M&A Rules

According to *the Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors* (《關於外國投資者並購境內企業的規定》), which was promulgated by six PRC governmental and regulatory agencies on 8 August 2006 and amended on 22 June 2009, if any domestic company, enterprise or natural person merges its affiliated domestic company in the name of a company legally established or controlled by the aforesaid domestic company, enterprise or natural person in foreign countries or regions, it shall be subject to the approval of the MOFCOM.

HISTORY, DEVELOPMENT AND REORGANISATION

HISTORY AND DEVELOPMENT

Background and establishment of our Group

We have over 16 years of experience in the manufacturing and sales of lace to our customers to produce branded lingerie products on an order-by-order basis. Our history can be traced back to December 2002, when three of our Controlling Shareholders Mr. Lin Chaowei, Mr. Lin Bingzhong and Mr. Lin Chaoji jointly founded our principal operating subsidiary Deyun, which was then known as “Fuzhou Desheng Weaving and Dyeing Co., Ltd.* (福州德盛織染有限公司)”, as a limited liability company in Fujian, the PRC. The formation of Deyun was financed by Mr. Lin Chaowei, Mr. Lin Bingzhong and Mr. Lin Chaoji’s personal resources and was owned by them as to 55%, 25% and 20% respectively on incorporation.

Since its establishment in 2002, Deyun has been providing weaving and dyeing services to clothing manufacturers. In January 2006, Deyun completed its merger with Xingsheng by way of absorption. Xingsheng was formerly known as “Changle Warp Knitted Fabrics Factory* (長樂市經編織物廠)”, a collective enterprise established in Fujian, the PRC in October 1988 which subsequently reformed as a limited liability company and changed its name into Fujian Changle Xingsheng Warp-Knitted Fabrics Co., Ltd.* (福建省長樂市興盛經編織物有限公司) in October 1996. The principal business of Xingsheng was fabrics weaving. Prior to the merger, Xingsheng was owned by Mr. Lin Minqiang, Mr. Wei Cunzhuo and Mr. Lin Chaowen as to 50%, 25% and 25% respectively. As a result of the merger, Mr. Lin Minqiang, Mr. Wei Cunzhuo and Mr. Lin Chaowen joined Deyun as shareholders holding 13.66%, 6.83% and 6.83% of the equity interests respectively, while Mr. Lin Chaowei, Mr. Lin Bingzhong and Mr. Lin Chaoji’s equity interests were diluted to 39.97%, 18.17% and 14.53% respectively.

As disclosed in the section headed “Relationship with our Controlling Shareholders”, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen are our Controlling Shareholders. The following table sets forth the relationships between our Controlling Shareholders:

Name of the Controlling Shareholder	Relationship with other Controlling Shareholders
Mr. Lin Minqiang	Uncle of Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen; Brother-in-law of Mr. Lin Bingzhong
Mr. Lin Bingzhong	Brother-in-law of Mr. Lin Minqiang
Mr. Lin Chaoji	Brother of Mr. Lin Chaowei; Nephew of Mr. Lin Minqiang; Cousin of Mr. Lin Chaowen
Mr. Lin Chaowei	Brother of Mr. Lin Chaoji; Nephew of Mr. Lin Minqiang; Cousin of Mr. Lin Chaowen

HISTORY, DEVELOPMENT AND REORGANISATION

Name of the Controlling Shareholder

Mr. Lin Chaowen

Relationship with other Controlling Shareholders

Nephew of Mr. Lin Minqiang; Cousin of Mr. Lin Chaoji and Mr. Lin Chaowei

In January 2019, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability. As a result of 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.

Our Key Business Milestones

The following table sets forth the major milestones in our history:

Month/Year	Key milestones
December 2002	Deyun was incorporated in Fujian, China
January 2006	Deyun merged with Xingsheng by way of absorption
February 2006	Deyun completed the construction of and commenced production in Workshop One
December 2008	Deyun’s self-owned trademark “XINGSHENG” was for the first time awarded the “famous brand product” (福建名牌產品) by the Fujian Provincial People’s Government (福建省人民政府)
December 2009	Deyun was awarded the “provincial level enterprise technology centre (省級企業技術中心)” by Fuzhou Economics and Trade Commission (福州市經濟貿易委員會), the Department of Science and Technology of Fujian (福建省科學技術廳), the Department of Finance of Fujian (福建省財政廳), National Taxation Bureau of Fujian (福建省國家稅務局), Local Taxation Bureau of Fujian (福建省地方稅務局), Fuzhou Customs (福州海關) and Xiamen Customs (廈門海關)
February 2011	Deyun was accredited as “model enterprise in the pollutant emission reduction project in Fuzhou (福州市污染物總量減排工作先進企業)” by the Fuzhou People’s Government (福州市人民政府)

HISTORY, DEVELOPMENT AND REORGANISATION

Month/Year	Key milestones
November 2015	Deyun's quality management system was accredited ISO9001:2008; Deyun's environment management system was accredited S014001:2004; Deyun's occupational health and safety management was accredited GB/T28001-2011/OHSAS 18001:2007
November 2015	Deyun was accredited as one of the "top 10 competitive enterprise of the weaving industry of China (2005–2015)*(2005–2015年度中國經編行業競爭力十強企業)" by the China Knitting Industry Association (weaving division)* (中國針織工業協會經編分會)
December 2015	Deyun completed the construction of and commenced production in Workshop Two
April 2016	Deyun was converted into a company limited by shares
August 2016	Deyun was officially listed on the NEEQ
December 2016	Deyun was accredited as "High-tech Enterprise (高新技術企業)" by the Department of Science and Technology of Fujian (福建省科學技術廳), the Department of Finance of Fujian (福建省財政廳) and Fujian Provincial Tax Service, State Taxation Administration (國家稅務總局福建省稅務局)
December 2018	Deyun was delisted from the NEEQ
January 2019	Deyun was reconverted into a limited liability company

Corporate History and Structure

Our Group comprises (i) our Company; (ii) Deyun Investment; (iii) Deyun Holding (HK); (iv) Deyun Consulting and (v) Deyun. The following describes the corporate history and structure of each member of our Group.

HISTORY, DEVELOPMENT AND REORGANISATION

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 4 January 2019. Upon incorporation, the authorised share capital of our Company was US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each. The principal business activity of our Company is investment holding and it is incorporated as part of the Reorganisation. Our Company serves as the listing vehicle for the Listing and the holding company of our Group. On 7 January 2019, one ordinary share of par value of US\$1.00 each was allotted and issued to an initial subscriber, who is an Independent Third Party, fully paid at par value and was repurchased by our Company and cancelled on the same date. On the same day, our Company further allotted and issued 10,000 ordinary shares of par value of US\$1.00 each to Deyong Investment, credited as fully paid at par value.

On 20 December 2019, our Company allotted and issued 8,000 and 2,000 ordinary share of par value of US\$1.00 each to Deyong Investment and Glorious Way respectively, credited as fully paid at par value. Immediately following the allotment and issue of the said shares, our Company was directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10% respectively.

On 16 January 2020, the authorised share capital of our Company was increased from US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each to the aggregate of (i) US\$50,000 divided into 50,000 ordinary shares of a par value of US\$1.00 each and (ii) HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each by the creation of 38,000,000 new Shares with a par value of HK\$0.01 each.

On 16 January 2020, 18,000 Shares of par value of HK\$0.01 each were allotted and issued at the consideration of HK\$0.01 per Share to Deyong Investment, and 2,000 Shares of par value of HK\$0.01 each were allotted and issued at the consideration of HK\$0.01 per Share to Glorious Way (“**New Shares Issuance**”).

Upon completion of the New Shares Issuance, the allotted and issued 20,000 ordinary shares of a par value of US\$1.00 each were repurchased by our Company from Deyong Investment and Glorious Way at the consideration of US\$1.00 per ordinary share and were cancelled immediately upon repurchase.

Upon completion of the repurchase, 50,000 unissued ordinary shares of par value of US\$1.00 each of our Company were cancelled and the authorised share capital of our Company was reduced to HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each, each ranking *pari passu* in all respects with the shares in issue. Our Company was directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10% respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Deyun Investment

Deyun Investment was incorporated in the BVI as a limited liability company under the BVI Business Companies Act, 2004 on 29 January 2019, and was authorised to issue a maximum of 50,000 shares of par value US\$1.00 each, of which one share was allotted, issued and credited as fully paid to our Company. Deyun Investment has been a directly and wholly owned subsidiary of our Company since its incorporation. The principal business of Deyun Investment is investment holding and it was incorporated as part of the Reorganisation.

Deyun Holding (HK)

Deyun Holding (HK) was incorporated in Hong Kong as a limited liability company under the Companies Ordinance on 13 March 2019. Upon incorporation, Deyun Holding (HK) issued one share to Deyun Investment following which Deyun Holding (HK)'s issued share capital become HK\$1.00. Deyun Holding (HK) has been an indirectly and wholly owned subsidiary of our Company since its incorporation. The principal business activity of Deyun Holding (HK) is investment holding and it was incorporated as part of the Reorganisation.

Deyun Consulting

Deyun Consulting was incorporated in the PRC as a wholly foreign owned limited liability company under the Company Law on 18 December 2019. Upon incorporation, Deyun Holding (HK) subscribed 100% of the registered capital of Deyun Consulting in the amount of RMB10,000,000. Deyun Consulting has been an indirectly and wholly owned subsidiary of our Company since its incorporation. The principal business activity of Deyun Consulting is investment holding and it was incorporated as part of the Reorganisation.

Deyun

Deyun is our Group's principal operating subsidiary and is principally engaged in fabrics weaving and dyeing in China. Deyun was incorporated in December 2002 in Fujian, the PRC as a limited liability company under the company name "Fuzhou Desheng Weaving and Dyeing Co., Ltd* (福州德盛織染有限公司)" with a registered capital of RMB15,000,000. At incorporation, Mr. Lin Chaowei, Mr. Lin Bingzhong and Mr. Lin Chaoji respectively subscribed and paid up 55%, 25% and 20% of the registered capital by cash. In September 2004, the registered capital of Deyun was increased to RMB50,000,000, whereby Mr. Lin Chaowei, Mr. Lin Bingzhong and Mr. Lin Chaoji subscribed and paid up the increased capital by their assets on pro rata basis.

HISTORY, DEVELOPMENT AND REORGANISATION

In January 2006, Deyun merged with Xingsheng by way of absorption, and increased its registered capital to RMB68,800,000. The increased capital was subscribed and paid up by Xingsheng's original owners Mr. Lin Minqiang, Mr. Wei Cunzhuo and Mr. Lin Chaowen after Deyun consolidated Xingsheng's assets into Deyun. Upon the completion of the merger in January 2006, Deyun was owned by Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Minqiang, Mr. Lin Chaowen and Mr. Wei Cunzhuo as to 39.97%, 18.17%, 14.53%, 13.66%, 6.83% and 6.83% respectively. Subsequent to the completion of the merger, Xingsheng was dissolved by voluntary winding-up.

In November 2006, the registered capital of Deyun was further increased to RMB88,800,000, whereby Mr. Lin Minqiang, Mr. Wei Cunzhuo and Mr. Lin Chaowen subscribed and paid up 65%, 17.5% and 17.5% of the increased capital. Upon completion of the capital increase in November 2006, Deyun was owned by Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowen and Mr. Wei Cunzhuo as to 30.97%, 25.23%, 14.08%, 11.26%, 9.23% and 9.23% respectively.

In December 2015, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowen and Mr. Wei Cunzhuo resolved to transfer an aggregated capital of RMB11,710,000, which represents approximately 13.2% of the total paid-up capital of Deyun, to 22 individual equity holders, all of whom are employees or relatives of the shareholders of Deyun, at a premium of 5%. The consideration of the aforesaid equity transfer was determined based on arm's length negotiations among the parties after taking into account the net asset value of Deyun in 2014 and 2015. Upon completion of the capital transfer in January 2016, Deyun was owned by Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowen, Mr. Wei Cunzhuo, and a group of minority equity holders as to 27.38%, 21.06%, 11.60%, 10.54%, 8.64%, 7.60% and 13.18% respectively.

In March 2016, two minority equity holders Mr. Lin Wei (the son of Mr. Lin Minqiang and the husband of Ms. Li Xiaoqing) and Ms. Wei Lan (the daughter of Mr. Wei Cunzhuo and Ms. Chen Aijin) transferred their capital of RMB2,000,000 and RMB1,000,000, which represent approximately 2.25% and 1.13% of Deyun's total issued capital respectively, to Ms. Li Xiaoqing (the daughter-in-law of Mr. Lin Minqiang and wife of Mr. Lin Wei) and Ms. Chen Aijin (the wife of Mr. Wei Cunzhuo and mother of Ms. Wei Lan) at nil consideration. The capital transfer was settled at nil consideration because the transferors and the transferees are family members. Upon completion of the capital transfer in March 2016, Deyun was still owned by Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowen, Mr. Wei Cunzhuo, and a group of minority equity holders as to 27.38%, 21.06%, 11.60%, 10.54%, 8.64%, 7.60% and 13.18% respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

In April 2016, in anticipation of the application for listing on the NEEQ, Deyun was converted from a limited liability company to a company limited by shares with 88,800,000 fully paid-up issued shares. The registration of the change of company form was completed on 22 April 2016, and the issued shares of Deyun were held by Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowen, Mr. Wei Cunzhuo, and a group of minority equity holders as to 27.38%, 21.06%, 11.60%, 10.54%, 8.64%, 7.60% and 13.18% respectively. Deyun has also changed its name from “Fuzhou Desheng Weaving and Dyeing Co., Ltd* (福州德盛織染有限公司)” to Fujian Deyun Technology Company Limited* (福建德運科技股份有限公司) in connection with the NEEQ listing. Deyun was officially listed on the NEEQ in August 2016, and was delisted from NEEQ in December 2018. Following the delisting, Deyun’s name was further changed to Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司). For details regarding the delisting, please refer to the paragraph headed “Prior Listing and Subsequent Delisting on the NEEQ” in this section.

On 16 January 2019, Deyun was reconverted from a company limited by shares into a limited liability company. On 22 February 2019, Deyun underwent a series of equity transfers, whereby Mr. Wei Cunzhuo, Mr. Lin Chaowei and a group of 22 minority equity holders transferred 7.60%, 18.15% and 13.18% of their equity interests in Deyun to Mr. Lin Minqiang, details of which are set out below:

No.	Date of the equity transfer	Transferor	Transferee	Equity Interest	Consideration (RMB)
1	22 February 2019	Wei Cunzhuo	Mr. Lin Minqiang	7.60%	7,222,500
2	22 February 2019	Lin Chaowei	Mr. Lin Minqiang	18.15%	17,248,400
3	22 February 2019	Li Xiaoqing	Mr. Lin Minqiang	2.25%	2,140,000
4	22 February 2019	Lin Yu	Mr. Lin Minqiang	1.69%	1,605,000
5	22 February 2019	Lin Pengtao	Mr. Lin Minqiang	1.69%	1,605,000
6	22 February 2019	Lin Xiangyun	Mr. Lin Minqiang	1.62%	1,540,800
7	22 February 2019	Chen Aijin	Mr. Lin Minqiang	1.13%	1,070,000
8	22 February 2019	Chen Xuewen	Mr. Lin Minqiang	0.60%	567,100
9	22 February 2019	Zhuo Chongrui	Mr. Lin Minqiang	0.50%	470,800
10	22 February 2019	Lin Huanhuan	Mr. Lin Minqiang	0.45%	428,000
11	22 February 2019	Wu Maoyin	Mr. Lin Minqiang	0.45%	428,000

HISTORY, DEVELOPMENT AND REORGANISATION

No.	Date of the equity transfer	Transferor	Transferee	Equity Interest	Consideration (RMB)
12	22 February 2019	Lin Guang	Mr. Lin Minqiang	0.34%	321,000
13	22 February 2019	Han Jianfeng	Mr. Lin Minqiang	0.34%	321,000
14	22 February 2019	Wang Yongqiang	Mr. Lin Minqiang	0.34%	321,000
15	22 February 2019	Wei Xinyi	Mr. Lin Minqiang	0.23%	214,000
16	22 February 2019	Wang Zhengang	Mr. Lin Minqiang	0.23%	214,000
17	22 February 2019	Yu Hongbin	Mr. Lin Minqiang	0.23%	214,000
18	22 February 2019	Wang Lian	Mr. Lin Minqiang	0.23%	214,000
19	22 February 2019	Gao Feng	Mr. Lin Minqiang	0.23%	214,000
20	22 February 2019	Jiang Bingxing	Mr. Lin Minqiang	0.17%	160,500
21	22 February 2019	Lin Shengwang	Mr. Lin Minqiang	0.17%	160,500
22	22 February 2019	Lin Zhonghui	Mr. Lin Minqiang	0.11%	107,000
23	22 February 2019	Wang Zonglin	Mr. Lin Minqiang	0.11%	107,000
24	22 February 2019	Lin Qingxing	Mr. Lin Minqiang	0.11%	107,000

After having discussed amongst themselves, except for Mr. Lin Minqiang, the other Controlling Shareholders had no intention to acquire the equity interests from Mr. Wei Cunzhuo, Mr. Lin Chaowei and the 22 minority equity holders. As such, Mr. Wei Cunzhuo, Mr. Lin Chaowei and the 22 minority equity holders' equity interests, which in aggregate accounted for 38.94% of the total equity interests of Deyun, were transferred to Mr. Lin Minqiang, who settled the total cash consideration of RMB37,000,600 on pro rata basis to each transferor using his personal savings. The considerations of the aforesaid equity transfers were determined based on arm's length negotiations among the parties after taking into account the net asset value of Deyun as at 30 November 2018 (i.e., RMB95,405,500) as assessed by an independent valuer. After the completion of the abovementioned equity transfers on 27 February 2019, Deyun was owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen as to 60%, 11.6%, 10.54%, 9.22% and 8.64%, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Mr. Wei Cunzhuo decided to cash out his equity interests in our principal operating subsidiary Deyun due to his family needs at that time. Nevertheless, as Mr. Wei Cunzhuo has been performing key responsibilities including managing the financial work, coordinating with financial institutions and handling human resources issues in Deyun as a director, the chief financial officer and manager of the administration department since January 2006, he decided to remain as a director in Deyun to continue to contribute to its growth and development. On 17 February 2020, Mr. Wei Chunzhuo was appointed as a Director of the Company, and on 20 March 2020 he was re-designated as our Executive Director. The Board is of the view that it is in the best interests of the Group to include Mr. Wei Chunzhuo in the Board and keep entrusting him to supervise the financial and administration functions of the Group given his seasoned experiences, expertise and familiarity in the matters of the Group.

Pursuant to a capital increase agreement entered by Deyun, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star on 19 September 2019, the registered capital of Deyun was further increased from RMB88,800,000 to RMB98,670,000, whereby Regal Star subscribed and paid up 100% of the increased capital as directed by the Pre-IPO Investor. As at 31 August 2019, the unaudited net asset value of Deyun is approximately RMB153.4 million. Upon completion of the capital increase on 23 September 2019, Deyun was owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star as to 54%, 10.44%, 9.49%, 8.3%, 7.77% and 10%, and Deyun has become a sino-foreign joint venture on the same day.

On 19 December 2019, as part of the Reorganisation, Deyun Consulting acquired the entire equity interests in Deyun from its shareholders at the total cash consideration of RMB5,000,000. The consideration of the aforesaid equity transfer was set at a nominal amount which was agreed between the parties. This transaction was conducted between related parties for the sole purpose of the Reorganisation. As advised by the PRC legal advisers, there are no mandatory provisions regulating the basis of consideration for equity acquisition of foreign-invested enterprises under the applicable PRC laws and regulations. In this type of equity transfer transaction, the consideration shall depend on the consensus of the parties. Therefore, the consideration of the equity transfer between Deyun Consulting and the shareholders of Deyun does not violate any mandatory provisions of applicable PRC laws and administrative regulations and, is legal and effective. Upon completion of the registration of this equity transfer on 26 December 2019, Deyun became an indirectly and wholly owned subsidiary of our Company. As confirmed by our PRC Legal Advisors, the industrial and commercial registration of this transaction was properly and legally completed on 26 December 2019.

ACTING IN CONCERT AGREEMENT

On 22 April 2016, for the purpose of the NEEQ listing, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji and Mr. Lin Chaowen, who collectively owned 79.22% of the then total issued equity interests, entered into an acting in concert agreement in respect of Deyun (the “**NEEQ AIC Agreement**”). Pursuant to the NEEQ AIC Agreement, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji and Mr. Lin Chaowen undertook to act in concert in respect of all corporate matters relating to the operations of Deyun during the period they remain as shareholders of Deyun. Following Deyun Consulting’s acquisition of Deyun on 26 December 2019, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji and Mr. Lin Chaowen mutually terminated the NEEQ AIC Agreement.

On 31 December 2019, in preparation for the Listing, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji and Mr. Lin Chaowen, being our Controlling Shareholders, executed a fresh acting in concert agreement (the “**AIC Agreement**”), whereby they confirmed the existence of the historical acting in concert arrangement and their intention to continue to act in the same manner upon Listing to consolidate their control over our Group until the AIC Agreement is terminated. The AIC Agreement covers our Company and its subsidiaries. The AIC Agreement contains the following salient terms:

The Controlling Shareholders confirm and undertake to each other that, for the entire duration since they contemporaneously have become and continue to be the legal owners and/or ultimate beneficial shareholders of our Group subsidiaries:

- (a) they have agreed to, and shall continue until the termination of the AIC Agreement to, consult each other and reach a unanimous consensus among themselves on all matters being the subject matters of any shareholders’ resolution, and to vote unanimously for any resolution to be passed at any shareholders’ meeting of our Group subsidiaries, and have historically voted on such resolutions in the same way;
- (b) they have centralised and shall continue until the termination of this AIC Agreement to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of our Group subsidiaries, subject to compliance with the applicable laws and regulations; and
- (c) they have operated, and shall continue until the termination of this AIC Agreement to operate, our Group subsidiaries as a single business venture.

In this regard, pursuant to the AIC Agreement, Mr. Lin Chaowei, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji and Mr. Lin Chaowen will together be entitled to exercise and control 67.5% of our entire issued share capital immediately upon completion of the Share Offer and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the share option that may be granted under the Share Option Scheme and the Over-allotment Option).

PRIOR LISTING AND SUBSEQUENT DELISTING ON THE NEEQ

In August 2016, 88,800,000 shares in Deyun, being the entire issued share capital at that time, became quoted on the NEEQ (stock code: 838472). On 1 November 2018, in anticipation of pursuing Listing, all the shareholders of Deyun resolved to voluntarily delist Deyun's shares from the NEEQ (the “**NEEQ Delisting**”) at a general meeting. For reasons of the NEEQ Delisting, please refer to the paragraph headed “Reasons for the NEEQ Delisting” in this section below. The NEEQ Delisting was approved by shareholders holding 100% of Deyun's total shares (being 88,800,000 shares) entitled to vote on the matter. On 15 December 2018, the regulatory body approved the NEEQ Delisting. On 19 December 2018, the shares of Deyun ceased to be quoted on the NEEQ.

The market capitalisation of Deyun when it was delisted from the NEEQ was not quantifiable due to lack of liquidity of its shares in the market throughout the period when it was listed on the NEEQ. The valuation of Deyun at the time of NEEQ Delisting may be best referenced to its net asset value as at 30 November 2018 as assessed by an independent valuer. According to the valuation report, the valuation of Deyun as at 30 November 2018 is approximately RMB95.4 million.

As disclosed in the section headed “Summary – Share Offer Statistics” in this prospectus, the market capitalisation of our Shares upon Listing will be HK\$630 million based on the maximum Offer Price of HK\$0.50 per Offer Share, and HK\$504 million based on the minimum Offer Price of HK\$0.40 per Offer Share. The increase in our Company's expected valuation from the NEEQ valuation was a result of (i) there is no ready market for the shares of a private company whereas a public company listed on the Stock Exchange will gain direct access to local and international investors; with the enhanced liquidity and expanded shareholders base, the value of the shares of a public company is usually worth more than the value of comparable shares of a private company; and (ii) as disclosed in the section headed “Financial Information – Results of Operations”, our gross profit for FY2017, FY2018 and FY2019 was approximately RMB27,155,000, RMB45,373,000 and RMB66,904,000 respectively, increasing at an annual growth rate of 35.1%, and our net profit for FY2017, FY2018 and FY2019 was approximately RMB16,798,000, RMB31,550,000 and RMB41,851,000 respectively, increasing at an annual growth rate of 35.6%; given that our Company's profitability has been growing rapidly during the Track Record Period, it is expected that our valuation will also increase upon Listing as compared to at the time of the NEEQ Delisting and the Pre-IPO Investment.

Our Directors confirm that, and the Sole Sponsor concurs that, to the best of their knowledge and belief, (i) Deyun had been in compliance with all applicable PRC securities laws and regulations as well as rules and regulations of the NEEQ in all material respects, and had not been subject to any disciplinary actions by the relevant regulators, during the period when its shares were listed on the NEEQ and up to the NEEQ Delisting; (ii) neither Deyun nor its directors had been subject to any investigation or disciplinary actions by any regulatory authorities or materiality breached any of the relevant rules; and (iii) there are no further matters in relation to the prior listing of Deyun that need to be brought to the attention of the Stock

HISTORY, DEVELOPMENT AND REORGANISATION

Exchange or our Shareholders. Based on the confirmations from the Directors, participation of due diligence and after all due enquiries, the Sole Sponsor concurs with the Directors that (i) noting has come to its attention from the NEEQ Delisting that might materially and adversely affect our Company's suitability for the Listing or the accuracy of the information disclosed in this prospectus; and (ii) no matters that need to be brought to the attention of the regulators and investors in Hong Kong in relation to the NEEQ Delisting.

REASONS FOR THE NEEQ DELISTING

Our Directors believe that the NEEQ Delisting and application for Listing will be in the best interests of our Group's business development strategies, and would be beneficial to us and our Shareholders as a whole for the following reasons:

- (1) The NEEQ is a market in the PRC open to qualified investors only, including (a) PRC corporate or partnership enterprise investors with paid-up capital of more than RMB1 million; (b) PRC natural persons with average daily financial assets within the latest 10 trading days over RMB1 million and with experience of working or investing for more than two years; and (c) qualified PRC and foreign institutional investors, such as securities companies, asset management companies, banks and insurers. In addition, the NEEQ adopts a market maker, negotiated transfer or investor competing transfer trading mechanism rather than continuous auction mechanism, which significantly limits investor discovery and order execution. The nature of the NEEQ and its low trading could make it difficult to (a) identify and establish the fair value of Deyun to reflect its competitive strengths which differentiate it from its competitors; (b) publicly raise funds, in equity or debt, to continuously support our business growth; and (c) execute substantial on-market disposals by Shareholders to realise value;
- (2) In contrast, the Stock Exchange, as a leading player of the international financial markets, could offer us a direct access to the international capital markets, enhance our fund-raising capabilities and channels and broaden our Shareholders base. Accordingly, the Listing would provide us a viable source of capital to support our business growth;
- (3) The Listing would also enable our Company to devise more appealing share incentive plans, which correlates directly to the performance in our Group's business, which in turn would help us to attract and motivate the talents needed to support our rapid growth and enhance our operating efficiency on an ongoing basis; and
- (4) A listing on the Stock Exchange will further raise our business profile and thus, enhance our ability to attract new customers, business partners and strategic investors as well as to recruit, motivate and retain key management personnel for our Group's business.

PRE-IPO INVESTMENT

Overview

On 19 September 2019, Deyun, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star entered into a capital increase agreement, pursuant to which the parties agreed to increase the registered capital of Deyun from RMB88,800,000 to RMB98,670,000, whereby Regal Star (as directed by the Pre-IPO Investor) agreed to subscribe and pay up 100% of the increased capital, which represents 10% of the increased registered capital of Deyun, at the consideration of HKD16,000,000. On 6 November 2019, Regal Star legally and properly paid up the subscription price for Deyun's increased capital and become a shareholder of Deyun. Set out below is the background of the Pre-IPO Investor and the detailed terms of the Pre-IPO Investment.

Information on the Pre-IPO Investor

The Pre-IPO Investor, Mr. Tsoi is the director of Calson Investment Limited, a footwear distribution enterprise supplying leather, PVC, textile shoes, sandals, etc. to customers worldwide. Currently, Mr. Tsoi is also the executive director of Changzhou Qifa Shoes Co., Ltd.* (常州啟發鞋業有限公司), a company engaged in manufacturing and distribution of shoes and Changzhou Qichen Investment Co., Ltd.* (常州啟辰投資有限公司), a company engaged in real estate sales and property management, and a supervisor of Putian Qiming Shoes Co., Ltd.* (莆田啟明鞋業有限公司), a company engaged in manufacturing and distribution of shoes. Mr. Tsoi is also a Standing Committee Member of the 5th Fujian Putian Committee of the Chinese People's Political Consultative Conference, the chairman of Tung Wah Group of Hospitals from 2019 to 2020, and the vice chairman of Tung Wah Group of Hospitals from 2015 to 2019.

With the same industry background, Mr. Tsoi became acquainted with the chairman of the Board, Mr. Lin Minqiang, through referral by a mutual business acquaintance, whereby Mr. Tsoi expressed his interest in investing in the apparel manufacturing industry in Fujian, China in light of the potential growth and bright prospects.

The Board was of the view that our Company could utilise Mr. Tsoi's social influence and managing experience and insights in the garment industry to leverage his business connection network to advance our Company's strategic development by having him as a strategic investor.

HISTORY, DEVELOPMENT AND REORGANISATION

Details of the Pre-IPO Investment

Name of the Pre-IPO Investor:	Tsoi Wing Sing (蔡榮星)
Date of the capital increase agreement:	19 September 2019
Amount of capital subscribed by the Pre-IPO Investor in Deyun ^(Note 1) :	RMB9,870,000
Consideration paid ^(Note 2) :	HK\$16,000,000
Completion of the subscription:	23 September 2019
Cost per Share paid under the Pre-IPO Investment ^(Note 3) :	Approximately HK\$0.17
Discount to the Offer Price:	Approximately 62.4% of the Offer Price of HK\$0.45 (being the mid-point of the Offer Price range stated in this prospectus)
Basis for determination of the consideration:	The consideration was determined based on arm's length negotiations between Deyun and the Pre-IPO Investor taking into account, among others, (i) the net asset value of Deyun as of 30 November 2018 as assessed by an independent valuer (i.e., the valuation of Deyun when it was delisted from the NEEQ); (ii) the net asset value of Deyun as at 31 August 2019 (i.e., the valuation of Deyun immediately before the Pre-IPO Investment); (iii) the status of Deyun as a private company and the investment risk assumed by the Pre-IPO Investor in investing in a private unlisted company; (iv) the Pre-IPO Investor was not granted any divestment right or other special rights under the capital increase agreement; (v) the strategic benefits the Pre-IPO Investor can bring to our Group as disclosed in this paragraph below; (vi) the discount rates of pre-IPO investments of selected successful Main Board listings; and (vii) the performance of the stock market when entering into the Pre-IPO Investment Agreement.

HISTORY, DEVELOPMENT AND REORGANISATION

Use of proceeds from the Pre-IPO Investment:	<p>The proceeds from the Pre-IPO Investment will be used for our Group's general working capital</p> <p>As at the Latest Practicable Date, 100% of the net proceeds from the Pre-IPO Investment had been utilised</p>
Strategic benefits the Pre-IPO Investor brought to our Company:	<p>At the time of the Pre-IPO Investment, our Directors were of the view that our Company could benefit from (i) the additional capital that would be provided by the Pre-IPO Investor's investment in our Group to expand our business; (ii) the possibility that our Group could take advantage of the Pre-IPO Investor's knowledge, experience and insight in the capital market and the garment industry to enhance our corporate strategy planning, especially after the Listing; (iii) with Mr. Tsoi's business connections in the garment industry in the PRC, Hong Kong and other countries, our Group may gain access to an expanded scale of market players and broaden our customer base potentially; and (iv) the Pre-IPO Investment has demonstrated and served as an endorsement of the Pre-IPO Investor's confidence in our future growth prospects, which may attract more investors to invest in our Company.</p>
Shareholding of the Pre-IPO Investor in Deyun upon the completion of the Pre-IPO Investment <i>(Note 4)</i> :	10%
Shareholding of the Pre-IPO Investor in our Company immediately following the completion of the Capitalisation Issue and the Share Offer <i>(Note 4)</i> :	7.5%
Special rights granted to the Pre-IPO Investor:	Nil

HISTORY, DEVELOPMENT AND REORGANISATION

Public float:	The Shares held by the Pre-IPO Investor are considered as part of the public float for the purposes 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 Shareholder(s) ”); (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 take instructions from a Non-Public Shareholder for the voting or dispositions in respect of the Shares held by the Pre-IPO Investor
Lock-up arrangements after Listing:	Nil

Notes:

1. On 20 December 2019, our Company allotted and issued 8,000 and 2,000 ordinary shares of nominal at par value of US\$1.00 each to Deyong Investment and Glorious Way respectively, credited as fully paid at par value. Upon completion of the share allotment of our Company, our Company was held by Deyong Investment and Glorious Way as to 90% and 10%. On 19 December 2019, Deyun Consulting agreed to acquire the entire equity interests in Deyun from the then shareholders Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star at the total cash consideration of RMB5,000,000. Upon completion of the industrial and commercial registration of the equity transfer in Deyun on 26 December 2019, Deyun became an indirectly wholly-owned subsidiary of our Company.
2. On 6 November 2019, our Group received the paid-up capital of HKD16,000,000 from the Pre-IPO Investor for the subscription of the increased capital of RMB9,870,000 in Deyun.
3. This is derived based on the 94,500,000 Shares to be held by the Pre-IPO Investor through Glorious Way upon completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Options or any Shares which may be allotted and issued upon exercise of the options which may be granted under the Share Option Scheme is not exercised).
4. The Pre-IPO Investor’s interests in the Shares are held through its nominee company Glorious Way.

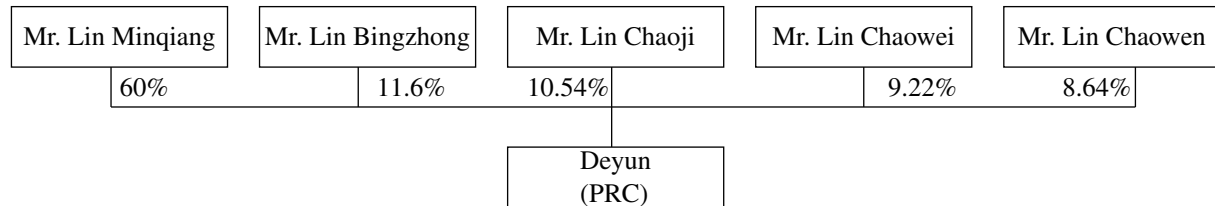
Confirmation from the Sole Sponsor

On the basis that: (i) the considerations under the Pre-IPO Investments were fully, unconditionally and irrevocably settled on 6 November 2019, which was more than 28 clear days before the date of the first submission of the listing application form to the Stock Exchange in relation to the Listing; (ii) there are no special rights granted to the Pre-IPO Investor that will survive the Listing; and (iii) neither our Group nor any of our Shareholders has any obligation to buy back the Shares at any time, the Sole Sponsor has confirmed that the Pre-IPO Investment by the Pre-IPO Investor is in compliance with “Interim Guidance on Pre-IPO Investments” (HKEx-GL29-12) (updated in March 2017), “Guidance on Pre-IPO investments” (HKEx-GL43-12) (updated in July 2013 and March 2017) and “Guidance on Pre-IPO investments in convertible instruments” (HKEx-GL44-12) (updated in March 2017).

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE STRUCTURE

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



REORGANISATION

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

Step 1 – Incorporation of Deyong Investment

Deyong Investment was incorporated in the BVI as a limited liability company on 30 November 2018 and is authorised to issue a maximum of 50,000 shares of the par value of USD1.00 each of a single class. On incorporation, 5,790, 1,221, 1,109, 971 and 909 shares were allotted, issued and credited as fully-paid to Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen, respectively. On the same day, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen transferred 61, 55, 49 and 45 shares to Mr. Lin Minqiang, respectively. After the said allotment and issue of and transfers of shares, Deyong Investment is directly owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen as to 60%, 11.6%, 10.54%, 9.22% and 8.64%, respectively.

Step 2 – Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 4 January 2019. Upon incorporation, the authorised share capital of our Company was US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each. The principal business activity of our Company is investment holding and it is incorporated as part of the Reorganisation. Our Company serves as the listing vehicle for the Listing and the holding company of our Group. On 7 January 2019, one ordinary share of par value of US\$1.00 was allotted and issued to an initial subscriber, who is an Independent Third Party, fully paid at par value and was repurchased by our Company and cancelled on the same date. On the same day, our Company further allotted and issued 10,000 ordinary shares of par value of US\$1.00 each to Deyong Investment, credited as fully paid at par value.

HISTORY, DEVELOPMENT AND REORGANISATION

Step 3 – Incorporation of Deyun Investment

Deyun Investment was incorporated in the BVI as a limited liability company under the BVI Business Companies Act, 2004 on 29 January 2019, and was authorised to issue a maximum of 50,000 shares of par value US\$1.00 each of a single class, of which one share was allotted, issued and credited as fully paid to our Company. Deyun Investment has been a directly and wholly owned subsidiary of our Company since its incorporation.

Step 4 – Incorporation of Deyun Holding (HK)

Deyun Holding (HK) was incorporated in Hong Kong as a limited liability company under the Companies Ordinance on 13 March 2019. Upon incorporation, Deyun Holding (HK) issued one share to Deyun Investment following which Deyun Holding (HK)'s share capital become HKD1.00. Deyun Holding (HK) has been an indirectly and wholly owned subsidiary of our Company since its incorporation.

Step 5 – Incorporation of Deyun Consulting

Deyun Consulting was incorporated in the PRC as a (wholly foreign owned) limited liability company under the Company Law on 18 December 2019. Upon incorporation, Deyun Holding (HK) subscribed 100% of the registered capital of Deyun Consulting in the amount of RMB10,000,000. Deyun Consulting has been an indirectly and wholly owned subsidiary of our Company since its incorporation.

Step 6 – Pre-IPO Investment

On 19 September 2019, Deyun, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star entered into a capital increase agreement, pursuant to which the parties agreed to increase the registered capital of Deyun from RMB88,800,000 to RMB98,670,000, whereby Regal Star (as directed by the Pre-IPO Investor) agreed to subscribe and pay up 100% of the increased capital, which represents 10% of the increased registered capital of Deyun at the consideration of HK\$16,000,000. Following the completion of the capital subscription by Regal Star, Deyun became a sino-foreign joint venture on 23 September 2019 and was owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star as to 54%, 10.44%, 9.49%, 8.3%, 7.77% and 10%.

Step 7 – Allotment and issue of Shares by our Company

On 20 December 2019, our Company allotted and issued 8,000 and 2,000 new ordinary shares of par value of US\$1.00 each to Deyong Investment and Glorious Way (as directed by the Pre-IPO Investor) respectively. After the allotment and issue of Shares, our Company was directly held by Deyong Investment and Glorious Way as to 90% and 10% respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Step 8 – Acquisition of Deyun

On 19 December, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star as sellers and Deyun Consulting as purchaser respectively entered into an equity transfer agreement pursuant to which each seller agreed to transfer their respective equity in Deyun, collectively being the entire registered capital of Deyun, to Deyun Consulting. In consideration, Deyun consulting paid a total cash consideration of RMB5,000,000 to the sellers on pro-rata basis. Following the completion of the industrial and commercial registration of the equity transfer on 26 December 2019, Deyun became an indirect wholly-owned subsidiary of our Company.

Step 9 – Redenomination of share capital of our Company

On 16 January 2020, the authorised share capital of our Company was increased from US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each to the aggregate of (i) US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each and (ii) HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each by the creation of 38,000,000 new Shares with par value of HK\$0.01 each.

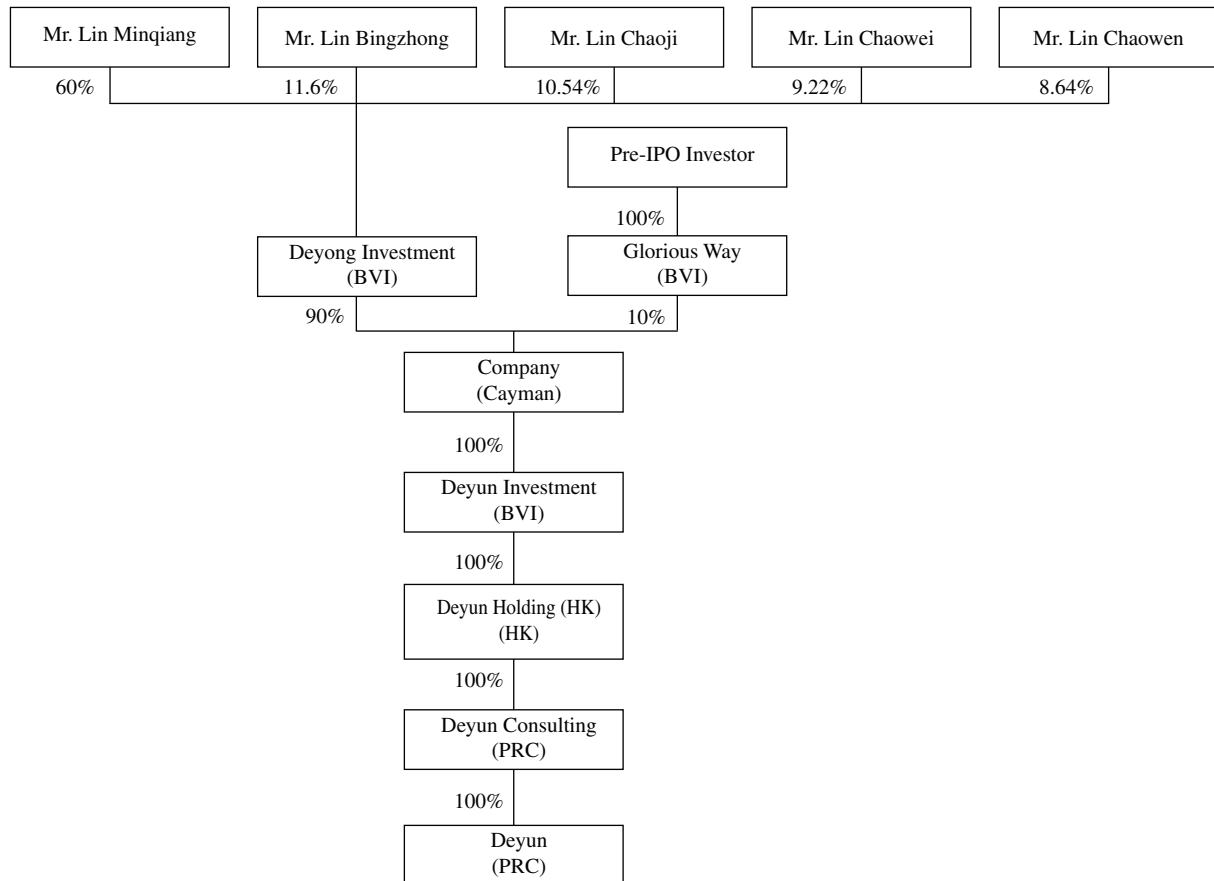
On 16 January 2020, 18,000 Shares of par value of HK\$0.01 each were allotted and issued at the consideration of HK\$0.01 per Share to Deyong Investment, and 2,000 Shares of par value of HK\$0.01 each were allotted and issued at the consideration of HK\$0.01 per Share to Glorious Way (“**New Shares Issuance**”).

Upon completion of the New Shares Issuance, the allotted and issued 20,000 ordinary shares of par value of US\$1.00 each were repurchased by our Company from Deyong Investment and Glorious Way at the consideration of US\$1.00 per ordinary share were cancelled immediately upon repurchase.

Upon completion of the repurchase, 50,000 unissued ordinary shares of par value of US\$1.00 each of our Company were cancelled and the authorised share capital of our Company was reduced to HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each, each ranking *pari passu* in all respects with the shares in issue. Upon completion of the redenomination of the share capital, our Company was still directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10%, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

The following chart shows the shareholding and corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Capitalisation Issue and the Share Offer:



INCREASE OF AUTHORISED SHARE CAPITAL

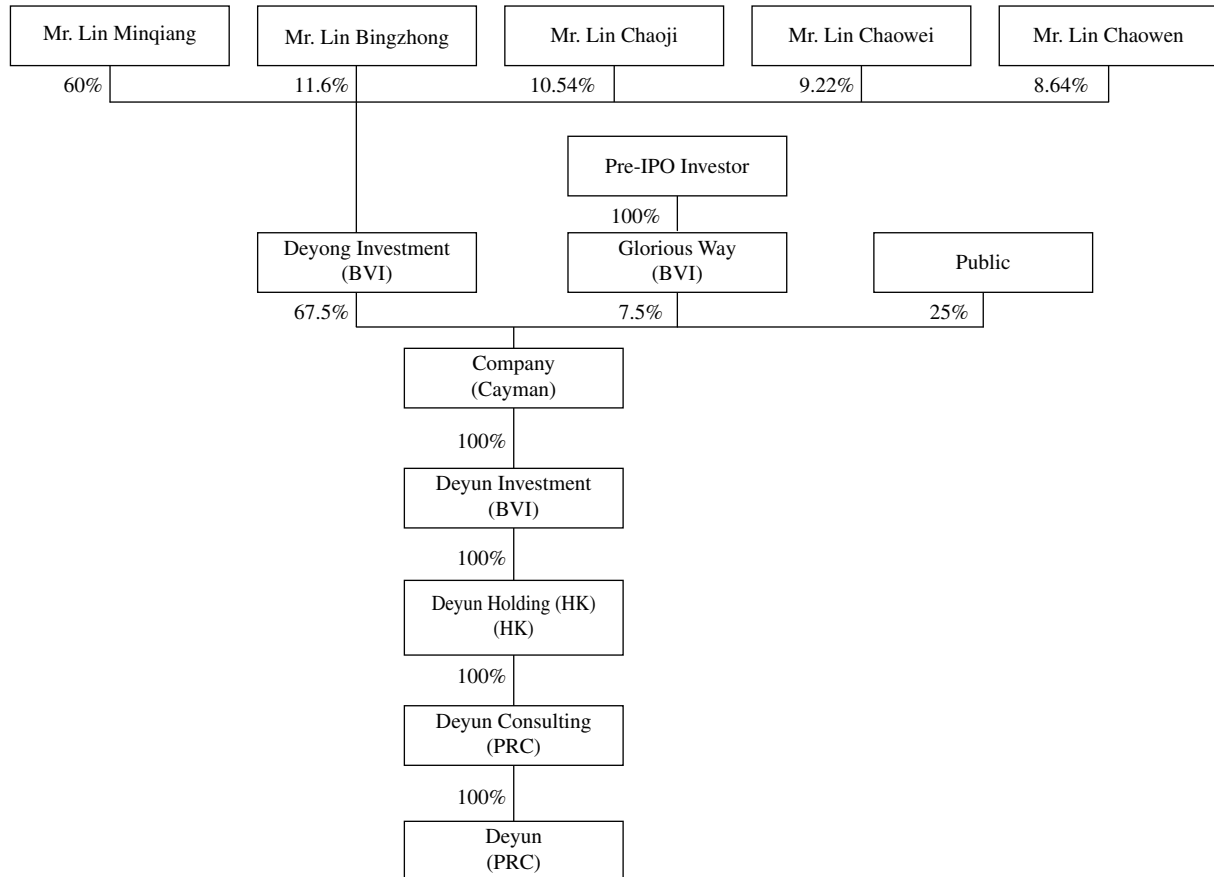
On 16 December 2020, our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each through the creation of 9,962,000,000 additional Shares.

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\$9,449,800 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 944,980,000 Shares for allotment and issue, immediately prior to the Share Offer, to our Shareholders whose names appear on the register of members of our Company as of 31 December 2020, on a pro rata basis.

HISTORY, DEVELOPMENT AND REORGANISATION

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



PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

Compliance with the Regulations for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the “M&A Rules”)

Under the M&A Rules, a foreign investor is required to obtain approvals from competent authorities when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. If any domestic company, enterprise or natural person merges its affiliated domestic company in the name of a company legally established or controlled by the aforesaid domestic company, enterprise or natural person in foreign countries or regions, it shall be subject to the approval of the MOFCOM.

HISTORY, DEVELOPMENT AND REORGANISATION

According to the Provisional Measures on Administration of Filing for Establishment and Change of Foreign Investment Enterprises (the 2018 Revision) (《外商投資企業設立及變更備案管理暫行辦法》(2018修訂)) (the “**Filing Measures**”) which has been abolished on 1 January 2020, where the conversion of a non-foreign investment enterprise into a foreign investment enterprise due to merger and acquisition or merger by absorption are not subject to special administrative measures stipulated by the PRC, the establishment filing information for foreign investment enterprise shall be submitted as stipulated in the Filing Measures.

As mentioned in the paragraph headed “Deyun” in this section, following the subscription of 10% of the increased registered capital of Deyun by the Pre-IPO Investor on 23 September 2019 (the “**10% Subscription**”), Deyun has become a sino-foreign joint venture. Because the fabrics weaving and dyeing industry is not subject to special administrative measures stipulated by the PRC, Deyun only has to make the requisite procedures of foreign investment acquisition according to the Filing Measures. Since the Pre-IPO Investor is not a domestic individual and has no relationship with Deyun, the 10% Subscription is not a related party merger and acquisition as stipulated in the M&A Rules and does not require approval from the MOFCOM. As confirmed by our PRC Legal Advisers, all the requisite approvals, permits and licences in relation to the 10% Subscription had been obtained pursuant to applicable laws and regulations in the PRC.

In terms of the acquisitions of 100% of the equity interest in Deyun by Deyun Consulting on 19 December 2019, our PRC Legal Advisers advised that as the said equity transfer is transfer of equity interest in a sino-foreign joint venture, the M&A Rules is not applicable and approval from the MOFCOM is not required.

Compliance with the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“**Circular 37**”)

According to the Circular 37, prior to making capital contribution in a special purpose vehicle by a Chinese resident using its legitimate assets or interests in China or overseas, the Chinese resident shall apply to the foreign exchange bureau for completion of foreign exchange registration formalities for overseas investments. Chinese resident include domestic organisations and Chinese resident individuals.

HISTORY, DEVELOPMENT AND REORGANISATION

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies of Direct Investment (SAFE Circular No.13) (《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》(匯發[2015]13號)) which was promulgated on 13 February 2015 and became effective on 1 June 2015, foreign exchange registration for domestic direct investment and foreign exchange registration for overseas direct investment shall be directly reviewed and handled by banks in accordance with the SAFE Circular No.13.

As confirmed by our PRC Legal Advisers, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen, being ultimate individual Shareholders of our Company, have completed the foreign exchange registration pursuant to Circular 37 on 28 October 2019.

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 interests transfer in respect of the PRC subsidiary in our Group as set out in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

OVERVIEW

We are a long-established lace manufacturer and dyeing service provider based in Fuzhou City, Fujian, the PRC in the textile industry. We are primarily engaged in manufacturing and sales of lace to our customers to produce branded lingerie products mainly on order-by-order basis. With our experienced research and development team, we offer a wide portfolio of lace design for our customers to choose or tailor-made our lace products according to their specifications, such as design, length, width, threads density count and texture. For our dyeing services, our customers are mainly lace and swim wear manufacturers who would provide us with their own lace and swim wear fabrics for us to dye before further fabrication. Depending on the need of our customers, we would both manufacture lace as well as provide dyeing services to provide one-stop services to our customers. We strategically focus on domestic market in the PRC which has high population with growing demand. According to the CIC Report, we ranked the sixth among all lace manufacturers in the PRC in 2019 and ranked the fourth in the lace dyeing industry in the PRC, respectively, in terms of revenue in 2019.

Our services and products can be broadly categorised into two types, namely, (i) dyeing services and (ii) lace manufacturing (which includes high density lace and regular density lace). We manufacture our lace in our own production facilities located in Fuzhou City, Fujian, the PRC, with a total gross floor area of approximately 62,000 sq.m.. We are committed to stringent quality control and efficient manufacturing process. We have been accredited with various certifications, including ISO 9001:2015 since November 2015 for quality management system for our design and production of lace and OEKO-TEX® Confidence in Textiles STANDARD 100 since September 2018, which show that the quality of our products meets the international stringent requirements on product safety. In respect of our dyeing services, we have obtained ISO14001:2015 for our environmental management system. In 2016, we have invested approximately RMB5.6 million to equip ourselves with a sewage treatment system to collect and process wastewater to reduce hazardous substance in the wastewater generated during our dyeing process and facilities to filter air pollutants generated from our coal-burning-boiler in accordance with different national standards (GB 4287-2012 for wastewater and GB 13271-2014 for air) in the PRC, which are comparable to corresponding international standards. An online real-time monitoring system has been installed to connect such facilities to environmental authority of the PRC government to ensure we satisfy with the pollutant emission standard at all times. We have spent continuous effort in enhancing our equipment and facilities for satisfying the increasingly stringent environmental protection requirement. During the Track Record Period, we further incurred a total of approximately RMB17.6 million to acquire different equipment and facilities in wastewater and air treatment, such as wastewater purifying and distillation system, mineral filtration system for wastewater generated during dyeing process, gas purifying and air pollutant monitoring system for air emitted from our boiler. Our ability to manufacture quality products and deliver consistent and reliable services to our customers has been a key driver for us to attract and retain customers. During the Track Record Period, we have developed business relationship with over 500 customers. For further information regarding our returning customers and new customers during the Track Record Period, please refer to section headed “Financial Information – Selected items of consolidated income statements – Revenue – Revenue by customer types” in this prospectus.

BUSINESS

As at the Latest Practicable Date, we had seven computer softwares for design of lace pattern which can be capable for most of the lace weaving machines in the industry, five invention patents for dyeing process and 39 utility model patents in respect of certain types of laces. We also had one invention patent and 10 utility model patent applications in the PRC which are pending registration.

The table below sets forth the breakdown of our revenue by major types of products and services during the Track Record Period.

	FY17		FY18		FY19		1H20	
	% of total		% of total		% of total		% of total	
	Revenue	revenue	Revenue	revenue	Revenue	revenue	Revenue	revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Dyeing	72,711	49.8	87,925	51.0	117,937	58.0	57,456	60.4
Lace	73,270	50.2	84,555	49.0	85,506	42.0	37,631	39.6
Total revenue	145,981	100.0	172,480	100.0	203,443	100.0	95,087	100.0

Benefited from the local policy implemented in Shantou City, the PRC in FY18, which has imposed stringent environmental protection requirement on dyeing services industry and led to the cessation of operation by certain industry peers there, we recorded a significant increase in revenue for our dyeing services by approximately 34% in FY19 from FY18 from RMB87.9 million to RMB117.9 million. For details, please refer to the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” in this prospectus.

For dyeing services, since customers would generally be responsible for arranging the logistics, including the delivery of their lace to and from dyeing plants, they would usually place orders to dyeing service providers in their near proximity. Going forward, to capture the business opportunities arising from the industry growth and the various environmental protection policies on sewage treatment and air pollution, which set out more stringent requirement and standard for dyeing industry players in Fujian, the PRC to comply with by December 2021, we plan to increase our market share in dyeing industry by increasing our dyeing services capacity and efficiency through procurement of new and upgrading of our equipment and facilities. For details, please refer to the paragraph headed “Our Business Strategies” in this section.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors as a well-established lace manufacturer and dyeing service provider in the PRC:

We have high quality assurance for our products

We have a strong commitment to attain high quality in our production process. We adopt the principle of total quality management and provide regular training to our staff in terms of quality assurance. Apart from inspecting incoming raw materials, we also inspect our products by (i) checking against our prototype of lace according to the specification from our customers, such as pattern and dimension of our lace before mass production; (ii) inspecting finished lace against any snagged yarns to ensure the number of weaving defects is below the agreed level; (iii) conduct tension test to ensure appropriate elasticity of the products. We are equipped with advanced quality testing machines, such as washing fastness testing machine* (水洗牢度測試機) and formaldehyde testing machine* (甲醛測試儀), to ensure consistency in our quality control.

As at 30 June 2020, our lace quality assurance team has 11 staff, led by a supervisor with over seven years of relevant experience and a dyeing services quality assurance team of 30 staff, led by a supervisor with over 20 years of experience. The two teams are supported by four quality control inspectors.

We have adopted ERP system which provides a traceability record system in relation to details of materials used in each order. All our products packages are labelled with codes which facilitate easy retrieval of production data. If there are quality issues with our products, our ERP system enable us to promptly ascertain the source of defects throughout the production process identify the defective lot of products and take appropriate remedial measures to rectify the issues and to prevent future recurrence.

During the Track Record Period, we had fully complied with domestic industry standards such as FZ/T 73027-2016 Textile Industry Standard (Warp Knitted Lace) of the PRC* (中華人民共和國紡織行業標準(針織經編花邊)). We have also been accredited with ISO 9001:2015 since November 2015 for our quality management system for our design and production of lace and OEKO-TEX® Confidence in Textiles STANDARD 100 since September 2018, which shows that the quality of our products meets the international stringent requirements on product safety. In respect of our dyeing services, we have been adopting the national standard GB/T 3921-1997 to test the color fastness of a textile to washing with soap and ISO 105/E04-1994 to test the color fastness to perspiration.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material product return request, nor had we received any material complaint from our customers on the quality of our products.

Our Directors believe that our stringent quality assurance have altogether enabled us to deliver quality products and dyeing services to our customer in a cost-efficient manner.

We command strong research and development capabilities

We believe that our strong research and development capabilities are critical to our success and will continue to drive the growth of our business. According to the CIC Report, research and development capability is one of the key factors for our success in the lace manufacturing and dyeing services industry, as the customers' requirements on design and functions are changing constantly.

As at 30 June 2020, our research and development department consisting of 30 staff including 18 dyeing services technicians and 11 lace weaving technicians, both under the leadership of Mr. Dong Jianren* (董建人), who is in charge of the research and development, possessing over 14 years of experience in research and development of textile industry. Some of our team members have obtained an university degree in engineering (dyeing specialty) to increase the professionalism of our teams.

As a result of the efforts by our dedicated research and development team, as at the Latest Practicable Date, we had seven computer software for design of lace pattern, five invention patents in respect of dyeing process and 39 utility model patents in respect of certain types of lace. We also had one invention patent and 10 utility model patent applications in the PRC which were pending registration. In recognition of our strong research and development capacity in 2019, we have the status of “High and New Technology Enterprise” (高新技術企業) and, Provincial Level Enterprise Technology Centre* (省級企業技術中心) and chosen as the top 10 competitive enterprise of the weaving industry of China* (2005–2015 年度中國經編行業競爭力十強企業) in 2015. For details regarding our intellectual property rights that we consider material to our business, please refer to the section headed “Appendix IV – Statutory and General Information – C. Further information about our business – 2. Material intellectual property rights of our Group” in this prospectus.

We develop new products based on the changing market needs and customers preference by conducting market researches and attending various industry-related exhibitions to understand the market trend. As at the Latest Practicable Date, we are conducting different researches projects such as water repellent, anti-bacteria and anti-mite lace. In respect of our dyeing services, to enhance our cost effectiveness, we are developed technology to dye different colours at the same time instead of one single colour per time, which would save the consumption of water and energy and shorten our processing time. As a result, our cost could be reduced and therefore increase our price competitiveness.

For each of FY17, FY18, FY19 and 1H20, our research and development expenses amounted to approximately RMB8.7 million, RMB8.1 million, RMB10.9 million and RMB4.2 million, respectively.

We are strategically located in the textile hub in Fuzhou City, Fujian, the PRC, one of the top province for textile manufacturing and dyeing services in the PRC

According to the CIC Report, the lace manufacturing and dyeing enterprises mainly concentrated in Fujian and Guangdong, where nine of the top ten enterprises are located. In 2019, the domestic lace sale revenue in PRC amounted to approximately RMB30.1 billion, while lace dyeing revenue amounted to approximately RMB8.8 billion.

Our Fuzhou Production Facilities are strategically located in Changle District, Fuzhou City, Fujian in the PRC where there were only less than 20 licensed lace dyeing enterprises in Fujian as at 30 June 2020, among which there are approximately 14 to 17 lace dyeing companies are located in Fuzhou, where approximately 10 to 12 are located in Changle District of Fuzhou. Taking the strategic advantage of being within the proximity, we have easy access to our customers. As such, we have easy access to the latest market trend and industry information to facilitate our research and development planning and manufacture products that suit the changing customers' needs, and fast delivery of goods.

Leveraging on our strategic location advantage, we have developed stable business relationship with our customers because of our shorter products delivery time and lower transportation cost. Over 70% of our customers are returning customers during the Track Record Period.

According to the CIC Report, the market size for sales of lace is expected to be increased from RMB30.1 billion to RMB44.5 billion, at a CAGR of 8.1% from 2019 to 2024, while the market size for lace dyeing services provided to external lace manufacturers is expected to be increased from approximately RMB8.8 billion to RMB14.7 billion at a CAGR of 11.0% from 2019 to 2024. As such, our Directors believe that we are geographically located in a favourable operating environment with room for business growth.

We have an experienced, visionary and dedicated management team

We believe the experience of our management team is fundamental to our Group in building a solid foundation for the subsequent development of our business. Founded in 2002, we are managed under a core management team under the leadership of Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Li Chaowen, Mr. Lin Bingzhong and Mr. Wei Cunzhuo, who are all our founders and Directors, possessing more than 20 years of experience in the lace production and dyeing services industry. For further details regarding to the biography and roles and responsibilities of our Directors, please refer to the section headed "Directors and Senior Management" in this prospectus.

Mr. Lin Minqiang formulates the strategic direction and is responsible for major management decision making for our Group. He plays a leading role in strategic planning and cultivating our overall business growth.

Further, Mr. Dong Jianren* (董建人), the person in-charge of the Fuzhou Production Facilities and the research and development team, has over 14 years of experience in both lace production and research and development of textile industry. Mr. Dong has served in our Group for over 14 years.

We believe that our experienced and stable management team possessing the skills and experience to formulate and lead development strategies and operation in our industry has been and will continue to be the key to our success in our operation and profitability.

OUR BUSINESS STRATEGIES

Over the past 10 years, the PRC government has implemented several policies that tightened the environmental protection requirement and pollution emission standard on dyeing industry. In general, the government laid down the extensive pollutant emission standards and wastewater treatment guidelines under Environmental Protection Law of PRC* (中華人民共和國環境保護法) for all pollutant emitting industries. On top of the general law, the government further introduced the Printing and Dyeing Industry Regulations (2017)* (印染行業規範條件(2017版)) (“**the Regulation**”) and the Discharge Standard which is specifically tailored for the dyeing industry. The Regulation sets out comprehensive requirements on different aspects of the dyeing industry such as the design of wastewater treatment system, percentage of wastewater being recycled and pollutant emission standard for each of the machineries involved in the dyeing process. The Discharge Standard provides a clear numerical calibre for the emission of pollutants and requires all dyeing production facilities to set up a real-time monitor system in order to keep track on the level of pollutants emitted.

Also, the PRC government has issued another policy that aims to accelerate the use of natural gas instead of coal in industrial process in 2017 (加快推進天然氣利用的意見) (“**the Policy**”). The Policy requires factories that are using coal-burning-boilers to upgrade to natural-gas-boilers to reduce the emission of air pollutants. In light of the Policy, the Fujian government has issued an implementation notice that encourages companies under these highly polluting industries to change from coal-burning to the use of natural gas. Subsequently, the Fuzhou City government issued an opinion stipulating that all dyeing enterprises located in Changle District and without implementation of centralised heating should complete the aforesaid upgrade by 31 December 2021. Failure to comply with these standard and requirement would lead to suspension of operation by the local authorities.

As a result of the Regulatory Impact, more than 180 printing and dyeing services providers ceased to operate in Shantou City. Prior to year 2018, the annual market size of lace dyeing services in Shantou City contributed by these printing and dyeing services providers was estimated to be more than RMB3.0 billion, of which approximately RMB2.2 billion was contributed by more than 135 factories who shut down in 2018, and approximately RMB0.8 billion was contributed by the rest of the factories in Shantou City who shut down in 2019. With all lace dyeing factories in Shantou City being shut down in 2019, all the lace dyeing demand in Shantou City amounted to approximately RMB3.0 billion migrated to other cities and provinces. By sharing the market size of approximately RMB3.0 billion among the 180 lace dyeing

factories, the average annual revenue of external lace dyeing services generated for a lace dyeing factory in Shantou City could be estimated as approximately RMB16.7 million before the implementation of such regulatory measures. In respect of the other local players (i.e., dyeing factories) surrounding Shantou City, to the best knowledge and information of our Directors and concurred by CIC, customers in the near proximity to Shantou City have concern that similar regulatory policy in Shantou City would also be applied there, which would cause significant business interruption if they chose to source lace dyeing factories there because they have to spend time and effort to conduct detailed assessment over a number of dyeing factories again before engagement for quality assurance, including trial operation and production of prototypes. The change on regulatory measures caused the industry players to re-consider the sustainability of supply of dyeing services and seek substitutes from other provinces outside Guangdong.

As advised by CIC, apart from Shantou City (in Guangdong), there are a few traditional lace dyeing hubs in China, namely Huizhou City (in Guangdong), Zhejiang and Fujian. Apart from the reason explained above, Changle, Fujian is one of the emerging lingerie markets and a well-established textile products hub that provides comprehensive support to customers. Also, in 2019, the lace dyeing services market size in Fujian amounted to approximately RMB4.2 billion (excluding revenue from Shantou City customers), which was much larger than that of approximately RMB0.9 billion in Guangdong (excluding Shantou City customers). Therefore, Fujian demonstrated a stronger attraction to customers as compared to Guangdong. Moreover, Zhejiang is further away from Shantou City as compared to Fujian, the transportation costs would be higher and delivery time would be longer if a lace dyeing factory there was engaged. Based on the above, Fujian was one of the most commercially sensible choices substituting Shantou City supply market, which took up approximately 70% of the demand from Shantou City while each of Zhejiang, Huizhou and other locations only took up approximately 10% only. Also, according to the knowledge of our Directors and concurred by CIC, since the lace dyeing orders migrated from Shantou City were comparatively large-size orders, the lace dyeing factories in Fujian prefer not to take up new orders of smaller size but to satisfy the demand from Shantou City. Both our Company and our industry peers in Fujian have been benefited from the Regulatory Impact with approximately 70% of demand migrated to Fujian, and the lace dyeing revenue provided to external manufacturers in Fujian increased from approximately RMB4.8 billion in 2018 to approximately RMB6.3 billion in 2019, showing a growth rate of 31.3%.

There was no printing and dyeing industrial park in Shantou City until January 2020. Three printing and dyeing industrial parks were planned in Shantou City, among which Chaonan Printing and Dyeing Park opened in January 2020 without any lace dyeing production commenced, Jieyan Printing and Dyeing Park is expected to open in early 2021, and Chaoyan Printing and Dyeing Park has not commenced construction and there is no specific timetable of opening.

Despite it would be impracticable for our Group to investigate and classify each transaction to different initiatives or motives accurately in order to form a breakdown of total effect from new demand due to the Regulatory Impact, our Directors are of the view that the quantitative effect could be revealed from the new customers from Guangdong started seeking cross

provincial dyeing services and lace products from us during the years of 2018 and 2019. Assuming (i) all the new customers from Guangdong were driven by the Regulatory Impact to migrate demand from Guangdong to Fujian, and (ii) based on the Directors' best knowledge and enquires made on the new customers in Fujian who attributed their increases in orders to the Regulatory Impact, the revenue growth attributable to the Regulatory Impact was approximately RMB10.6 million and RMB28.7 million in FY18 and FY19, respectively, representing approximately 46.1% and 60.0% of our Group's total revenue growth from new customers in the corresponding year.

There was a massive shift of lace dyeing demand from Shantou City to Fujian, where there are less than 20 lace dyeing service providers holding valid pollutant discharge permits as at 30 June 2020, among which there are approximately 14 to 17 lace dyeing companies are located in Fuzhou, where approximately 10 to 12 are located in Changle District of Fuzhou. We benefited from this and our revenue in FY19 increased by more than 30% from FY18. For details, please refer to the section headed "Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian" in this prospectus.

According to the CIC Report, the market size for lace dyeing services provided to external lace manufacturers is expected to be increased from RMB8.8 billion to RMB14.7 billion at CAGR of 11.0% from 2019 to 2024. Given the market size is very large as compared to the operation scale of our Group, we believe there will be ample opportunity for our expansion of business. The high average utilisation rate of 117.9% for FY19, and 117.4% for 1H20 (excluding Chinese New Year holidays and the days that the factory was mandatorily suspended in relation to the governmental measures on COVID-19, in which the utilisation rate reached approximately 120% in April and May 2020 with full resumption of normal operation) evidences the consistently high market demand to the Group. Further, since our Group did experience output level of 18% above its 100% capacity in FY19, our Directors are of the view that there would be sufficient demand for the 20% planned increase in overall capacity going forward.

According to the Opinion on Transformation and Upgrading of Printing and Dyeing Industry in Fuzhou City (《福州市印染行業轉型升級實施意見》) promulgated by the Department of Industry and Information Technology of Fuzhou City ("**DIIT Fuzhou**"), enterprises with certain production scale and meeting the requirements under national printing and dyeing industrial requirement (such as the Printing and Dyeing Industry Regulation (2017)) can remain in the same location if they are conducting business in non-environmental sensitive areas (i.e., not in the near proximity to residential areas, natural reserve areas, and environmental conservation areas generally). Please refer to the section headed "Regulatory Overview - Laws and regulations in relation to our Group's business in the PRC – Environmental protection" for details. According to the confirmation issued by the Department of Ecology and Environment of Changle District, Fuzhou City on 11 March 2020, Deyun does not locate in environmental sensitive areas and is not an enterprise that seriously affects the environment. As advised by the PRC Legal Advisers, the Department of Ecology and Environment of Changle District, Fuzhou City is the competent authority to provide such confirmation and such confirmation is valid and reliable. Also, as advised by the PRC Legal Advisers, the likelihood that such confirmation would be overridden by the government authorities at provincial and/or city levels is very remote.

The Division Chief (處長) of the Industry and Consumer Goods Division (消費品工業處) of DIIT Fuzhou has also verbally confirmed that, through a telephone enquiry made by the PRC Legal Advisers on 6 August 2020, there is no plan to force printing and dyeing enterprises to move into similar industrial park in Fuzhou City at present, the existing printing and dyeing enterprises in Fuzhou City can continue to operate legally, and there is no unified shutdown or conversion plan. Furthermore, our Group has registered and obtained relevant filing certificate from the Department of Industry and Information Technology of Changle District in respect of their proposed construction and/or installation of environmental protection plants and facilities in the current premises in Changle District. As advised by the PRC Legal Advisers, since the Industry and Consumer Goods Division of DIIT is responsible for the management of light industry and textile industry in Fuzhou City, the Division Chief is the authorised authority to provide abovementioned confirmation.

According to the confirmation issued by the Department of Ecology and Environment of Changle District, Fuzhou City on 11 March 2020, Deyun can carry out equipment renewal and technical transformation within the existing equipment quantity, planned capacity and pollutant emission limit. According to the confirmations issued by the Department of Industry and Information Technology of Changle District, Fuzhou City on 19 May 2020 and 4 November 2020, Deyun has duly informed it on the relevant expansion plan and can carry out the relevant technical transformation and upgrade accordingly. As advised by the PRC Legal Advisers, the Department of Ecology and Environment of Changle District, Fuzhou City, and the Department of Industry and Information Technology of Changle District, Fuzhou City are the competent authorities to provide the abovementioned confirmations. Based on these confirmations, the PRC Legal Advisers are of the view that there would be no substantive policy or legal impediment for Deyun to implement such project once the relevant application materials meeting the requirements of applicable PRC laws and regulations were submitted legally. Based on the above, our Directors are of the view, and the PRC Legal Advisers concurred, that there is no indication of the regulatory measures like those implemented in Shantou City will be implemented in Fuzhou City that would cause policy or legal impediment for the Group's expansion plan.

Furthermore, according to the written reply dated 22 November 2018 from the Department of Ecology and Environment of Fuzhou City (福州市生態環境局) (formerly known as Bureau of Environmental Protection of Fuzhou City* (福州市環境保護局)) (under the signatory of the Deputy Commissioner* (副局長), in response to the enquiries raised in the 13th Committee of the Chinese People's Political Consultative Conference of Fuzhou City* (福州市政協十三屆會議), which was published on the government official website, no new printing and dyeing enterprises will be approved to be set up in Fuzhou City or Changle District in coming years. The same in Changle District has been re-confirmed by the Department of Ecology and Environment of Changle District, Fuzhou City (福州市長樂生態環境局) by way of telephone enquiry made by the PRC Legal Advisers in February 2020. As advised by the PRC Legal Advisers, the Department of Ecology and Environment of Fuzhou City, and the Department of Ecology and Environment of Changle District, Fuzhou City, are the competent authorities administrating the relevant matters at municipal level and district level, respectively, in this regard.

As advised by the PRC Legal Advisers and concurred by CIC, it is the usual practice of the PRC government that if there is any planned implementation of new regulatory measures that may have a material impact to the industry, a prior notice or information would be promulgated to the industry first for the industry participants to prepare in advance. For example, (i) the Municipal Government of Shantou City issued the Notice on Printing and Distributing the Implementation Plan of Unified Planning and Designated Place for the Printing and Dyeing Industry in Shantou City in July 2014 stipulating that by 2018, all the existing textile printing and dyeing enterprises in Shantou City have to move into industrial parks for operation; and (ii) a plan to control and basically solve the problem of industrial pollution sources exceeding standards in various industries by 2019 was stipulated in the Implementation Plan of Fully Qualified Emission of Industrial Pollution Sources in Fujian Province (《福建省工業污染源全面達標排放計劃實施方案》) issued by the Department of Environmental Protection of Fujian Province (福建省環境保護廳) in 2017, pursuant to the direction set out by the State Council of the PRC (中華人民共和國國務院) in 2016.

As advised by the PRC Legal Advisers, upon their checking on the official websites of the major relevant regulatory authorities (including the State Council of the PRC (中華人民共和國國務院), the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會), the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) Fujian Provincial Government (福建省人民政府), the Fujian Provincial Department of Industry and Information Technology (福建省工業和信息化廳), Fujian Provincial Department of Ecology and Environment (福建省生態環境廳)), there have been no other specific national laws and regulations, Fujian Provincial and Fuzhou City regulations, stipulating any new and specific regulatory measures that may have a material adverse impact on the lace weaving and dyeing industries in Fujian and/or Fuzhou save as the regulations disclosed in the section headed “Regulatory Overview – Environmental protection” in this prospectus up to the present moment.

Also, as advised by CIC, it is common that there would be prior communication between the PRC regulatory authorities and the industry participants to disseminate information relating to major environmental policies to facilitate the advance preparatory work of industry participants, such as equipment or technology upgrade. For example, opinion was sought by the Fujian Provincial People’s Government from dyeing enterprises in respect of their proposal on upgrading of dyeing facilities to enhance production efficiency in 2015. As advised by CIC, the above mentioned government authorities have not made any prior communication to the major lace weaving and dyeing services providers in Fujian and/or Fuzhou up to present moment.

Based on the above, the PRC Legal Advisers take the view and the Directors concur that save as the regulations disclosed in the section headed “Regulatory Overview – Environmental protection” in this prospectus, there are no new and specific regulatory measures, including PRC national, Fujian Provincial and Fuzhou City laws and regulations, that may have a material adverse impact on the lace weaving and dyeing industries in Fujian and/or Fuzhou and our Group’s expansion plan up to the present moment.

Having considered all of the above, after due and careful enquires with the Directors and relevant professional parties involved, among others and in particular that the relevant regulatory authorities had explicitly indicated in written confirmations that Deyun can carry out the relevant expansion plan to continue its operation, and the Division Chief of the Industry and Consumer Goods Division of DIIT Fuzhou has verbally confirmed that there is no plan to force printing and dyeing enterprises to move into similar industrial park in Fuzhou and no unified shutdown or conversion plan at present, nothing has come to the attention of the Sole Sponsor and the PRC legal advisers to the Sole Sponsor that there is any plan or proposal to implement regulatory measures similar to those implemented in Shantou City in Fujian, or to suspend the operation of the Group, in near future.

According to the *Catalog for Guiding Industry Transfer (2018 Version)* 《產業轉移指導目錄(2018年本)》 issued by the Ministry of Industry and Information Technology of the PRC in 2018, Fujian is designated as the key area to undertake the development of textile and clothing industry, with major products includes high-quality textile fabrics, branded clothing and household textiles, biomass fiber in Fuzhou City. Being an industry player in the textile and clothing industry, this government policy would provide a great support to our Group's business in the industry.

On top of our Group's ability to acquire new customers, we also have the ability to satisfy and retain the existing customers as demonstrated in the growth of revenue from returning customers during the Track Record Period. Our Group is able to deliver very high quality of lace dyeing services. Apart from being granted the High and New Technology Enterprise Certificate, we would check every batch of the lace after dyeing and have also attained grade four (in which not all the top five players in Fujian lace dyeing industry in 2019 can attain such grade) (maximum is grade five according to industry standard and exceeded the market norm of grade three to three and a half, which is a major selection criteria for our customers in their selection of quality service providers) for our dyeing services in many respects, including washing and soaping fastness; sweat stain resistance, wet and dry rubbing fastness, anti-yellowing in room and high temperature. Our dyeing services are graded according to the industry standard GB/T3921-1997 adopted nation-wide in the PRC (which is not a legal requirement). This standard sets out the testing methods of color fastness to washing, scale for accessing change in color and staining after mechanically agitating the lace in soap solution under different temperature and duration of time, then rinsed and dried. The change in color and staining of the lace would be assessed according to the prescribed color scale. Our supervisory staff and technical staff have possessed over 30 years and 18 years of industry experience respectively, enabling our Group to deliver continuously high quality of service. Throughout the Track Record Period, the products failure rate is less than 1% and there was no return of products nor dispute on quality of with the customers. In terms of price competitiveness, according to CIC and the information and best knowledge of our Directors, the average price for lace dyeing services in Fujian is approximately 15% lower than that in Guangdong in general during the Track Record Period. Despite there is an increase in the average selling price for lace dyeing services in Fujian in 2019 due to the increased demand caused by the shut down of dyeing services factories in Shantou City in early 2019, for example our Group has increased from approximately RMB9.6 per kg for FY19 to RMB10.1 per kg for 1H2020, representing approximately 5.2%,

given the overall reduction in supply capacity, there is also an increase in price for Guangdong. As such, the price advantage for Fujian remains.

In order to capture the upcoming business opportunities arising from the abovementioned government policies and further enhance our market position in the dyeing industry in the PRC, we plan to (i) increase our dyeing services capacity and efficiency; (ii) replace our coal-burning-boiler to natural-gas-boiler; and (iii) strengthen our research and development capability and quality control for our dyeing services.

Expand our dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring of dyeing machineries and facilities

We carried out our dyeing process in our Fuzhou Production Facilities, which had a gross floor area of approximately 62,000 sq.m. accommodating two dyeing services workshops in two buildings (“**Workshop One**” and “**Workshop Two**”), each equipped with eight and four lace dyeing lines, respectively.

Despite that there is no material seasonality factor in the demand for our dyeing services, we have recorded a continuous increase on average utilisation rate of approximately 84.9%, 100.1%, 117.9% and 117.4% for our setting machines, one of the key equipment in our dyeing process in FY17, FY18, FY19 and 1H20, respectively. Due to the Regulatory Impact, we have exceeded 100% utilisation rate for our setting machines for 10 consecutive months in FY19 and five consecutive months in 1H20.

The key equipment for our dyeing process includes dyeing machines, dehydrators, setting machines and scutchers. As at 30 June 2020, we have 64 out of 80 dyeing machines and five out of 12 setting machines which have been used for more than eight and 10 years, respectively.

Based on the above, in order to meet the anticipated increase in demand for our dyeing services, we plan to increase our dyeing service capacity by (i) replacing our existing five setting machines; (ii) replace 40 dyeing machines; (iii) acquire a centralised control automation system; and (iv) acquire two sets of combined dehydrators and scutchers to replace our existing six dehydrators and six scutchers in Workshop One.

We plan to replace and upgrade our five setting machines one after one starting from second-half of 2020. With advanced setting on different parameters, such as temperature control, the quality of our products would be enhanced and there is an expected increase in capacity of approximately 48% for each machine compared to our existing one. As such, our total capacity with combination of five new and seven old machines, could be increased by approximately 20%. We also aim to replace the 40 dyeing machines by five batches (together with replacement of a setting machine in each batch) from second-half of 2020 to 2021, which are expected to put into full operation upon completion of installation, of which we estimate to be one to two months. It is estimated that the energy consumption level and the amount of wastewater produced will be reduced by approximately 20%. We anticipate that the new model can

accelerate the dyeing process from 1.35 tonnes per hour to 1.62 tonnes per hour and increase the accuracy of temperature control, thus decrease the chance of re-dyeing for the lace and lace fabrics.

With the implementation of centralised control automation system in 2021, we can switch from our manual to automatic colour-matching process with more accurate measurement of dye stuff portion to reduce labour cost and minimize human error. The chance of re-dyeing the lace because of the colour deviation from the required colour specification of our customers will decrease from approximately 5% to 2%. We anticipate that we can reduce our costs of sales by approximately 3% of our dyeing cost and thus increase our price competitiveness.

We plan to replace our existing six dehydrators and six scutchers in Workshop One with two sets of combined dehydrators and scutchers from second-half of 2020 when we replace and upgrade our five setting machines. Given that one set of combined dehydrators and scutchers can replace three dehydrators and three scutchers, it is expected that the replacement can help us reduce the energy consumption level for electricity by approximately 57% and reduce the number of technicians for handling the dehydrators and scutchers from four to two technicians, and thus reduce our labour costs.

Our investment costs for the expansion on our dyeing services capacity will be approximately RMB51.2 million which includes (i) RMB19.8 million (22.1%); (ii) RMB4.9 million (5.5%); and (iii) RMB26.0 million (29.0%) of the net proceeds from the Share Offer for replacing 40 dyeing machines, acquisition of a centralised control automation system, replacement of five setting machines and acquisition of two sets of combined dehydrators and scutchers, respectively.

The investment payback period of the establishment of such equipment and facilities, being the time required for such facility to recover the relevant initial set up costs from net operating cash flow generated by it, is estimated to be 32 months, assuming that (i) the additional capacity on replacing the five setting machines to be purchased would reach the utilisation rate of 100% or above upon replacement, no material change on the pricing of raw materials and cost structure for lace dyeing business; (ii) the incremental variable cost would be proportionate to the 20% increment of the overall dyeing capacity; (iii) the new dyeing machines could be fully operated upon successful replacement, effectively reduce the usage of electricity and water in our dyeing process as planned and specified by its industrial specifications, while the overall pricing of the electricity and the water treatment compounds do not fluctuate significantly; (iv) the central control automation system could effectively reduce defect rate of lace dyeing from approximately 5% to 3% or lower; and (v) the combined dehydrators and scutchers could reduce at least two labour headcounts and reduce electricity usage as specified by its industrial specifications; and the breakeven period, being the length of time required for the expanded dyeing services to generate sufficient revenue for our Group to recover its operating cost during the same financial period, is estimated to be five months, assuming that (i) the replacement of setting machines and dyeing machines would take place by five batches (every two months for one batch); (ii) each batch of setting machines and dyeing machines will immediately reach the utilisation rate of 100% or above upon successfully replacement; and (iii) our Group's

depreciation policy will consistently apply to the new machines starting from the first day of commencement of operation. The investment payback period and the breakeven period are a highly hypothetical analysis for reference and illustration purpose only and it is not indicative of our future performance as our Group's revenue, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, estimated on the assumptions that (i) the acquirement and replacement of above-mentioned machineries and equipment will be in operation as planned; and (ii) cost of sales such as labour cost are estimated with reference to the local prevailing market price and our terms of cooperation with the existing business partners, while cost of materials, manufacturing overheads and administrative expenses are estimated with reference to the ratio of the overheads and expenses to revenue in relation to the Fuzhou Production Facilities during the Track Record Period.

We plan to hire (i) two technicians for daily operation and maintenance of the centralised control automation system and (ii) one technician to monitor and oversee the operation of our dyeing equipment and facilities to ensure compliance with the environmental requirement of the PRC authority at the cost of approximately RMB1.5 million per year (RMB0.5 million each), representing approximately 1.5% of the net proceeds from the Share Offer.

Continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-burning-boiler

We have been using coal-burning-boiler to support lace dyeing. To enable our continuous compliance with the environmental requirement of Fujian government stipulated under the Policy, we plan to upgrade our coal-burning-boiler into natural-gas-boiler and construct a natural gas station in our Fuzhou Production Facilities by the end of 2021. We will only switch from using coal-burning-boiler to natural-gas-boiler when the constructions are duly completed to avoid interruption to our operation. The total cost is RMB8.2 million which consists of purchasing a natural-gas-boiler at RMB3.9 million, constructing a natural gas station at RMB3.0 million and building new pipelines at RMB1.3 million, representing approximately 9.2% of the net proceeds from the Share Offer. With the use of the natural-gas-boiler, our cost structure will change from purchases of coal to purchases of natural gas. Having considered the expected production capacity after expansion, the energy consumption and the new machinery setting, and the prevailing market price of natural gas, the estimated overall operating cost incurred by the natural-gas-boiler would be very similar to that incurred by our existing coal-burning boiler. The installation and use of natural-gas-boiler would not have a material adverse impact on our overall profitability.

To complement with the use of our new natural-gas-boiler, we also plan to acquire some crucial waste treatment equipment, including (i) a flue gas purifying treatment machine which can transform and filter the concentrated smoke produced by our natural-gas-boiler to less harmful substances and water vapour, and (ii) a sewage sludge drying equipment which can dry the harmful vapours emitted by the dyeing cylinder into pieces of sludge for easier handling and disposal by 2021. These new machineries allow us to control the amount of pollutants emitted to the environment in a more stable way and fulfil the Discharge Standard stipulated by the PRC

BUSINESS

government. The cost for purchasing new machineries amounts to approximately RMB6.0 million, representing approximately 6.7% of the net proceeds of the Share Offer.

Based on the above, the total estimated costs for our upgrade replacement of equipment and relevant building costs for continuous compliance with the requirement of the PRC authority is approximately RMB14.2 million, representing approximately 15.9% of the net proceeds of the Share Offer.

The following sets out our tentative construction plan of the natural-gas station and boiler:

Key steps	Time required (months)	Expected completion time frame
1. Site visit by equipment suppliers, evaluation of preliminary construction design and price negotiation with suppliers	1	By 4th quarter 2020
2. Acquisition of plant and equipment	0.5	By end of 2020
3. Delivery of plant and equipment	0.5	By 1st quarter 2021
4. Installation of natural gas boiler, gas purifying treatment machine and sewage sludge drying equipment	2	By 2nd quarter 2021
5. Building pipes and construction of a natural gas station	2	By 3rd quarter 2021
6. Testing and commissioning of natural gas station, including obtaining relevant licence and permit from government authority	2	By end of 2021
7. Demolition of existing coal-burning boiler and related equipment	1	By end of 2021

The amount of each allocated net proceeds is on an as-needed basis with three quotations obtained for most of the items for consideration.

Strengthen our research and development capability and quality control for our dyeing services

In line with our expansion of dyeing services, we plan to develop new technologies by expanding our research and development team to strengthen our research and development capability and the efficiency of our dyeing services.

As at 30 June 2020, our research and development team consist of 30 staff and is led by Mr. Dong Jianren* (董建人), person-in-charge of the Fuzhou Production Facilities and research and development team, with over 14 years of experience. Some of our team members possess a bachelor's degree in engineering (dyeing specialty). Please refer to the paragraph headed "Research and Development" in this section for further details.

During the Track Record Period, our research and development team conducted research activities on dyeing process based on the operational needs of our Fuzhou Production Facilities such as developing technologies for effective and efficient dyeing methods. For example, in FY19, we developed a new dyeing method to dye different types of fabric at the same time instead of one color each time and the water-saving lace dyeing process that could have amount of water usage. As at the Latest Practicable Date, we have five invention patents in respect of the dyeing process.

To enhance our research and development capability, we plan to hire five new research and development specialists, including (i) two research technicians focusing on dyeing different fabrics in the same process; (ii) two technicians and one technical director who will supervise and monitor the development, efficiency and functional performance of dyeing techniques, possessing at least a bachelor's degree in the relevant specialty and 10 to 20 years of relevant experience in the industry.

For enhancing our quality control capability, we plan to hire two quality control personnel, including (i) one product quality control director responsible for overseeing the product quality control operation flow and handling customer complaints; and (ii) one product testing director who will be responsible for overseeing the physical and chemical tests performed on our products, possessing at least a bachelor's degree in the relevant specialty and 10 to 20 years of relevant experience in the industry.

We expect that the costs for hiring five new research and development personnel and two quality control specialists will be approximately RMB2.7 million per year, and RMB1.0 million per year, representing approximately 3.0% and 1.1% of the net proceeds from the Share Offer, respectively.

The net proceeds for hiring personnel were estimated based on the current market rate plus fringe benefits, such as insurance and pension contribution.

Expand our integrated ERP system

We recognise the importance of technology and will continue to embrace advance technology solutions across multiple aspects of our business with the goal to further enhance our competitiveness among all the dyeing industry players. As our business on dyeing services continue to grow in a rapid pace, we expect that our scale of operation for our dyeing factory will grow correspondingly, our dyeing volume will increase and our operation will require more sophisticated and effective management across our operating platform.

Although we currently have ERP system in place, the system does not cover all the functional requirement of our Group. In this respect, our Directors intend to step up our investment in the realm of smart manufacturing based upon digital technology. We plan to upgrade and expand the coverage of our ERP system to cover the purchasing and logistics function and the administration support, which enables us to enhance management across each key component of our operation flow, including procurement of raw materials, inventory control as well as manpower control and logistics.

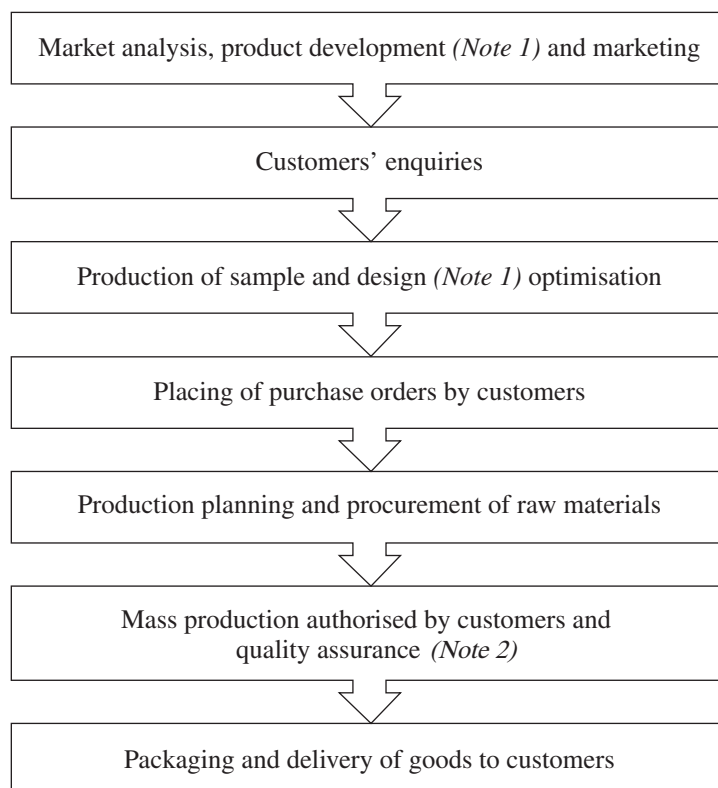
With the updated ERP system which expands the intelligent control network to more of our departments involved in the operation flow, our Group will be able to provide instant communication and sharing of information within our Group, especially enhancing the communications between various departments across the production chain and provide real time visibility across the supply chain. Thus, the system can increase the efficiency and productivity of our staff and help to minimise mistakes caused by human error. We also believe that our expanded ERP system will strengthen our management in respect of inventory control, production scheduling and provide up-to-date operation information to management to facilitate efficient management of our business.

With reference to quotations obtained by our Group in FY19, the estimated costs for upgrading and investing in the ERP system would be approximately RMB1.0 million, representing approximately 1.1% of the net proceeds from the Share Offer.

OUR BUSINESS MODEL

We principally engage in (i) the production and sales of lace; and (ii) the provision of dyeing services. The key steps of our business operation are set out below:

Production and sales of lace



Note 1: We and our customers do not register the lace designs as intellectual properties and thus we and our customers do not own the lace designs.

Note 2: Our production process of lace generally involves (i) weaving; and (ii) dyeing. For further details of the production process, please see “Production – Production process” in this section.

Market analysis, product development and marketing

We believe our research and development capabilities differentiate us from our competitors in the industry. Our research and development team conduct market analysis from time to time including market data collection, researches on the domestic and international market trend and review of our lace portfolio such as the design, dimensions, thread density count and textures of lace which we currently offer to our customers. Based on the result of our market analysis or as requested by our customers, our research and development team may initiate the development of lace with new designs, features, textures and/or other specifications. To support our customers, in some cases our customers may provide design samples for our reference and request us to produce lace according to their requirement. Notwithstanding the Group produce lace products according to the design requirement of its customers, the Group has to convert the conceptual design provided by the customers into pattern and then prepare prototype for customers to review. Further modification is usually required according to different technical requirement and quality assessment test results. With our advanced machinery and equipment, we are able to convert the conventional design drawings into computer design drawings for producing lace sample.

As part of our marketing strategies, our sales team would communicate with our existing and potential customers from time to time through face-to-face meetings and phone calls, receive their feedbacks on our products and obtain updated information on the market trends. We also participate in or attend different trade fairs and exhibitions such as Sri Lanka International Textiles and Accessories Exhibition 2017 (2017 斯里蘭卡國際紗綫面料及輔料展覽會) International Trendy Lingerie Fabrics in Shanghai* (上海國際貼身時尚原輔料展) in 2018, Shanghai Textiles Exhibition* (上海面料展) in 2018 to explore new business opportunities. During the visits or trade fairs, we actively promote our new products developed by our research and development team to potential customers. Once the customers express interest to our new products, our sales staff will follow up with them regarding their enquiries and requests.

Customers' enquiries, production of sample and design optimisation

Before placing orders, our customers usually approach us to ask for quotation. Our sales team would provide quotation based on their requirement, including product specifications, quantity packaging and expected delivery date. For new orders, we generally provide a number of lace samples for them to visualise the end product of the design concept to facilitate their review and finalisation of design. For repeated orders, the specifications of products are included in the purchase orders without lace sample provided to the customers.

Placing of purchase orders by customers

Once the product sample and quotations are accepted by our customers, we will proceed to prepare the purchase order for customers to sign for confirmation. The purchase orders would include the major terms of the sales, such as production specification, product quantity, unit price, payment terms and delivery schedule.

Production planning and procurement of raw materials

Once the purchase orders are signed by our customers, our sales department will input the relevant information of the order in our ERP system. Our production department will check the inventory of the raw materials via the ERP system. If there is inadequate inventory, our production department will issue a procurement notice to our procurement department to procure any outstanding raw materials. The production department will formulate the production schedule based on the orders on hand.

We would assign a sale personnel responsible for liaising with the relevant customers and monitor the order status and work progress.

We source raw materials through our procurement department which maintains a list of suppliers approved by our management team. The principal raw materials required for our production of lace include fibres and dyes. Procurement staff would obtain quotations from these pre-approved suppliers for price comparison and place purchase orders with them on need basis. Our purchase orders generally contain product description, quantity, unit price, payment terms, expected delivery dates.

Taking into account the confirmed orders and the estimated future sales, we normally keep inventory of common raw materials, such as certain fibres and dyes, for one to two months. To reduce risk of business interruption, we maintain several suppliers for each of our key raw materials. Suppliers are responsible for arranging delivery to our factory. Sample checks and testing are conducted by our quality control staff prior to acceptance. For details, please refer to the paragraph headed “Quality control” in this section.

Mass production authorised by customers and quality assurance

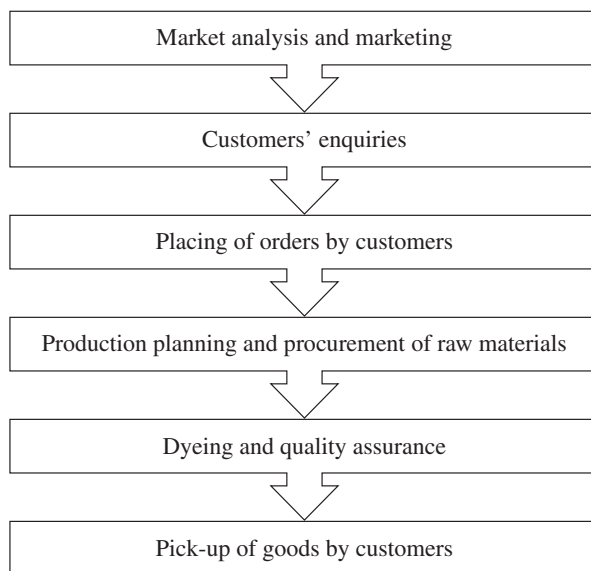
For orders containing new design or pattern, we will conduct trial production and prototypes would be sent to our customers for final confirmation before proceeding to mass production. For recurring orders, we will proceed to mass production after the trial product has passed our internal quality review.

Our production of lace is carried out in our Fuzhou Production Facilities. We conduct quality control at different stages of our production processes from the arrival of raw materials to finished lace. Depending on the complexity of the production process, our production lead time takes normally from 18 days to 50 days. For further details, please refer to the paragraph headed “Production – Production process – Lace weaving” and “Production – Production process – Lace dyeing” in this section.

Packaging and delivery of goods to customers

Most of our customers require us to deliver our products to them. Our logistics team would be responsible for planning and coordination of overall logistics in relation to packaging and delivery by vehicles mainly. We generally engage third party logistics services providers for delivery of our products from our production facilities.

Provision of dyeing services



Market analysis and marketing

We believe our research and development capabilities differentiate us from our competitors in the industry. Our research and development team conduct market analysis from time to time including data collection, researches on the domestic and international market trend to understand and enhance our capability to use different types of fabrics and colors for our customers to choose.

Customers' enquiries

Before placing orders, our customers usually approach us to ask for quotation. Our sales team would provide quotation based on their requirement, including product specifications, quantity and expected delivery date.

Placing of orders by customers

Once the quotations are accepted by our customers, we will proceed to prepare the purchase orders for customers to sign for confirmation. The purchase orders would include the major terms of the sales, such as production specification, product quantity, unit price, payment terms and delivery schedule.

Production planning and procurement of raw materials

Our customers will provide us with the fabrics to be dyed. The principal raw materials required for our dyeing services include dyes and additives. The production planning and procurement of raw materials process is similar to that for manufacturing of lace.

Dyeing and quality assurance

All lace produced by our Group is dyed in-house. The dyeing process is carried out in our Fuzhou Production Facilities. We impose quality control for our dyeing process. Depending on the complexity of the dyeing process, our dyeing process takes normally from one to seven days.

For further details of the production process, please refer to paragraph headed “Production – Production process – Lace dyeing” in this section.

Pick-up of goods by customers

Most of our customers would be responsible for arranging the logistics, including the delivery and pick up of their lace to and from our dyeing factory.

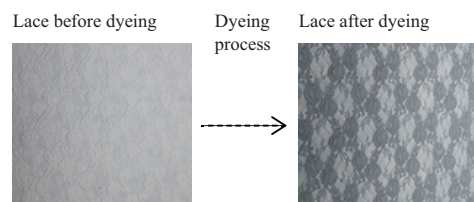
OUR SERVICES AND PRODUCTS

Our services and products can be broadly classified into two types, namely, (i) dyeing services and (ii) lace manufacturing (which include high density lace and regular density lace).

The following table sets out an illustration of our services and products we provided during the Track Record Period:

Services/Products description**Illustration**

Dyeing services for lace – we dye our lace produced as well as provide separate dyeing services to our customers.



High density lace – generally with more complex pattern and represents our lace produced with yarn count of 40S or above; maximum yarn count we offered during the Track Record Period was 85S.



Regular density lace – generally with less complex pattern and represents our lace produced with yarn count below 40S.



For details regarding our average selling prices during Track Record Period, please refer to the section headed “Financial Information – Selected items of consolidated income statements – Revenue – Revenue by product types” in this prospectus.

BUSINESS

The following table sets forth our revenue by services and product types during the Track Record Period:

	FY17		FY18		FY19	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Dyeing services	72,711	49.8	87,925	51.0	117,937	58.0
Lace manufacturing						
– High density	34,659	23.7	42,662	24.7	53,749	26.4
– Regular density	38,611	26.5	41,893	24.3	31,757	15.6
Sub-total	73,270	50.2	84,555	49.0	85,506	42.0
Total	145,981	100.0	172,480	100.0	203,443	100.0

	1H19		1H20	
	Revenue	% of total	Revenue	% of total
	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)			
Dyeing services	61,038	56.4	57,456	60.4
Lace manufacturing				
– High density	29,356	27.1	24,675	25.9
– Regular density	17,830	16.5	12,956	13.7
Sub-total	47,186	43.6	37,631	39.6
Total	108,224	100.0	95,087	100.0

BUSINESS

The following table sets forth our revenue by product applications, according to our Directors' best knowledge during the Track Record Period:

	FY17		FY18		FY19	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Applications on lingerie production	131,667	90.2	157,439	91.3	194,555	95.6
Applications on swimsuit production	14,314	9.8	15,041	8.7	8,888	4.4
Total	145,981	100.0	172,480	100.0	203,443	100.0

	1H19		1H20	
	Revenue	% of total	Revenue	% of total
	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)			
Applications on lingerie production	103,901	96.0	93,779	98.6
Applications on swimsuit production	4,323	4.0	1,308	1.4
Total	108,224	100.0	95,087	100.0

SALES AND MARKETING

During the Track Record Period, we mainly sold our lace to our customers to produce branded lingerie products and swimming suit in the PRC. As at 30 June 2020, we had 25 sales and marketing staff in the PRC who are dedicated to the sales and marketing of our services and products by (i) maintaining regular contact with our existing customers to understand their needs and market trend in the industry and (ii) participating in different trade exhibitions to promote our services and products to explore new customers from time to time, for example we attended or participated in Sri Lanka International Textiles and Accessories Exhibition 2017 (2017 斯里蘭卡國際紗綫面料及輔料展覽會) in 2017, International Trendy Lingerie Fabrics in Shanghai* (上海國際貼身時尚原輔料展) in 2018, and Shanghai Textiles Exhibition* (上海面料展) in 2018.

BUSINESS

Our customers

We primarily sell our products to customers in Eastern China and Southern China. We also sell our products to other parts in China, as well as export our products to other countries including Thailand, Vietnam and Latvia.

The following table sets forth our revenue and percentage of revenue by different geographical locations of customers during the Track Record Period:

For lace:

	FY17		FY18		FY19	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
<i>Lace (domestic sales)</i>						
Guangdong	34,748	23.8	46,721	27.1	42,323	20.8
Fujian	4,697	3.2	6,313	3.7	16,897	8.3
Zhejiang	24,670	16.9	21,657	12.5	8,834	4.4
Guizhou	—	—	—	—	3,672	1.8
Shangdong	1,296	0.9	2,661	1.5	3,589	1.8
Shanghai	2,329	1.6	1,159	0.7	1,624	0.8
Chongqing	1,026	0.7	—	—	—	—
Others ⁽¹⁾	3,071	2.1	2,766	1.6	6,067	2.9
Sub-total	71,837	49.2	81,267	47.1	83,006	40.8
<i>Lace (international sales)</i>						
Hong Kong	849	0.6	1,992	1.2	1,368	0.7
Thailand	363	0.3	650	0.4	466	0.2
Vietnam	28	—	66	—	440	0.2
Others ⁽²⁾	193	0.1	580	0.3	226	0.1
Sub-total	1,433	1.0	3,288	1.9	2,500	1.2
Total lace revenue	73,270	50.2	84,555	49.0	85,506	42.0

BUSINESS

	1H19		1H20	
	Revenue	% of total	Revenue	% of total
	(RMB'000)	revenue	(RMB'000)	revenue
	(unaudited)	(%)		(%)
<i>Lace (domestic sales)</i>				
Guangdong	24,551	22.7	14,386	15.1
Fujian	5,572	5.1	12,982	13.7
Zhejiang	5,992	5.5	5,779	6.1
Guizhou	2,230	2.1	–	–
Shangdong	1,883	1.7	1,344	1.4
Shanghai	1,192	1.1	1,582	1.7
Chongqing	–	–	–	–
Others ⁽¹⁾	4,567	4.2	797	0.8
Sub-total	45,987	42.4	36,870	38.8
<i>Lace (international sales)</i>				
Hong Kong	476	0.5	342	0.4
Thailand	217	0.2	411	0.4
Vietnam	411	0.4	5	–
Others ⁽²⁾	95	0.1	3	–
Sub-total	1,199	1.2	761	0.8
Total lace revenue	47,186	43.6	37,631	39.6

For dyeing services:

	FY17		FY18		FY19	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue
		(%)		(%)		(%)
Fujian	70,369	48.2	86,246	50.0	93,938	46.2
Guangdong	1,017	0.7	1,469	0.9	22,599	11.1
Zhejiang	1,132	0.8	75	–	802	0.4
Others ⁽³⁾	193	0.1	135	0.1	598	0.3
Total dyeing revenue	72,711	49.8	87,925	51.0	117,937	58.0

BUSINESS

	1H19		1H20	
	% of total		% of total	
	Revenue	revenue	Revenue	revenue
	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)			
Fujian	48,658	45.0	47,239	49.7
Guangdong	11,659	10.7	9,363	9.8
Zhejiang	684	0.6	174	0.2
Others ⁽³⁾	37	0.1	680	0.7
Total dyeing revenue	61,038	56.4	57,456	60.4

Notes:

- (1) Other province or cities of China mainly include Anhui, Beijing, Hunan, Jiangsu and Nanjing.
- (2) Other countries or cities include Latvia, Indonesia, Brazil, Sri Lanka and Cambodia.
- (3) Other province or cities of China include Jiangsu and Liaoning.

Our products were mainly used for manufacturing of domestic brand lingerie ultimately consumed domestically. The table below sets forth a breakdown of our revenue by sales destination of end products of our customers' domestic brand lingerie and international brand lingerie ⁽¹⁾:

	FY17				FY18				FY19			
	Domestic		International		Domestic		International		Domestic		International	
	brand	brand	Percentage		brand	brand	Percentage		brand	brand	Percentage	
	lingerie	lingerie	Total	of total	lingerie	lingerie	Total	of total	lingerie	lingerie	Total	of total
	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(RMB'000)	(RMB'000)	(%)
Sales destination of end products:												
- China	117,899	12,424	130,323	89.3	141,780	13,121	154,901	89.8	180,763	10,177	190,940	93.9
- U.S.	-	1,008	1,008	0.7	-	655	655	0.4	-	702	702	0.3
- South-east Asia ⁽²⁾	1,636	4,935	6,571	4.5	1,456	7,654	9,110	5.3	1,102	5,067	6,169	3
- Europe	-	7,990	7,990	5.4	-	7,531	7,531	4.4	-	5,413	5,413	2.7
- Others ⁽²⁾	-	89	89	0.1	-	283	283	0.1	-	219	219	0.1
Total	119,535	26,446	145,981	100.0	143,236	29,244	172,480	100.0	181,865	21,578	203,443	100.0
Percentage of total (%)	81.9	18.1	100.0		83.0	17.0	100.0		89.4	10.6	100.0	

BUSINESS

	1H19				1H20			
	Domestic brand	International brand		Percentage	Domestic brand	International brand		Percentage
	lingerie	lingerie	Total	of total	lingerie	lingerie	Total	of total
	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(RMB'000)	(RMB'000)	(%)
	(unaudited)	(unaudited)	(unaudited)					
Sales destination of end products:								
– China	93,775	6,652	100,427	92.8	88,877	2,312	91,189	95.9
– U.S.	–	493	493	0.5	19	174	193	0.2
– South-east Asia ⁽²⁾	1,036	3,082	4,118	3.8	1,023	1,575	2,598	2.7
– Europe	–	3,099	3,099	2.8	182	921	1,103	1.2
– Others ⁽²⁾	–	87	87	0.1	4	–	4	0.0
Total	94,811	13,413	108,224	100.0	90,105	4,982	95,087	100.0
Percentage of total (%)	87.6	12.4	100.0		94.8	5.2	100.0	

Notes:

- (1) The breakdown of our revenue in final sales destination of domestic brand and international brand was based on the communication between our customers and us and the Director's best knowledge on the sales network of our customers. Our Group does not have any direct relationship with these brand owners.
- (2) For the purpose of this breakdown, South-east Asia includes: Japan, Vietnam, Sri Lanka, Thailand, Hong Kong, Indonesia and Cambodia; Others includes: Latvia and Brazil.

Given the international sales of lace (excluding Hong Kong, Thailand and Vietnam) represents approximately 0.1% to 0.3% of our total revenue of the year/period only during the Track Record Period and the sale of end products to the U.S. represents approximately 0.2% to 0.7% to of our total revenue of each year/period only during the Track Record Period, our Directors believe that the impact of the China-United States trade war to our Group is very minimal.

Our customers can be broadly classified into two major types, namely, (i) manufacturers, which incorporate our products with other components and assemble them into semi-finished and/or final products according to their own design and specifications or design and specifications as required by their customers, and (ii) trading entities, to our Directors' knowledge, generally further sell our products to their own customers comprising brand owners or their sourcing agents.

BUSINESS

The following table sets forth our revenue, percentage of revenue and number of customers by different customer types during the Track Record Period:

	FY17			FY18			FY19		
	Revenue (RMB'000)	% of revenue (%)	No. of customers	Revenue (RMB'000)	% of revenue (%)	No. of customers	Revenue (RMB'000)	% of revenue (%)	No. of customers
Manufacturers	125,797	86.2	271	148,537	86.1	409	190,794	93.8	587
Trading entities	20,184	13.8	16	23,943	13.9	18	12,649	6.2	22
Total revenue	145,981	100.0	287	172,480	100.0	427	203,443	100.0	609

	1H19			1H20		
	Revenue (RMB'000) (unaudited)	% of revenue (%)	No. of customers	Revenue (RMB'000)	% of revenue (%)	No. of customers
Manufacturers	103,773	95.9	479	94,212	99.1	385
Trading entities	4,451	4.1	14	875	0.9	8
Total revenue	108,224	100.0	493	95,087	100.0	393

Top five customers

The revenue attributed to our largest customer amounted to RMB10.9 million, RMB13.2 million, RMB7.6 million and RMB4.8 million for each of the FY17, FY18, FY19 and 1H20, which accounted for 7.5%, 7.6%, 3.7% and 5.0% of our total revenue for the corresponding periods, respectively. The revenue attributed to our five largest customers amounted to RMB32.8 million, RMB39.5 million, RMB32.5 million and RMB19.3 million for each of FY17, FY18, FY19 and 1H20, which accounted for 22.5%, 22.9%, 15.9% and 20.3% of our total revenue for the corresponding periods, respectively. There were significant changes in the composition of our Group's five largest customers during Track Record Period, mainly due to the facts that (i) our Group's customers were highly scattered, (ii) most of our Group's transactions were on order-by-order basis without entering into any long term contracts, and (iii) our sales to different customers may vary depending on the popularity of their product style and design over time, which will in turn affect their demand on the products and services offered by the Group.

BUSINESS

FY17

Customer	Note	Services provided/ Products sold to customer	Revenue generated from the sale RMB'000	% of total revenue	Credit terms	Commencement year of business relationship
Customer A	(1)	Lace	10,914	7.5	60 days after monthly statement	2016
Customer B	(2)	Lace	8,104	5.6	60 days after monthly statement	2008
Customer C	(3)	Lace	5,523	3.8	30 days after monthly statement	2008
Customer D	(4)	Lace	4,711	3.2	30 days after monthly statement	2010
Customer E	(5)	Lace, Dyeing	3,545	2.4	60 days after monthly statement	2016

FY18

Customer	Note	Services provided/ Products sold to customer	Revenue generated from the sale RMB'000	% of total revenue	Credit terms	Commencement year of business relationship
Customer A	(1)	Lace	13,164	7.6	60 days after monthly statement	2016
Customer B	(2)	Lace	9,302	5.4	60 days after monthly statement	2008
Customer D	(4)	Lace	7,427	4.3	30 days after monthly statement	2010
Customer C	(3)	Lace	6,503	3.8	30 days after monthly statement	2008
Customer F	(6)	Lace	3,125	1.8	30 days after monthly statement	2018

BUSINESS

FY19

Customer	Note	Services provided/ Products sold to customer	Revenue generated from the sale RMB'000	% of total revenue	Credit terms	Commencement year of business relationship
Customer G	(7)	Lace	7,617	3.7	30 days after monthly statement	2018
Customer H	(8)	Lace, Dyeing	7,489	3.7	60 days after monthly statement	2008
Customer C	(3)	Lace	5,895	2.9	30 days after monthly statement	2008
Customer I	(9)	Lace	5,789	2.8	60 days after monthly statement	2019
Customer J	(10)	Lace	5,750	2.8	60 days after monthly statement	2011

1H20

Customer	Note	Services provided/ Products sold to customer	Revenue generated from the sale RMB'000	% of total revenue	Credit terms	Commencement year of business relationship
Customer I	(9)	Lace	4,789	5.0	60 days after monthly statement	2019
Customer H	(8)	Lace, Dyeing	4,755	5.0	60 days after monthly statement	2008
Customer A	(1)	Lace	3,789	4.0	60 days after monthly statement	2016
Customer K	(11)	Dyeing	3,577	3.8	30 days after monthly statement	2018
Customer AC	(12)	Dyeing	2,360	2.5	30 days after monthly statement	2011

BUSINESS

Notes:

- (1) Customer A is a private limited liability company and our trading entity customer incorporated in the PRC since November 2012, with registered capital of approximately RMB0.9 million, located in Shaoxing, Zhejiang, which is primarily engaged in the wholesale of textile products. They are Independent Third Party to our Group.
- (2) Customer B is a private limited liability company and our manufacturer customer incorporated in the PRC since June 2000, with registered capital of approximately HKD102.8 million, annual revenue of approximately RMB134.2 million for 2018 and total assets of approximately RMB142.5 million as at the end of 2018, located in Shantou City, Guangdong, which is primarily engaged in the production and sales of apparel products. They are Independent Third Party to our Group.
- (3) Customer C is a private limited liability company and our manufacturer customer incorporated in the PRC since March 2008, with registered capital of RMB3 million and employed more than 500 employees by 2018, located in Dongguang, Guangdong, who is primarily engaged in the production and sales of apparel products. They are Independent Third Party to our Group.
- (4) Customer D is a private limited liability company and our manufacturer customer incorporated in the PRC since September 2008, with registered capital of RMB500,000 and approximate 40 employees by 2018, located in Foshan, Guangdong, who is primarily engaged in production and sales of apparel products. They are Independent Third Party to our Group. To the best knowledge after due, reasonable and careful enquiry of our Directors, one of the founders of Customer D was in the view that it was the appropriate time to realise and exit its current investment on Customer D in year 2018, whereas the other shareholder chose to stay in the business, subsequently they mutually agreed to dissolve Customer D in 2019 by way of shareholders' resolution to provide exit for the founder, and the shareholder who chose to stay in the business has invited other shareholders to establish a similar business, which led to the establishment of the Customer G. Please refer to note (7) below for further details of Customer G.
- (5) Customer E is a private limited liability company and our trading entity customer incorporated in the PRC since May 2010, with registered capital of approximately RMB1 million, located in Shishi, Fujian, who is primarily engaged in the sales of textile and apparel products. They are Independent Third Party to our Group.
- (6) Customer F is a private limited liability company and our trading entity customer incorporated in the PRC since October 2004, with registered capital of RMB0.5 million, located in Guangzhou, Guangdong, which is primarily engaged in the wholesaling of textile related products. They are Independent Third Party to our Group.
- (7) Customer G is a private limited company and our manufacturer customer incorporated in the PRC since July 2018, with registered capital of RMB500,000, located in Foshan, Guangdong, which is primarily engaged in production and sales of textile related products. They are Independent Third Party to our Group. The Group became acquainted with one of the shareholders of Customer G, who was also the shareholder of Customer D before its dissolution and that led to the establishment of their business relationship, since the incorporation of Customer G in late 2018. For details of the dissolution of Customer D, please refer to note (4) above. The Directors believe these were the major reasons for Customer G to have business scale and sales volume comparable to those of the Customer D did in prior years, despite its relatively short operating history. In view of this background of Customer G, major terms of trade including credit periods that offered by our Group to Customer G were similar to that of the Customer D did in prior years.
- (8) Customer H is a private limited liability company and our manufacturer customer incorporated in the PRC since September 2008, with registered capital of RMB1.5 million, located in Fuzhou City, Fujian, which is primarily engaged in production and sales of textile related products. It is an Independent Third Party to our Group.

- (9) Customer I is a private limited liability company and our manufacturer customer incorporated in the PRC since January 2019, with registered capital of RMB50 million, located in Fuzhou City, Fujian, which is primarily engaged in e-commerce, trading, production (primarily by way of outsourcing) and sales of textile related products. They are Independent Third Party to our Group. One of the shareholders of Customer I, approached the Group in early 2019 searching for lace manufacturers and dyeing service providers to deliver tailor-made and high-quality products to them within reasonable time as stipulated by Customer I. After certain negotiations, the Group and Customer I entered into non-legal binding memorandum of understanding (the “MOU”) in May 2019, which stated that Customer I would engage the Group to provide lace dyeing and lace manufacturing services for the forth coming two years. The Directors believe that Customer I has successfully acquired a fashionable lingerie brand upon its establishment, has led Customer I to have significant sales in FY19 despite its relatively short operating history. Having considered its business relationship with the fashionable lingerie brand, and the scale and order size of the MOU that the Group entered into with Customer I, the Group has decided to grant a credit period to Customer I that is comparable to other regular customers in order to maintain a long term business relationship.
- (10) Customer J is a private limited liability company and our manufacturer customer incorporated in the PRC since April 2006, with registered capital of approximately RMB3.7 million, located in Suzhou, Jiangsu, which is primarily engaged in production and sales of apparel and textile products. They are Independent Third Party to our Group.
- (11) Customer K is a private limited liability company and our manufacturer customer incorporated in the PRC since April 2012, with registered capital of approximately RMB5 million, located in Fuzhou, Fujian, which is principally engaged in production and sales of textile related products.
- (12) Customer AC is a private limited liability company and our manufacturer customer incorporated in the PRC since May 2003, with registered capital of approximately RMB10.0 million, located in Fuzhou, Fujian, which is principally engaged in production and sales of textile related products.

None of our Directors, their respective close associates or any of our Shareholders (whom to the best knowledge of our Directors owned more than 5% of the Shares in issue as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

Overlapping customers and suppliers

During the Track Record Period, seven of our customers were at the same time our suppliers. They all mainly engage in textile manufacturing. As textile manufacturing involves a variety of stages and the corresponding machinery may vary, inter-trading among textile manufacturers are common in this industry. During the Track Record Period, we purchased grey fabrics from the overlapping customers and suppliers to meet our production demand. On the other hand, we provided to all of them dyeing services, given that they do not possess the necessary machinery and equipment. Thereby, the subject being traded from and to the overlapping customers and suppliers were entirely different. For the three years ended 31 December 2019 and the six months ended 30 June 2020, our revenue generated from the overlapping customers and suppliers amounted to approximately RMB0.01 million, RMB1.6 million, RMB2.8 million and RMB0.3 million, respectively. The amount of purchases from the overlapping customers and suppliers amounted to approximately RMB0.2 million, RMB0.3 million, RMB0.6 million and RMB0.3 million for the three years ended 31 December 2019 and the six months ended 30 June 2020.

BUSINESS

Our Directors confirmed that negotiations of the salient terms of our sales and purchase from these parties were conducted separately. As a result, the sales and purchases in question were neither inter-connected with nor inter-conditional upon each other. The terms of transactions with the overlapping customers and suppliers were similar to those with our other customers and suppliers, which our Directors considered to be normal commercial terms.

To the best knowledge and belief of our Directors, all overlapping customers and suppliers are Independent Third Parties. None of our Directors, their respective close associates, or any Shareholder who, to the best knowledge of our Directors, owns more than 5% of our issued capital, has any interest in each of the overlapping customers and suppliers during the Track Record Period. Save as disclosed above, to the best knowledge of our Directors, none of our suppliers are also our customers during the Track Record Period.

The following tables set out the information regarding entities which were both our customers and our suppliers during the Track Record Period:

FY17

	Products/ Services we sold/ provided	Revenue <i>RMB'000</i>	% of total revenue %	Gross profit <i>RMB'000</i>	Gross profit margin %	Products we purchased	Purchases <i>RMB'000</i>	% of total purchases %	Reason for the arrangement	Comparison to overall gross profit margin
Entity A ^{Note 1}	Dyeing	75	0.1	6	8.5	Greige fabrics	117	0.2	Note 7	Note 12
Entity B ^{Note 2}	Dyeing	4	— ⁽¹⁾	1	15.4	Greige fabrics	37	0.1	Note 7	Note 10
		<u>79</u>	<u>—</u>	<u>7</u>	<u>8.9</u>		<u>154</u>	<u>0.2</u>		

FY18

	Products/ Services we sold/ provided	Revenue <i>RMB'000</i>	% of total revenue %	Gross profit <i>RMB'000</i>	Gross profit margin %	Products we purchased	Purchases <i>RMB'000</i>	% of total purchases %	Reason for the arrangement	Comparison to overall gross profit margin
Entity B	Dyeing	128	0.1	24	18.8	Greige fabrics	230	0.3	Note 7	Note 9
Entity D ^{Note 4}	Dyeing	1,516	0.9	346	22.8	Greige fabrics	111	0.2	Note 8	Note 9
		<u>1,644</u>	<u>1.0</u>	<u>370</u>	<u>22.5</u>		<u>341</u>	<u>0.5</u>		

BUSINESS

FY19

	Products/ Services we sold/ provided	Revenue RMB'000	% of total revenue %	Gross profit RMB'000	Gross profit margin %	Products we purchased	Purchases RMB'000	% of total purchases %	Reason for the arrangement	Comparison to overall gross profit margin
Entity A	Dyeing	474	0.2	141	29.6	Greige fabrics	29	— ⁽¹⁾	Note 7	Note 13
Entity B	Dyeing	204	0.1	62	30.5	Greige fabrics	448	0.6	Note 7	Note 13
Entity C ^{Note 3}	Dyeing	3	— ⁽¹⁾	1	42.8	Greige fabrics	48	0.1	Note 7	Note 10
Entity E ^{Note 5}	Dyeing	1,764	0.9	594	33.7	Greige fabrics	67	0.1	Note 7	Note 11
Entity F ^{Note 6}	Dyeing	403	0.2	155	38.5	Greige fabrics	1	— ⁽¹⁾	Note 7	Note 11
		<u>2,848</u>	<u>1.4</u>	<u>953</u>	<u>33.5</u>		<u>593</u>	<u>0.9</u>		

1H20

	Products/ Services we sold/ provided	Revenue RMB'000	% of total revenue %	Gross profit RMB'000	Gross profit margin %	Products we purchased	Purchases RMB'000	% of total purchases %	Reason for the arrangement	Comparison to overall gross profit margin
Entity G	Dyeing	<u>347</u>	<u>0.4</u>	<u>105</u>	<u>30.3</u>	Greige fabrics	<u>294</u>	<u>1.2</u>	Note 7	Note 14

(1) less than 0.1%

Note 1: Entity A is a privately owned greige fabrics manufacturer incorporated in the PRC since April 2009, with registered capital of RMB5 million and located in Changle, Fujian. They are Independent Third Parties to our Group.

Note 2: Entity B is a privately owned greige fabrics manufacturer incorporated in the PRC since November 2003, with registered capital of RMB3 million and located in Changle, Fujian. They are Independent Third Parties to our Group.

Note 3: Entity C is a privately owned greige fabrics manufacturer incorporated in the PRC since July 2012, with registered capital of RMB8 and located in Changle, Fujian. They are Independent Third Parties to our Group.

BUSINESS

- Note 4:* Entity D is a privately owned greige fabrics trading company incorporated in the PRC since April 2017, with registered capital of RMB12 million and located in Changle, Fujian. They are Independent Third Parties to our Group.
- Note 5:* Entity E is a privately owned greige fabrics manufacturer incorporated in the PRC since September 1999, with registered capital of approximately RMB1.3 million and located in Shantou City, Guangdong. They are Independent Third Parties to our Group.
- Note 6:* Entity F is a greige fabrics manufacturer incorporated in the PRC since July 1994, with registered capital of approximately RMB32.9 million and located in Shantou City, Guangdong. They are Independent Third Parties to our Group.
- Note 7:* Entities A, B, C, E, F and G were greige fabric manufacturers without lace dyeing capabilities. We purchase greige fabrics from them to support our production needs, while they found us for dyeing to fulfill their customers' requirement on dyed lace.
- Note 8:* Entity D is a trading entity, who is able to provide greige fabrics, without its own lace dyeing capabilities. We purchase greige fabrics from Entity D to support our production needs, while Entity D found us for dyeing to fulfill their customers' requirement on dyed lace.
- Note 9:* The respective gross profit margin was comparable to our overall gross profit margin of approximately 21.5% for dyeing business for FY18.
- Note 10:* The respective gross profit margin was higher than that of our overall gross profit margin for dyeing, primarily due to the higher price we charged for the small order size.
- Note 11:* The respective gross profit margin was higher than that of our overall gross profit margin for dyeing, primarily due to the higher prices we set as (i) they were both new customers to us, and (ii) they were both located in Shantou City, which lacks competitors of us.
- Note 12:* The respective gross profit is lower than the overall gross profit for dyeing, as confirmed by our Directors, primarily due to the requirements and delivery arrangement were not complicating, and the Group intended to attract more business from offering competitive price. Directors are of the view that there are no unusual benefits to our Group or Entity A other than the profit and loss derived from the arm's length transaction as disclosed.
- Note 13:* The respective gross profit margin was comparable to our overall gross profit margin of approximately 28.8% for dyeing business for FY19.
- Note 14:* The respective gross profit margin was comparable to our overall gross profit margin of approximately 30.6% for dyeing business for 1H20.

Major terms of sales contracts

Our sales team provides quotations and/or samples or prototypes to our customers. Once the product sample or prototypes and quotations are accepted by our customers, we will proceed to prepare the sales agreement. The sample/prototypes will be used as a standard for appraising the end products. We generally do not enter into long-term agreements with our customers for sales of lace and lace fabrics and dyeing service. The sales agreements between our customers and us included the general terms of sales arrangement such as product quantity, price, payment terms, and delivery terms.

BUSINESS

There is no material difference between our contracts with manufacturer customers and contracts with trading entities. Set out below are the principal terms of the sales contracts typically entered into with our customers.

Principal terms	Summary
Details of products	The purchase order sets out the product type, quantity, unit price and total purchase amount
Term of contract	Generally within one to three months to delivery all the quantity as specified
Credit term	Usually between 30–60 days
Payment term	Usually bank transfer, or otherwise specified
Delivery term	Depends on case by case basis, the contract will specify whom to be responsible for the cost of delivery of products
Return or exchange of products	We may arrange product return or exchange if there is a product quality issue, notification should be made generally within 10 days after goods arrival
Liability for breach of contract	We shall be responsible for the quality of our products, and our customers shall be responsible for punctual payment

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major disputes with our customers in the major terms of our sales agreements which would materially affect our financial conditions and operating results.

Pricing policy, settlement and credit terms

During the Track Record Period, we adopted a cost-plus policy to determine the selling prices of our products, which principally took into account factors such as costs of materials, labour and manufacturing overhead and mark-up. The mark-up varies case by case but is generally determined by factors such as our relationship with the customer, the specifications and functionality of the products and the research and development effort we have expended on the products.

BUSINESS

During the Track Record Period, our Group's sales were mainly denominated in RMB and USD. Our customers generally settled our payments by way of acceptance bill and telegraphic transfer. For new customers we required 30% deposit and full payment prior to delivery. For long-term customers, we generally grant a credit period of 30 to 60 days from the dates of goods sold or delivered based on factors such as scale of operation, years of relationship with the customer and historical payment record.

During the Track Record Period and up to the Latest Practicable Date we had not experienced any major default in payments or bad debts which would materially affect our financial conditions and operating results. For details regarding the historical impairment of our trade receivables and allowance for doubtful debts, please refer to the section headed "Financial Information – Selected Items of Consolidated Statements of Financial Position – Contract assets, trade and bills receivables – Trade and bills receivables" in this prospectus.

Delivery

Most of our customers of sales of lace and lace fabrics and dyeing service are located in the PRC. For the customers of our lace, most of the customers require us to deliver our products to them. For the customers of our dyeing services, most of the customers would be responsible for arranging the logistics, including the delivery and pick up of their lace to and from our dyeing factory. For sales of lace and lace fabrics to overseas customers, we generally rely on third party logistics companies to deliver our products to the domestic port on Freight On Board (FOB) or Cost, Insurance, and Freight (CIF) basis. We are generally required to pay for the transportation costs to the domestic port, before shipping to the customers' designated location.

Product return policy and warranty

We carry out internal quality control assessments to ensure that the finished products comply with the specifications or quality standards required by our customers. Our customers inspect and examine the finished products at our factories before delivery to their designated delivery locations or before collecting the finished products.

Our Directors confirm that we did not receive any material complaint from our customers and did not encounter any material incident of product return during the Track Record Period and up to the Latest Practicable Date.

PRODUCTION

Production process

Our production process generally involves (i) weaving which takes place at the weaving factory and (ii) dyeing which takes place at the dyeing factory. Depending to the instruction of customers, we process polyamide filament yarn or polyamide high-stretch filament yarn into uncoloured or coloured lace. We also provide singled-out dyeing service for customers who provide their own fabrics, mainly lace and swim wear fabrics for us to work on.

(i) *Lace weaving*

The chart below illustrates the production process of lace weaving, which mainly takes place in the weaving factory:

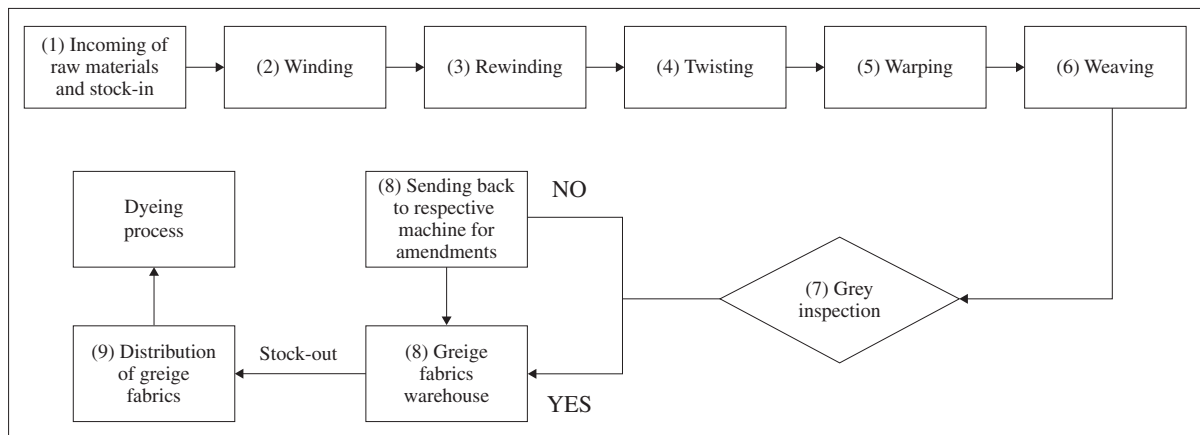





Image of workstation	Description of process	Typical lead time
	<p>(1) Incoming of raw materials, stock-in and requisition (來料、入庫及領料)</p> <p>We procure the raw materials such as polyamide filament yarn, polyamide high-stretch filament yarn and other types of filament yarn by our procurement department. The raw materials will be placed into our warehouse for storage. The production department will withdraw the suitable amount of raw materials when we confirmed the order of our customers.</p>	10–20 days
	<p>(2) Winding (絡紗) and (3) Rewinding (倒紗)</p> <p>With two types of automatic winding machine, the bobbin cones with polyamide filament yarn or polyamide high-stretch filament yarn will be unwind according to the size required by the specific lace pattern. The original raw materials in 20cm bobbin cones will be separated into standard sized 9cm bobbin cones to facilitate the weaving process.</p>	4–6 days
	<p>(4) Twisting (捻線)</p> <p>With the automatic twisting machine, multiple polyamide filament yarns will be twisted and combined into a bundle of threads for future use and processing.</p>	3–5 days

Image of workstation	Description of process	Typical lead time
	<p>(5) Warping (整經)</p> <p>With the two types of automatic warping machine, bobbin cones with polyamide filament yarn or polyamide high-stretch filament yarn on it will be arranged in long length parallel to one another evenly with application of certain tension and rounding onto a beam.</p>	2–5 days
	<p>(6) Weaving (織造)</p> <p>The process of interlacing two parallel yarns to cross each other at right angles according to technical requirements to produce greige fabric. The warp runs lengthwise and the weft runs perpendicular to the warp, the interwoven of which produces greige fabric.</p>	7–30 days

Image of workstation	Description of process	Typical lead time
	<p>(7) Grey inspection (胚檢)</p> <p>The quality of greige fabric will be inspected by our staff and to ensure that it conforms to the required standards of both our Group and our customers. The test on the greige fabric include visual checking and sample testing. Please see “Business – Quality control” for further details.</p> <p>On the other hand, if the production schedule of the Group is full or certain specific types of greige fabrics are required, our procurement department may decide to procure semi-finished griege fabric or lace from our suppliers to meet the production schedule^(note). The quality of greige fabric will be inspected in similar ways as greige fabrics produced by our Group internally.</p>	1–2 days
	<p>(8) Sending back to respective machine for amendments (返機) or transport to greige fabric warehouse (坯布倉庫)</p> <p>After inspection, the defective greige fabrics identified by the quality control department will be sent back to the respective machines for further handling and amendment by technicians, or sent back to the suppliers if it was purchased from third party. Other fabrics approved by the quality control department will be send to the semi-finished goods warehouse and stored according to the specification.</p>	1–2 days

BUSINESS

Notes:

As for greige fabrics we purchased for further processing purpose, we purchased from 13, four, 13 and two suppliers for each of the three years ended 31 December 2019 and six months ended 30 June 2020, costing approximately RMB11.5 million, RMB4.0 million, RMB3.9 million and RMB1.6 million, representing approximately 9.6%, 3.2%, 2.8% and 2.5% of our total cost of sales over the same period, of which the greige fabrics were further processed into our lace sales generated revenue of approximately RMB15.4 million, RMB5.0 million, RMB6.0 million, and RMB3.1 million, representing sales volume of approximately 206,000 kg, 99,000 kg, 79,000kg, and 35,000 kg, with gross profit margin of approximately 19.5%, 19.9%, 26.8% and 31.7%, for each of the three years ended 31 December 2019 and six months ended 30 June 2020, respectively.

The amount of such purchases decreased from approximately RMB11.5 million for FY17 to approximately RMB4.0 million for FY18 was primarily due to our replacement of four lace weaving machines in December 2017 (Multibar Jacquard Raschel warp knitting machine* (多梳賈卡拉舍爾經編機)), which enabled us to weave greige fabrics made out of very fine filament and in higher density, and thus reduced our necessity to procure certain specific types of greige fabrics from suppliers. The amount of such purchases remained at a similar level at approximately RMB4.0 million for FY18 to approximately RMB3.9 million for FY19. The amount of such purchases decreased from approximately RMB2.3 million for 1H19 to approximately RMB1.6 million for 1H20 was primarily due to the total quantity of lace we produced decreased from approximately 450,000 kg for 1H19 to approximately 340,000 kg for 1H20, which is in line with the respective sales trend over the same period. For each of the three years ended 31 December 2019 and six months ended 30 June 2020, the respective gross profit margin of 19.5%, 19.9%, 26.8% and 31.7%, respectively, which were generally lower than our gross profit margin for overall lace products of 24.1%, 31.1%, 38.5% and 37.7%, respectively, over the same period, as the price we paid for semi-finished products were generally higher than the cost to produce by ourselves.

As for the lace we purchased for further processing purpose, we purchased from seven, two, three and two suppliers for each of the three years ended 31 December 2019 and six months ended 30 June 2020, costing approximately RMB5.2 million, RMB5.7 million, RMB7.4 million and RMB0.7 million, representing 4.4%, 4.5%, 5.4% and 1.1% of our total cost of sales over the same period, of which the lace we purchased were further processed into our lace sales with generated revenue of approximately RMB5.5 million, RMB6.1 million, RMB8.4 million, and RMB0.8 million, representing sales volume of approximately 74,000 kg, 80,000 kg, 111,000 kg, and 8,000 kg, with gross profit margin of 5.6%, 6.4%, 10.9% and 12.6%, for each of the three years ended 31 December 2019 and six months ended 30 June 2020, respectively.

The amount of such purchases increased from approximately RMB5.2 million for FY17 to approximately 5.7 million for FY18 was primarily due to the increase in sales volume of our lace from approximately 820,000 kg for FY17 to approximately 924,000 kg for FY18. The amount of such purchases increased from approximately RMB5.7 million for FY18 to approximately RMB7.4 million for FY19 was primarily due to the surge in demand for our lace products in the first quarter of 2019 that our Directors believed primarily caused by the regulatory measures implemented in Shantou City suspending all the dyeing factories, which caused a number of lace manufacturers unable to source dyeing services to support their production. To accommodate the surge in demand and to facilitate our sale of lace which involve dyeing process while relieving the heavy loading to our lace dyeing production lines, we procure colored lace from suppliers for further process, such as trimming into our required share and ironing to set the shape firm. The amount of such purchases decreased from approximately RMB3.4 million for 1H19 to approximately RMB0.7 million for 1H20, primarily due to the negative impact of COVID-19 that delayed or reduced demand for lace in 1H20. For each of the three years ended 31 December 2019 and six months ended 30 June 2020, the respective gross profit margin of 5.6%, 6.4%, 10.9% and 12.6%, respectively, which were generally lower than our gross profit margin for overall lace products of 24.1%, 31.1%, 38.5% and 37.7%, respectively, even lower than the sales derived from the purchases of greige fabrics, over the same period, as (i) the price we paid for semi-finished products were generally more expensive than the cost to produce by ourselves, and (ii) lace is closer to the finished products when compared to greige fabrics and thus generally priced higher than greige fabrics and further reduce our profit margin.

Although the utilisation rate of our lace weaving production lines reached the highest of approximately 98.9% in FY18 from 83.4% in FY17, and remained stable at approximately 85.5% and 85.0% in FY19 and 1H20, respectively, it represents an average of the particular year/period during the Track Record Period only. From time to time, if we encounter occasions such as (i) our remaining lace weaving production capacity is not large

enough to cope with the production demand; (ii) certain ad hoc customers' orders require us to deliver in a very short time, and rushing our in-house production to meet the tight schedule would jeopardise our production schedule of those already in progress; and (iii) our production capacity would be full after taking up the production by our production lines and would deprive us from taking other more profitable customers' orders under negotiation, we may choose to purchase semi-finished greige fabrics or lace to meet such demand.

(ii) Lace dyeing

The chart below illustrates the production process of lace dyeing, which mainly takes place in the dyeing factory:

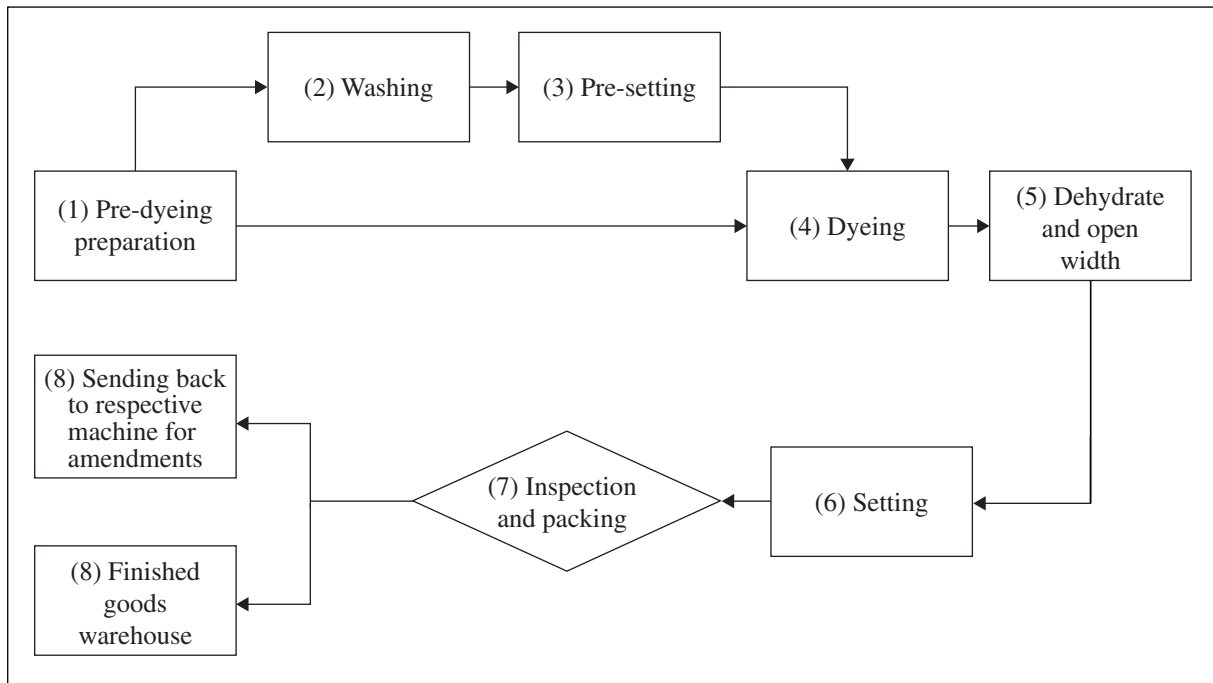




Image of workstation	Description of process	Typical lead time
	<p>(1) Pre-dyeing preparation (打樣開工藝)</p> <p>Through the computerized software, our research and development team members invent patterns for the client to choose or the client will provide their own pattern for us for further handling. We will convert the patterns into the suitable format for the dyeing machine and select the suitable dyes to create a sample for the customers.</p>	2–5 days
	<p>(2) Washing (水洗)</p> <p>Through the shrinking oil-removing washing machine, degreasers will be added and the greige fabrics or fabrics provided by our customers will be washed in a large amount of water in order to remove the grease and shrink the lace into a suitable size. This procedure allows the greige fabrics or fabrics provided by our customers to remain smooth and facilitate the attachment of colours at the later stage.</p>	1–2 days
	<p>(3) Pre-setting (預定型)</p> <p>For some specific lace patterns or fabrics that requires three-dimensional sense, pre-setting with the setting machine can increase the destiny of the fabrics, thus improving the three-dimensional sense of the lace patterns.</p>	1–2 days

Image of workstation	Description of process	Typical lead time
	<p>(4) Dyeing (染色)</p> <p>The greige fabrics or fabrics provided by our customers will be dyed in dyeing machines. Different additives and dyes are added to the dye bath for scouring and the additives will be heated at high temperatures to strengthen the interaction between the dye and the product.</p>	1–2 days
	<p>(5) Dehydrate and open width (脱水展幅)</p> <p>The dyed wet fabrics will undergo the dehydration process performed by a centrifuging machine. The dried fabrics will then be sent to the scutcher for opening its width and smoothening its surface to facilitate the setting process.</p>	0.5–1 days
	<p>(6) Setting (定型)</p> <p>The coloured lace or fabrics provided by our customers will then be sent to the setting machine again for setting. With the high temperature steam and additives added to the coloured lace or fabrics, the coloured lace or fabrics will be set in a favourable shape which meet the requirement of our customers.</p>	1–2 days

BUSINESS

Image of workstation	Description of process	Typical lead time
	<p>(7) Inspection and packing (檢驗包裝)</p> <p>The quality of finished goods will be inspected by our staffs to ensure that it conforms to the required standards of both our Group and our customers. Please see “Business – Quality control” for further details.</p> <p>The finished goods will be packed by a rolling machine which will transfer the lace onto a roll according to the size and specifications of the order.</p>	1–2 days
	<p>(8) Sending back to respective machine for amendments (返機) or transport to finished goods warehouse (成品倉庫)</p> <p>After inspection, the defective finished goods identified by the quality control department will be sent back to the respective machines for rework and handling. Other finished goods approved by the quality control department will be sent to the finished goods warehouse and stored according to the specification and colour.</p>	7–10 days

Production facilities and capacity

During the Track Record Period, all production activities carried out by us were conducted at our production facilities, all of which are located in Fuzhou City, Fujian, the PRC with a total gross floor area of approximately 62,000 sq.m. Our Fuzhou Production Facilities operates around 306 days per year. For 1H20, our actual production volume for weaving of lace and dyeing of self-produced lace or customer-provided lace was approximately 374 tonnes and 5,707 tonnes, respectively.

BUSINESS

Our total investments in the technical upgrade during the Track Record Period amounted to approximately RMB25.4 million, comprising approximately RMB14.8 million for acquiring additional machines, such as dyeing machines and setting machines; and approximately RMB17.6 million for constructing new wastewater purifying and distillation system and gas purifying and air pollutant system for environmental protection.

The table below sets out our production capacity and utilisation rate of our production lines for lace dyeing and lace weaving during the Track Record Period:

	Year ended 31 December								
	2017			2018			2019		
	Designated	Actual	Utilisation	Designated	Actual	Utilisation	Designated	Actual	Utilisation
	production	production	rate	production	production	rate	production	production	rate
	capacity (Note 1) KG ('000)	volume KG ('000)	(Note 2) %	capacity (Note 1) KG ('000)	volume KG ('000)	(Note 2) %	capacity (Note 1) KG ('000)	volume KG ('000)	(Note 2) %
Lace dyeing (Note 3)	9,623	8,168	84.9	9,720	9,733	100.1	10,368	12,222	117.9
Lace weaving (Note 3)	998	832	83.4	957	946	98.9	955	817	85.5

Six months ended 30 June 2020

	Designated production capacity (Note 1) KG ('000)	Actual production volume KG ('000)	Utilisation rate (Note 2) %
Lace dyeing (Note 3)	4,860	5,707	117.4
Lace weaving (Note 3)	399	348	85.0

Notes:

1. The designated production capacity represents the maximum annual production volume at the bottleneck of the production processes, being 12 setting machines for dyeing process and 42 lace weaving machines for weaving process. The calculations were arrived by multiplying (i) the actual factory working days times daily working hours less re-calibration hours, by (ii) the designated hourly capacity per machine and number of machines, assuming no major machinery or equipment breakdown.
2. The utilisation rate is derived by dividing our actual production volume for the relevant year by our annual production capacity for the relevant year.
3. The decrease in utilisation rate in FY19 from FY18 for lace weaving was mainly due to the increase in average selling price which caused a reduction in demand volume, while for lace dyeing, the utilisation rate exceeded 100% was due to the increase in demand of dyeing service that results in overtime work by our workmen.

BUSINESS

Machinery and equipment

Our Fuzhou Production Facilities is equipped with a variety of machinery and equipment for the different stages of production of lace and for providing dyeing service. Notwithstanding that, the machinery and equipment generally have a useful life of approximately five to 15 years. The table below sets forth the major functions and weighted average remaining useful life of our major production machinery and equipment as at 30 June 2020:

Name of the machinery and equipment	Quantity	Principal functions	Weighted average age (approximately) years	Remaining useful life years
For dyeing services				
<i>Setting machines</i>				
Stenter setting machine* (拉幅定型機)	7	Setting the finished goods into suitable shape	6	9
Dongyang Setting machine* (東陽定型機)	5	Setting the finished goods into suitable shape	13	2
<i>Dyeing machines</i>				
Multi-purpose dyeing machine* (百搭染色機)	12	Dyeing of greige fabrics	10	5
Dual flow fabric dyeing machine* (雙液流染色布機)	16	Dyeing of greige fabrics	4	11
Dual flow dyeing machine* (雙液流染色機)	52	Dyeing of greige fabrics	8	7
<i>Other machines</i>				
Shrinking oil-removing washing machine* (除油水洗機)	2	Removing excessive grease on the greige fabrics or lace	5	10
For manufacturing of lace				
<i>Lace weaving machines</i>				
Computerized lace braiding machine* (電腦花邊機)	28	Weaving of lace patterns	13	2
Raschel warp knitting machine* (拉舍爾經編機)	10	Weaving of lace patterns	7	8
Multibar Jacquard Raschel warp knitting machine* (多梳賈卡拉舍爾經編機)	4	Weaving of lace patterns	2	13
<i>Other machines</i>				
Twisting machine* (加撚機)	3	Twisting filaments into a bundle of threads	10	5
Warping machine* (整經機)	11	Arranging the filaments into a suitable length and position for further steps	9	6

Notes:

1. The weighted average age of machinery and equipment is calculated based on multiplying the age of the respective machinery and equipment, by the carrying amount of the respective machinery and equipment, divided by the carrying amount of the machinery and equipment belong to same type.
2. The remaining useful life of the machinery and equipment is calculated based on the estimated useful life deducted the weighted average age of the machinery and equipment.

Repair and maintenance

We implement a series of repair and maintenance procedures for our machinery and equipment. Our production team conducts basic routine checks on our machinery and equipment regularly and detailed checks annually. We maintain detailed records on repair and maintenance work and have our own hardware warehouse to increase the efficiency of repairing.

The estimated useful lives of our machinery and equipment is five to 15 years. As at 30 June 2020, the majority of our major production machinery and equipment are over eight years old. We compiled a handbook of the guidelines for the operation and maintenance of our production facilities. The handbook contains the schedules, procedures and responsibilities related to the repair and maintenance of our machinery and equipment. For each of the FY17, FY18, FY19 and 1H20, our costs incurred for the repair and maintenance of our machinery and equipment was approximately RMB0.4 million, RMB0.6 million, RMB0.6 million and RMB0.8 million, respectively.

PROCUREMENT

Major raw materials

Our principal raw material for the manufacture of lace are polyamide filament yarn and polyamide high-stretch filament yarn. As for our provision of dyeing services, the principal raw materials are different colours of dyes. For each of the FY17, FY18, FY19 and 1H20, our total cost of raw materials consumed accounted for 50.6%, 53.7%, 49.5% and 46.1% of our total cost of sales, respectively. During the Track Record Period, we mainly purchased our raw materials from PRC.

Prices of supplies are confirmed by us with reference to the quotation made by the suppliers on an order-by-order basis. During the Track Record Period, we did not experience any material fluctuation in cost of raw materials that caused material impact on our business. For further details of the cost of sales during the Track Record Period, please refer to the section headed “Financial Information – Selected items of consolidated income statement – Cost of Sales”.

Our suppliers

Our suppliers are primary manufacturers of polyamide filament, polyamide high-stretch filament, dyes and greige fabric and lace that are based in PRC. We did not enter into long-term supply agreements with our raw material suppliers but place individual orders for our raw materials. However, we did establish long-term relationship with our major raw materials supplier by maintaining a list of approved suppliers and will ask for a quotation of price before each procurement, thus comparing the price among our suppliers. Our Directors believe this enables us to have better control over the quality of the raw materials and increase our bargaining power during price negotiation. We maintain more than seven years of business relationship with half of our top five suppliers for FY19 and 1H20. Generally, we settle our purchase in RMB by electronic bank draft or telegraphic transfer which is the common practice of the industry. Our suppliers generally bears the delivery costs and any losses which they may incur due to any delay in delivery or product defeats caused by them.

Before we engage a new supplier, we will look at the following factors, including but not limited to whether they provide high quality raw materials, whether they maintain a high standard on environmental protection and comply with relevant laws on environmental issues, whether price is comparable to market rate and location of their factories. We maintain a list of approved suppliers internally and review it annually according to the certificates and samples provided by them. We will conduct random sampling inspection when we received the raw materials to ensure the standard of raw materials meets our requirement and the standard stipulated on the contract between us and the supplier. As at the Latest Practicable Date, we had more than 150 approved suppliers on our list.

BUSINESS

Top five suppliers

For each of the FY17, FY18, FY19 and 1H20, purchases from our largest supplier amounted to RMB14.0 million, RMB8.9 million, RMB9.6 million and RMB4.3 million, respectively, representing 20.9%, 13.4%, 13.8% and 16.8% of our total purchases during the corresponding periods. Purchases from our five largest suppliers amounted to RMB36.4 million, RMB33.5 million, RMB36.2 million and RMB13.4 million, respectively, representing 54.5%, 50.6%, 52.2% and 52.8% of our total purchases during the corresponding periods. The table below sets out the basic information about the five largest suppliers for the periods indicated:

FY17

Supplier	Note	Materials purchased	Purchase costs RMB'000	% of total purchases	Credit terms	Commencement year of business relationship
Supplier A	(1)	Greige fabrics and lace	13,955	20.9	60 days after monthly statement	2016
Supplier B	(2)	Fuel	6,004	9.0	60 days after monthly statement	2010
Supplier C	(3)	Yarn	5,528	8.3	Cash on delivery	2012
Supplier D	(4)	Dyes and additives	5,525	8.3	90 days after goods arrival	2016
Supplier E	(5)	Fuel	5,368	8.0	60 days after monthly statement	2017

BUSINESS

FY18

Supplier	<i>Note</i>	Materials purchased	Purchase costs <i>RMB'000</i>	% of total purchases	Credit terms	Commencement year of business relationship
Supplier A	(1)	Greige fabrics and lace	8,914	13.4	60 days after monthly statement	2016
Supplier F	(6)	Yarn	7,062	10.7	cash on delivery	2006
Supplier D	(4)	Dyes and additives	6,079	9.2	90 days after arrival of goods	2016
Supplier C	(3)	Yarn	6,016	9.1	Cash on delivery	2012
Supplier E	(5)	Fuel	5,457	8.2	60 days after monthly statement	2017

FY19

Supplier	<i>Note</i>	Materials purchased	Purchase costs <i>RMB'000</i>	% of total purchases	Credit terms	Commencement year of business relationship
Supplier A	(1)	Greige fabrics and lace	9,598	13.8	60 days after monthly statement	2016
Supplier G	(7)	Fuel	8,048	11.6	60 days after monthly statement	2018
Supplier H	(8)	Dyes and additives	6,732	9.7	60 days after monthly statement	2006
Supplier F	(6)	Yarn	6,017	8.7	cash on delivery	2006
Supplier C	(3)	Yarn	5,801	8.4	cash on delivery	2012

BUSINESS

1H20

Supplier	Note	Materials purchased	Purchase costs RMB'000	% of total purchases	Credit terms	Commencement year of business relationship
Supplier H	(8)	Dyes and additives	4,251	16.8	60 days after monthly statement	2006
Supplier G	(7)	Fuel	3,177	12.5	60 days after monthly statement	2018
Supplier I	(9)	Fuel	2,322	9.2	60 days after monthly statement	2019
Supplier A	(1)	Greige fabrics and lace	2,011	7.9	60 days after monthly statement	2016
Supplier F	(6)	Yarn	1,628	6.4	cash on delivery	2006

Notes:

- (1) Supplier A is a private limited liability company incorporated in PRC since October 2012 with a registered capital of RMB10 million and total assets of approximately RMB18.5 million as at the end of 2018, which is mainly engaged in production and sales of greige fabrics and lace. It is an Independent Third Party to our Group.
- (2) Supplier B is a private limited liability company incorporated in PRC since December 2007 with a registered capital of RMB20 million, which is principally engaged in trading of coal. It is an Independent Third Party to our Group.
- (3) Supplier C, a private limited liability company incorporated in the PRC since June 2010 with a registered capital of RMB335 million and employed more than 500 employees, which is principally engaged in research and development, production and sales of yarn. It is an Independent Third Party to our Group.
- (4) Supplier D is a private limited liability company incorporated in the PRC since September 2000 with a registered capital of RMB5 million and total assets of approximately RMB197.4 million as at the end of 2018, which is principally engaged in the production and sales of dyes and additives. It is an Independent Third Party to our Group.
- (5) Supplier E is a private limited liability company incorporated in the PRC since May 2015 with a registered capital of RMB15 million, which is principally engaged in trading of coal. It is an Independent Third Party to our Group.
- (6) Supplier F is a company listed on Shenzhen Stock Exchange with total revenue of RMB3,813 million in 2018, which is mainly engaged in the research and development, production and sales of textiles and related products, including yarn, fiber and cloth. It is an Independent Third Party to our Group.
- (7) Supplier G is a private limited liability company incorporated in the PRC since March 2018 with a registered capital of RMB16 million, which is principally engaged in trading of coal. It is an Independent Third Party to our Group.

BUSINESS

- (8) Supplier H is a private limited liability company incorporated in the PRC since March 2001 with a registered capital of RMB10 million, which is principally engaged in production and sales of dyes and additives. It is an Independent Third Party to our Group.
- (9) Supplier I is a private limited liability company incorporated in the PRC since January 2019 with a registered capital of RMB15 million, which is principally engaged in trading of coal. It is an Independent Third Party to our Group. The legal representative, executive director, and the majority shareholder of Supplier I approached the Group in early 2019 in view of entering into a sales and purchase agreement relating to coal with the Group. Having considered that (i) Supplier I is situated in significantly closer proximity to the Group, which can help the Group to significantly reduce its coal inventory, when compared to other coal suppliers of the Group; (ii) the price and quality of the coal offered by Supplier I were similar to that supplied by other coal suppliers of the Group in FY19 and 1H20, and (iii) Supplier I has maintained stable quality and supply of the coal to the Group in FY19, the Group decided to have more coal purchases from Supplier I in 1H20 despite its short operating history.

INVENTORY CONTROL

Our inventories consist of raw materials, and semi-finished goods.

We operate a continuous production cycle by maintaining an average inventory level of raw materials to meet approximately one to two months of production demand to manage any shortage, delay in supply of and fluctuations of prices of raw materials. We monitor our inventory levels through ERP system which enables us to check the inventory status on a real-time basis to manage the level of stock. Our warehousing department conducts physical inventory taking at our production facility on a monthly basis to ensure accuracy of our inventory record and inspect the physical condition of our inventory.

Since we produce lace products generally on an order-by-order basis, we will not stock too many raw materials besides the essential raw material such as polyamide filament yarn. We will order the other specific raw materials for our customer after we received their production order. We believe our raw materials are not obsolete and slow moving and do not have expiration dates. However, we will still carry out an inventory review and an ageing analysis on a regular basis. We make provision for obsolete and slow-moving inventories of raw materials that are no longer suitable for use in production or sale. A number of factors including historical and forecast consumption of our raw materials and marketability of our products are taken into account when we consider whether to make appropriate provision.

Please see “Financial Information – Selected items of consolidated statements of financial position – Inventories” for further details of our inventory balance and inventory turnover days during the Track Record Period.

QUALITY CONTROL

We have a strong commitment to attain high quality in our production process. Our Directors believe that an effective control system is essential for us to produce products in high quality and sustain our relationship with customers and suppliers for the long-term. In general, we will conduct quality checks at different stages of production, including (i) initial quality check for raw materials, (ii) checking against our prototype of greige fabrics according to the

specification from our customers, such as pattern and dimension of our lace and obtain approval from our customers before bulk production; and (iii) inspecting finished lace against any snagged yarns to ensure the number of weaving defects is below the agreed level.

We are currently using the total quality management system which allows us to monitor the quality of our products in an all-rounded respective. Our quality management system has complied with the standard of GB/T 19001-2016/ ISO9001:2015 Quality Management Systems Requirements and awarded a certificate for the design, and production of warp knitted lace (針織經編花邊), on 11 October 2018, which remains valid until 10 October 2021. The certification process involves subjecting our production process and quality management system to annual review. Also, we fully comply with domestic industry standards such as FZ/T 73027-2016 Textile Industry Standard (Warp Knitted Lace) of the PRC* (中華人民共和國紡織行業標準 (針織經編花邊)). We have also been accredited with, among others, ISO 9001:2015 since November 2015 for quality management system for our design and production of lace and OEKO-TEX® Confidence in Textiles STANDARD 100 since September 2018, which shows that the quality of our products meets the international stringent requirements on product safety.

As at 30 June 2020, our lace quality assurance team has 11 staff, led by a supervisor with over seven years of relevant experience and a dyeing services quality assurance team of 30 staff, led by a supervisor with over 20 years of experience. The two teams are supported by four quality control inspectors. Our quality assurance team is in-charge of the overall implementation of the relevant quality control measures in the respective aspects at the various production processes and the finished products, and identify any quality control issues.

For each of FY17, FY18, FY19 and 1H20, our Group incurred approximately RMB2.9 million, RMB3.1 million, RMB3.6 million and RMB1.7 million in quality control, respectively.

Quality Control on the incoming raw materials

The procurement department is responsible for procuring raw materials which are necessary for fulfilling the product specification as requested by our customers. Major raw materials, such as dye, polyamide filament and polyamide high-stretch filament, are sourced through our approved suppliers. To enhance our control over of the quality of raw materials provided by our suppliers, we maintain an approved list of suppliers, which are selected based on our multi-dimensional selection criteria laid down by our procurement department, one of which is the quality of the products produced, and the suppliers should maintain all the necessary and valid license to provide such raw materials in their business. We would also procure environmental friendly raw materials that generate minimal or no harmful substance to the environment during their production process. As at 30 June 2020, we had more than 150 approved suppliers on our list. We evaluate our suppliers from time to time by conducting on site assessment at their premises.

Once the raw materials arrive our Fuzhou Production Facilities, our quality control department will conduct physical inspection on the raw materials. The purpose of inspection on delivery is to ensure the quantity and basic quality of raw materials from our suppliers are in

line with our internal guidelines, and also, conform to the specification set out in our design and schematic requirements of our customers. The Company would also closely monitor the chemical substance generated from these raw materials to ensure no material harmful substance would be generated from using such raw materials.

When raw materials are found to be sub-standard during the inspection, we will return the defective raw materials to the corresponding suppliers and request the suppliers to send a new batch of raw materials to us. Our Directors confirm that due to our strict policy in selection of suppliers and inspection of raw materials, we had not experienced significant return of raw materials which could not pass our incoming raw material inspection to the suppliers for each of FY17, FY18, FY19 and 1H20.

Quality control on the greige

Apart from carrying out inspection at the beginning of the production of new orders, we would examine our prototype of greige after our budget production stage, according to the specification from our customers, such as pattern and dimension of our lace. Besides the quality control department, the person-in-charge of the weaving factory will also inspect the quality of the greige fabrics throughout the production process.

On the other hand, we will also conduct dyeing quality check after the greige fabrics have been dyed. We will undergo physical examination on the colour of the lace to make sure the dyes are attached onto the fabric evenly and conduct further examination by machines to ensure the colour and quality matches with the specification required by our customers. If the quality control department found any sub-standard products, they will send the fabrics back to the dyeing machine for amendments.

Quality control on finished products

In the final quality control procedure, our quality control department will inspect the finished lace against any snagged yarns to ensure the number of weaving defects is below the agreed level. They will also conduct a list of tests to ensure appropriate quality of the products including tests on elasticity, the level of shrinkage after washing and fastness of the colours on the finished products. Products below the agreed level with our customers will be earmarked for further detailed analysis to clarify the underlying problems. Depending on the degree of defect, these products will either be sent back to the production department for repair or simply be discarded. The quality data of the finished products is recorded by the quality control department under the ERP system and the approved finished products are sent to packaging and stored in the warehouse before delivery.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, (i) we did not receive any material claims or complaints from our customers in respect of the quality of our products; and (ii) there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

BUSINESS

Equipment and equipment inspection

We implement a series of repair and maintenance procedures of our machinery and equipment. Our production team conducts basic routine checks on our machinery and equipment regularly and detailed checks annually. We maintain detailed record on repair and maintenance work and have our own hardware warehouse to increase the efficiency of repairing.

Managing quality problems

In the event of anomalies discovered during inspection, we would instantly report to the manager of the quality control department or to the general manager of the our Group, so that we can resolve the problem with the parties concerned as quickly as possible.

Not only do we solve problems case by case, but we will also bring these cases up to a higher level for discussion and research, with a view to rooting out such problems once and for all and thereby enhancing our overall quality level.

RESEARCH AND DEVELOPMENT

Our Directors believe that our strong research and development capabilities are vital to our success and will continue to drive the growth of our business and maintain our competitiveness in the industry. We also conduct market research to keep abreast of the latest trend in the lace fabric manufacturing and dyeing industry.

As at the Latest Practicable Date, we had seven computer software copyright for design of lace pattern, five invention patents in respect of dyeing process and 39 utility model patents in respect of certain types of laces. We also had one invention patent and 10 utility model patent applications in the PRC which were pending registration. For details regarding our patents that we consider material to our business, please refer to the section headed “Appendix IV – Statutory and General Information – C. Further information about our business – 2. Material intellectual property rights of our Group – (a) Patent” in this prospectus.

We plan to strengthen our research and development centre by the recruitment of new workforce. The main focus of our research and development centre in the next five years will be on the key technology to improve the breathability and waterproof performance of lace fabric*(提高蕾絲布料透氣、防水性能關鍵技術), anti-bacteria and anti-mite lace fabric (抑菌防蟎花邊面料) and other dyeing methods.

For FY17, FY18, FY19 and 1H20, our total expenditure in connection with research and development which include staff costs and research and development project expenses, amounted to RMB8.7 million, RMB8.1 million, RMB10.9 million and RMB4.2 million, respectively.

BUSINESS

We believe that our strong research and development capabilities are vital to our success and will continue to drive the growth of our business and maintain our competitiveness in the industry. For further details on the competitive landscape of the industry in which we operate in, please refer to the section headed “Industry Overview – Competitive landscape of China’s lace weaving and dyeing industry” in this prospectus.

INSURANCE

Our Group currently maintains social security insurance for our employees in accordance with the relevant PRC laws and regulations, which includes contributions for basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. We also maintain property insurance for our production sites, office, warehouse, staff dormitories and production machineries, which cover potential loss and damages arising from industrial risk and natural disasters including fire.

Our Group does not maintain product liability insurance arising from the manufacture and sale of our products. Our Directors confirm that our Group’s insurance coverage is adequate for our operations and is in line with industry practice. As at the Latest Practicable Date, our Group had not made, nor been the subject of, any material insurance claim. There had been no product liability claims against us during the Track Record Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Due to the importance of environmental sustainability to our Group and the significance of social and economic responsibilities to us, we have adopted the following policies to provide for guidelines in relation to environmental, social and governance aspects of our business operations.

Environmental protection

Our business is subject to various PRC environmental protection laws and regulations as well as environmental regulations promulgated by the local governments where our Group operates. Under the prevailing laws and regulations in the PRC, we are subject to provisions including Environmental Protection law of the PRC (中華人民共和國環境保護法), Promotion of Cleaner Production Law of the PRC (中華人民共和國清潔生產促進法), Water Pollution Prevention and Control Law of the PRC (中華人民共和國水污染防治法), Prevention and Control of Environmental Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法), and Prevention and Control of Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法). Please see the section headed “Regulatory overview – Laws and regulations in relation to our group’s business in the PRC – Environmental Protection” for further details.

BUSINESS

Our Group is committed to operating in a manner that complies with applicable environmental laws and regulations. As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, our Group complied with all the applicable laws and regulations in the PRC relating to environmental protection in all material respects, and no penalty was imposed on our Group by any PRC governmental authorities in relation to any environmental matters. For FY17, FY18, FY19 and 1H20, our expenditure in connection with the compliance with the relevant laws and regulations in respect of relevant environmental protection laws, amounted to RMB3.8 million, RMB1.8 million, RMB9.4 million and RMB1.0 million, respectively. Our expenditure in connection with the compliance with the relevant laws and regulations in respect of relevant environmental protection laws increased from RMB1.8 million in FY18 to RMB9.4 million in FY19 primarily because the Company had conducted major machinery replacements in relation to wastewater treatment and gas purification in FY19.

Although most of our customers have not imposed any requirement on environmental standard or corporate social responsibility on our Group, our Directors are of the view that the adherence to relevant environmental protection laws and regulations is important to the long-term development and success of our Group. In addition to irreversible damage inflicted on the environment, any non-compliances with the relevant environmental protection laws and regulations may also subject our Group to complaints and/or penalties. Any such complaints and/or penalties imposed by the relevant authorities may have an adverse impact on our financial position and reputation in the industry, which may in turn affect our business outlook and implementation of our future plans. Set out below are some of the key procedures which have been adopted by our Group during the Track Record Period.

Management of sewage and air pollutants

In order to reduce the level of pollution, in 2016, we have invested approximately RMB5.7 million to equip ourselves with a sewage treatment system to collect and process wastewater to reduce hazardous substance in the wastewater generated during our dyeing process and facilities to filter air pollutants generated from our coal-burning-boiler in accordance with different national standards (GB 4287-2012 for wastewater and GB 13271-2014 for air) in the PRC. An online real-time monitoring system has also been installed to connect such facilities to environmental authority of the PRC government, ensuring that we satisfy with the pollutant emission standard at all times. We have spent continuous effort in enhancing our equipment and facilities for satisfying the increasingly stringent environmental protection requirement. During the Track Record Period, apart from incurring expenditure for compliance with requirements under environmental laws and regulations, we also spent resources for the advancement of our major sewage and air pollutants treatment on our own initiatives. As such, we incurred a total of approximately RMB17.6 million as an one-off capital expenditure to acquire different equipment and facilities in wastewater and air treatment, such as wastewater purifying and distillation system, mineral filtration system for wastewater generated during dyeing process, gas purifying and air pollutant monitoring system for air emitted from our boiler. During the Track Record Period, we did not exceed any maximum pollutants emission standards under the monitoring system and maintain a clean record with the government. With our stringent environmental protection policies in place, we have obtained a certificate for complying with the requirement

of GB/T 24001 – 2016/ISO14001:2015 for our environmental management system on 11 October 2018. The certificate will expire on 10 October 2021. Going forward, for our continued compliance with the requirement of Fujian government, we plan to upgrade our boilers to generate heat from natural gas for our dyeing services, which would significantly reduce the amount of air pollutants emitted.

Such policies provide for detailed guidelines on our Group’s strategies in accordance with environmental protection aspects of our business operations. We also have a designated environmental, social responsibility and governance working group to oversee and monitor our Group’s implementation of such policies, which reports to our Directors regularly. The implementation of such policies are recorded in accordance with the relevant environmental protection laws and regulations.

Management of climate-related risks

The climate-related risks can be divided into two major categories: (i) risks related to the transition to a lower-carbon economy and (ii) risks related to the physical impacts of climate change.

(i) Transition risks

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to our Company.

Policy actions around climate change could continue to evolve. Transition risks related to policy change include any risk that the environmental laws and regulations in China may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. For details, please refer to paragraph headed under “Risk Factors – Risks relating to our business – We as a dyeing service provider have been categorised as one of the heavily polluting industries. Any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms”.

(ii) Physical risks

Physical risks may have financial implications for our Company, such as direct damage to assets and indirect impacts from supply chain disruption. Our Group’s financial performance may be affected by changes in water availability, sourcing, and quality, or extreme temperature changes affecting the premises, operations, supply chain, transport needs, and employee safety.

During the Track Record Period and up to the Latest Practicable Date, we did not encountered any difficulty in water availability, sourcing and quality, and we did not

encountered any extreme temperature changes affecting the premises, operations, supply chain, transport needs, and employee safety that materially and adversely affecting our operation.

Moreover, our business, as a dyeing service provider, has been categorised as one of the heavily polluting industries and may cause negative impact on the climate. In particular, we use coal-burning-boiler during our production process, that could emit air pollutants causing further warming of the planet. For details of the quantitative information of air pollutants emitted by our Group, please see paragraphs headed “Pollutant Discharge Permit and the Discharge Standard” in this section.

The climate-related risks faced by our Group include the policy and regulatory risks that air pollutants emitted by our Group might exceed the regulatory acceptable level. The management recognised its social responsibility on climate change, and its role in assessing and managing these climate-related risks. As such, our Group has been planning to implement “coal-to-gas” transformation of its heating equipment from coal-burning-boiler to natural-gas-burning boiler by the end of 2021. Please see the section headed “Our Business Strategies – Continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-burning boiler” for details.

The management believes the natural-gas-burning boiler could significantly reduce the amount of air pollutants to be emitted in our production, and will continue to assess and manage the climate-related risks posed to our Group in the future.

Storage of colouring dyes and additives

We procured our principal raw materials of colouring dyes and additives from our suppliers based in PRC. Although the colouring dyes and additives are not hazardous chemicals as defined under *the Catalog of Hazardous Chemicals (2015)* (《危險化學品目錄(2015)版》) jointly promulgated by 10 PRC government authorities, including the MIIT, on 27 February 2015 and came into effect on 1 May 2015, in order to ensure the safe storage of the dyes and additives and to minimise the risk of the occurrences of any accidents, we have adopted certain measures in relation to the storage and handling of our dyes and additives during the Track Record Period, which include the following:

- Storage facilities for dyes and additives must be (i) in specialised space or storage rooms; (ii) managed by designated personnel; (iii) labelled clearly; and (iv) kitted with sufficient fire safety equipment;
- Personnel and departments which handle different dyes and additives must strictly comply with the relevant management regulations, operational procedures and fire safety guidelines; and
- Specialised containers used for the storage of dyes and additives must be labelled accordingly.

Management of waste

Apart from sewage and air pollutants treatments, we have adopted practices in relation to the separation, collection, storage and disposal of other waste during the Track Record Period in order to minimise the environmental impact of our Group. In particular, we have engaged external service providers qualified by the relevant environmental authorities of the PRC government for (i) purification, transportation and disposal of the sludge generated from waste water; and (ii) collection and disposal of the residual coal produced from our coal-burning boiler for further recycling purpose.

Energy-saving measures

By adopting measures to conserve energy during the manufacturing and dyeing, we strive to minimise the impact of our business operations on the environment. Such measures include practices to limit electricity and water wastage, guidelines on permitted usage of electronic equipment by our employees and utilisation of equipment which is energy-efficient during the Track Record Period.

For each of FY2017, FY2018, FY2019 and 1H20, our Group incurred incremental variable costs for compliance with the applicable environmental protection laws and regulations. Based on the past experience of our Group's management team, the nature of the industry and further developments of the industry, our Directors believe that the annual cost of compliance with the applicable laws and regulations relating to environmental protection will remain comparable to such costs during the Track Record Period.

Social responsibility

In achieving our social corporate goal in volunteering in the community, our Group has actively endeavoured in funding the development of less developed cities in the PRC by donation to various charitable organisations occasionally. Moreover, we have made continuous efforts to attract and retain talents in order to support our on-going business operation and development. We adopt equal opportunity principle that our recruitment and promotion of staff are based on their ability and performance. We are also committed to creating a work environment with different genders and age groups. We provide fair and equal development and learning opportunities to all staff, regardless of gender, age and personal status. Discrimination of any kind is strictly forbidden in our workplace. Compensation is also paid for overtime work according to relevant labour laws. Upon terminating any employees with dissatisfactory performance, or of any other reasons, we pay the relevant dismissal compensation in accordance with their service contracts and the relevant laws and regulations. The wellbeing of our employees are also essential to the business operations of our Group and we emphasise on the ethical treatment of our employees, through providing them with an environment to develop their careers and dedicate themselves to the development of our Group. We are committed to providing a safe and healthy working environment and have established guidelines and manuals relating to operational safety and handling of industrial accidents in order to promote occupational health and work safety. All-round training courses and events are also held by our

Group occasionally for our employees, in order to better equip our employees with required skill and knowledge and to catch up with market trend. We offer remuneration packages to our employees, which includes a number of subsidies and is subject to adjustments based on appraisal results of individual employees in order to incentivise our employees in choosing to develop a career with us. For details, please see the paragraph headed “Employees” in this section.

Governance

We strive to build long-term and stable relationships with our business partners in order to achieve positive growth in our business operations and future development. We consider our suppliers to be an integral part of the business operations of our Group and expect our suppliers to uphold the environmental, social and governance principles that we have adopted into the management of our business operations. In order to ensure that our components and raw materials meet the requisite safety and quality standards, we adopt stringent criteria in supplier selection (including but not limited to whether they provide high quality raw materials, whether they maintain a high standard on environmental protection and comply with relevant laws on environmental issues, whether price is comparable to market rate and location of their factories) and continuously monitor our existing suppliers on an annual basis, based on criteria such as product quality, product defect ratio (calculated by dividing the total number of batches of products delivered by the number of delivered batches with defective products), delivery punctuality ratio (calculated by dividing the total number of batches of products to be delivered according to contracts by the number of batches of late delivery) and responsiveness. Whether the supplier will continue to be included in our list of approved suppliers depends on the marks it achieved under our annual evaluation. The awareness of environmental protection is also one of the key criteria for us to evaluate the suppliers. We highly evaluate certain of our regular suppliers who can provide international recognitions and certificates, including but not limited to (i) ISO 14001, recognising the environmental management system in place, (ii) Bluesign® certificate, recognising textile chemical providers and the products are responsible, sustainable and is greener textile chemicals for the environment, or (iii) Standard 100 of OEKO-Tex® recognition, mainly on product safety, which also attest to socially and environmentally sound conditions in production facilities. If the aggregate marks of the supplier under our annual evaluation (i) equals to or is more than 80 marks, then the supplier will remain in our list of approved suppliers for the following year; (ii) less than 80 marks, we would ask our suppliers to make corresponding amendments and conduct the evaluation again after three months. If its marks under the evaluation equals to or is more than 80 marks, the supplier will remain in our list of approved suppliers for the following year; or (iii) equals to or less than 70 marks, the supplier will be removed from our list of approved suppliers.

We also emphasise on business integrity as key to our long-term development in order to establish long-term and stable relationships with our customers, our suppliers, our employees and other participants in the lace weaving and dyeing industry. We endeavour to uphold the business integrity of our Group by maintaining a risk management and internal control system. Our risk management and internal control system and procedures are designed to meet our specific business needs and to alleviate the risks arising from our daily operations. For details

BUSINESS

on the enhanced policies to strengthen our internal governance, see the section headed “Risk management and internal control” above.

Upon Listing, our Directors confirm that they will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

Pollutant Discharge Permit and the Discharge Standard

We are required under the PRC law to obtain a valid pollutant discharge permit for our production facilities. As advised by our PRC Legal Advisers, we had obtained all relevant pollutant discharge permit during the Track Record Period. Please refer to the paragraph headed “License and permits” in this section for details. If our Group fails to comply with the relevant laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

The following table illustrates the pollutants that we discharged and the regulatory permitted level of such discharge during the relevant period:

	Pollutant Discharge Permit						The Discharge Standard				
	Annual permitted discharge (t/a)	Permitted concentration of discharge									
		Actual discharge (t/a)					(mg/L)	Actual discharge (mg/L)			
		FY17	FY18	FY19 ⁽⁴⁾	1H20	FY17		FY18	FY19	1H20	
Air pollutants											
Particulates (顆粒物)	4.03	<i>Note 2</i>	<i>Note 2</i>	1.08	1.6	N/A	⬅️	N/A ^{<i>Note 1</i>}	➡️		
SO2 (二氧化硫)	24.05	<i>Note 2</i>	<i>Note 2</i>	24	9.17	N/A	⬅️	N/A ^{<i>Note 1</i>}	➡️		
Nox (氮氧化物)	24.35	<i>Note 2</i>	<i>Note 2</i>	16.3	9.8	N/A	⬅️	N/A ^{<i>Note 1</i>}	➡️		
Water pollutants											
CODcr	504	24.7	17.51	17.34	14.58	200	⬅️	<i>Note 3</i>	➡️		
Ammonia nitrogen (氨氮)	50.4	2.5	3.16	3.73	1.98	20	⬅️	<i>Note 3</i>	➡️		
Total nitrogen (總氮)	75.6	<i>Note 2</i>	<i>Note 2</i>	4.77	2.86	30	⬅️	<i>Note 3</i>	➡️		

Notes:

1. The Discharge Standard only regulates the concentration of the discharge of water pollutants. Therefore, the measurements of the concentration of air pollutants actually discharged are not applicable.

2. As advised by the PRC Legal Advisers, in accordance with the *Measures for Pollutant Discharge Permitting Administration (For Trial Implementation)* (《排污許可管理辦法(試行)》) promulgated by former Ministry of Environmental Protection and came into effect on 10 January 2018 and revised by the Ministry of Ecology and Environment on 22 August 2019, pollutant discharge entities subject to the key pollutant discharge licensing management shall install automatic monitoring equipment as per the pollutant discharge license provisions. Prior to 30 April 2019, the then applicable PRC laws and regulations and the then effective pollutant discharge permit of Deyun did not require Deyun to conduct the real time measurement of pollutant discharge of particulates (顆粒物), SO₂ (二氧化硫), Nox (氮氧化物) and total nitrogen (總氮). Therefore, there were no measurement of the actual discharge for these pollutants for the respective years. On 30 April 2019, the relevant administrative government authority updated the Pollutant Discharge Permit to Deyun, and the abovementioned pollutants have been included into the scope of automatic monitoring, thus Deyun has installed automatic monitoring equipment as per the Pollutant Discharge Permit, and conducted real time measurement of pollutant discharge of particulates (顆粒物), SO₂ (二氧化硫), Nox (氮氧化物) and total nitrogen (總氮) since then.
3. Given that the concentration of the discharge of water pollutants are measured on a real-time basis, data in relation to the concentration of the discharge of water pollutants during the Track Record Period is not captured. However, the Discharge Standard is used and referred to when assessing whether the Group has met the permitted levels of discharge of water pollutants under the pollutants discharge permits. On 21 August 2020, the Department of Ecology and Environment of Changle District, Fuzhou City issued confirmation confirming that our Group has satisfied the discharge standards, including but not limited to the Discharge Standard, under the pollutants discharge permits during the Track Record Period, this indicates that our Group has satisfied the Discharge Standard throughout the Track Record Period.
4. Despite the fact that, according to the applicable PRC laws and regulations and the Pollutant Discharge Permit of Deyun, Deyun only needs to conduct the real time measurement of the pollutant discharge of particulates (顆粒物), SO₂ (二氧化硫), Nox (氮氧化物) and total nitrogen (總氮) after 30 April 2020, the installation of the automatic monitoring equipment for conducting real time measurement of the discharge of the aforementioned pollutants was completed on 30 September 2018. Therefore, the actual discharge of the pollutants presented herein represents the actual discharge of such pollutants during the full financial year of 2019.

In view of the actual discharge of SO₂ for FY19 is close to the annual permitted discharge, our Group has replaced the desulphurization machines and systems in early 2020, which have decreased the emission of SO₂ for 1H20 to less than half of the actual discharge of SO₂ in FY19.

Going forward, our Group will continue to implement measures to ensure our full compliance to the regulatory requirements on pollutants discharge. Taking into account our expected increase in production capacity of approximately 20% according to our business expansion plan, the estimated increase in amount of waste water and air pollutants discharged would be significantly offset by (i) our replacement of coal-burning boiler by natural-gas-burning boiler by end of 2021; (ii) installation of a flue gas purifying treatment machine to filter the concentrated smoke to less harmful substances; and (iii) our replacement of 40 dyeing machines which would reduce the energy consumption level and amount of waste water produced by approximately 20%.

BUSINESS

Our Directors confirmed that, as mandatorily reported annually by the Company to the relevant administrative government authority to strictly comply the relevant requirements of the Pollutant Discharge Permit, the production process of our principal business did not generate environmental pollutants exceeding regulatory permitted level, and the Company has complied with all relevant pollutant emission requirements during the Track Record Period and up to the Latest Practicable Date.

Quantitative Information on the compliance status with regards to the Printing and Dyeing Industry Regulation (2017)

The following table illustrates the quantitative requirements concerning the water reuse rate and relevant consumptions with regards to the compliance status with the Printing and Dyeing Industry Regulation (2017) of the Company according to the internal records of the Company:

	Annual required reuse rate/ consumption	Actual reuse rate/ consumption			
		FY17	FY18	FY19	1H20
Reuse rate of water (%)	>40	Note	Note	60	59
Consolidated energy consumption (<i>tonne of standard coal/tonne of product</i>)	≤1.1	Note	Note	1.0	0.9
Fresh water consumption (<i>tonne of water/tonne of product</i>)	≤90	Note	Note	85	83

Note: Given that, according to the Opinion on Transformation and Upgrading of Printing and Dyeing Industry in Fuzhou promulgated by the Department of Industry and Information Technology of Fuzhou City, the requirements under the Printing and Dyeing Industry Regulation are required to be met before 31 December 2021, measurements concerning the water reuse rate and relevant consumptions with regards to the compliance status with the Printing and Dyeing Industry Regulation (2017) of the Company have only been taken since FY19.

Our Directors confirmed that the Company was well aware of and has complied with all these regulation requirements during the Track Record Period and up to the Latest Practicable Date.

OCCUPATIONAL HEALTH AND SAFETY

Our business operations in the PRC are subject to various laws and regulations relating to occupational health and work safety. For details, please refer to the section headed “Regulatory Overview – Laws and regulations in relation to our group’s business in the PRC – Labour Protection” in this prospectus.

We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, operation safety, warehouse safety, work-related injuries and emergency and evacuation procedures to promote occupational health and safety and to ensure compliance with applicable laws and regulations. Also, we will provide suitable and necessary protection equipment to our employees, i.e., earplugs, protective suits and mask to ensure their safety during work. Furthermore, we will inspect our production facilities from time to time in order to ensure that such facilities are safe for use.

During the Track Record Period, we maintain a general register with records of accidents. As advised by our PRC Legal Advisers, (i) 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 health and safety laws or regulations in the PRC; (ii) we have complied in all material respects with all relevant laws, rules and regulations in the PRC relating to health and work safety; and (iii) to the best knowledge of the Directors after due and reasonable enquires, no material litigation or claims had been brought against us with regard to work safety and labour related issues.

We have obtained a certificate for compliance with the requirement of GB/T 28001 – 2011/OHSAS 18001:2007 for our occupational health and safety management system on 11 October 2018. The certificate will expire on 11 March 2021.

During the Track Record Period and up to the Latest Practicable Date, we had not recorded any material accident. For FY17, FY18, FY19 and 1H20, our expenditure in connection with the compliance with the relevant laws and regulations in respect of occupational health and work safety responsibility were immaterial, amounted to approximately RMB0.1 million, RMB0.2 million, RMB0.1 million and RMB0.03 million, respectively. We expect the annual compliance cost of our occupational health and work obligations to remain immaterial.

Workplace accident prior to the Track Record Period

Prior to the Track Record Period, we have recorded one incident of workplace accident resulting in injury to our former worker.

In July 2011, an equipment in our workplace fall down and hurt the worker when he was trying to move the equipment. The case was brought to the court in 2013.

BUSINESS

Since our Company did not make the social insurance contribution for the respective worker at that time, in November 2013, the court ordered our Company to compensate the worker by way of monthly payment of RMB5,452 to subsidise the remaining life of the worker.

As such, the amount was expensed and provision has been made, prior to the Track Record Period, for the respective incident. During the Track Record Period, the monthly compensation of RMB5,452 was being paid to the worker. The amount paid was deducted from our remaining obligation, being recorded as other payables included in current and non-current liabilities, of approximately RMB1.8 million, RMB1.7 million, RMB1.7 million and RMB1.6 million as at 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively.

As advised by our PRC Legal Advisers, the above claim has been settled, other than that our Company shall continue to fulfill the court order by paying the monthly compensation to the worker. Furthermore, as advised by our PRC Legal Advisers, to the best knowledge of our Directors after due and reasonable enquires, as of 30 June 2020, we have made the necessary contribution to the social insurance scheme for all workers, any potential work injury claims arising from workplace accidents are expected to be mostly covered by the social insurance scheme. As such, our Directors confirmed that the claim and potential workplace accidents will not result in any material impact on the operations, financial results or financial position of our Group.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any significant incidents or accidents in relation to workers' safety.

EMPLOYEES

As of 30 June 2020, we had 526 employees, respectively. The following table sets forth the number of our Group's employees by job functions:

Job functions

Sales and marketing	25
Warehousing	20
Procurement and logistics	2
Production	357
Quality control	43
Management and administration	36
Finance and accounting	13
Research and product development	30
	<hr/>
Total	526

Recruitment

Our Group has a recruitment policy which we would recruit new employees based on departments' request. We generally recruit our workforce through online platforms, regional job fairs and references by our current employees. The candidates will be examined based on their relevant experiences, skills, knowledge, and integrity. According to our recruitment policy, we encourage our employees to refer us candidates, rewards would be given if the candidate successfully became our employees.

Training

In order to increase the overall competitiveness of our workforce, we strive to ensure that our employees are equipped with the required skill and safety knowledge when performing their duties. It has been our Group's policy to provide all-round training to its employees. Usually it includes induction training with regard to factory rules, production flow and use of machineries which is held by our manager or director; on-board training on the usage of machines and safety procedures required by our experienced senior staff for one to two month; and sometimes education opportunities depending on the job function of the employees. We will also arrange management skills training to our potential mid-level staffs to increase their ability on management. Newly recruited employees are required to attend a safety training course so that they can be familiarised with the safety standards which they are required to meet during production and in their handling of production equipment. Our Group will also hold events occasionally for our employees or allow our employees to join the trade fairs or seminars in difference provinces or cities, in order for them to catch up with market trend.

Each of our employees will receive an employee handbook which stipulates the rights and obligations of them. Basic rules such as dormitory rules, canteen management rules, factory access rules and resignation procedures will be included in the handbook and allow the employees to have constant references.

Remuneration

Our Group's employees are generally remunerated by way of fixed salary. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary review and determining the amount of bonuses. The team manager, person-in-charge of the factories and human resources department will be responsible for our performance appraisal. Our employees are also entitled to a number of subsidies, including but not limited to job-nature based subsidy, performance-based bonus and paid leave.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had seven computer software for design of lace pattern, five invention patents for dyeing process and 39 utility model patents in respect of certain types of laces. We also had one invention patent and 10 utility model patent applications in the PRC which were pending registration. For details regarding the intellectual property rights that we consider material to our business, please refer the section headed “Appendix IV – Statutory and General Information – C. Further information about our business – 2. Material intellectual property rights of our Group” in this prospectus.

To protect our intellectual property rights, we have entered into confidentiality and non-compete agreements with members of our senior management, employees of the design and development team and technical support team and/or other employees who have access to secrets or confidential information of our Group. The confidentiality and non-compete agreements prohibit such members of our senior management and/or the relevant employees from (i) disclosing confidential information of our Group such as technology know-how and trade secrets acquired or generated during the course of their employment with us; and (ii) engaging in activities and/or business that may potentially compete with our Group.

In addition to confidentiality and non-compete agreements, we will keep track of the validity period of our registered intellectual property rights and carry out renewal procedures if necessary.

We possess research and development capabilities and will constantly develop new procedures or invent new fabrics that suits the market trend. We would develop new products based on the changing market needs and customers preference by conducting market researches and attending various industry-related exhibitions to understand the market trend. In order to prevent plagiarism by our competitors, we will tend to apply for the patent as soon as possible after we created a new type of fabric or software.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. Our Directors confirm that we have not infringed any other third-parties’ intellectual rights during the Track Record Period that would have a material and adverse impact to our operation and financial position given that as at the Latest Practicable Date, concurred by our PRC Legal Advisers basing on their due search through the government official website including the China’s Enforcement Information Disclosure Website (中國執行信息公開網) and the China Judgement Online (中國裁判文書網), we did not have any pending or threatened claims against us relating to the infringement of any intellectual property rights owned by third parties.

BUSINESS

PROPERTIES

Owned properties in the PRC

The table below sets forth the particulars of our owned properties:

Location	Property right	Site area/ gross floor area (sq.m.)	Our usage
Longxia Village, Songxia Town, Changle District, Fujian, China (with postal address at No. 97 Longjiangnan Road)* (中國福建省長樂區松下鎮壠下村 (郵編地址為龍江南路97號))	Land use right	66,666	Industrial
	Building ownership	61,695	Production facility and office
Longxia Village, Songxia Town, Changle District, Fujian, China (with postal address at Long Fang Industrial Zone) (中國福建省長樂區松下鎮壠下村 (郵編地址為壠紡工業區內))	Land use right	4,241	Leased to third party at an
	Building ownership	2,131	annual rent of RMB36,000 as production facility and office

Pursuant to the lease agreement entered into between Changle Deyun Knitting Company Limited* (長樂德韻針織有限公司) (“**Deyun Knitting**”) and us on 30 December 2018, we leased the relevant properties to Changle Deyun Knitting Company Limited as its production base for a period of five years from 1 January 2019 to 31 December 2024. Deyun Knitting has been engaged in the business of lace fabric’s manufacturing. Prior to April 2016, Deyun Knitting was jointly owned by Mr. Lin Chaoyong (林朝勇) (being the brother of Mr. Lin Chaowei) and Ms. Lin Lizhen (林麗珍) (being the sister of Mr. Lin Chaowei). In April 2016, for the purpose of seeking NEEQ listing and to address the regulator’s concern on any potential future competition risk which may arise if Deyun Knitting grows and develops further, shareholders of the Group tried to convince Mr. Lin Chaoyong and Ms. Lin Lizhen to exit their investment in Deyun Knitting, Mr. Lin Chaoyong and Ms. Lin Lizhen eventually (i) disposed their entire shares of Deyun Knitting, at a consideration of RMB6 million to Mr. Lin Muquan (林木泉) and his spouse, Ms Chen Yuyun (陳玉雲) (collectively “**Lin Muquan and his spouse**”), who are Independent Third Parties of the Group and (ii) Mr. Lin Chaoyong and Ms. Lin Lizhen undertook that he/she shall not, and shall procure each of his/her close associates and/or companies controlled by him/her not to, whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group in the PRC from time to

BUSINESS

time. The consideration of the disposal was settled in April 2016. Since then, to the best knowledge of the Directors, Mr. Lin Chaoyong and Ms. Lin Lizhen have been engaging in business in other industry.

The Group leased the respective property since Deyun Knitting was still controlled by Mr. Lin Chaoyong and Ms. Lin Lizhen, at that time the shareholders of the Company and shareholders of Deyun Knitting were indeed family members. Saved as disclosed above, Deyun Knitting does not have any past or present relationship (business, family, financing, employment or otherwise) with the Group, including its shareholders, subsidiaries, directors, senior management or any of their respective associates, other than the fact that it was jointly owned by Mr. Lin Chaoyong and Ms. Lin Lizhen, who are family members of Mr. Lin Chaowei, before the disposal. To the best knowledge of the Directors, and as confirmed by Lin Muquan and his spouse, Deyun Knitting continued to lease the property after the disposal because (i) after considered the future business development of the Group, the Group was of the view that the respective property would not be used by the Group to carry out any lace manufacturing and dyeing activities from 1 January 2019 to 31 December 2024; (ii) Deyun Knitting paid rent on time and acted in compliance with the terms of the lease when it was the tenant of the respective property; (iii) the annual rent of the respective property charged by the Group was comparable to the market rate; (iv) the Group had no interest in finding a new tenant for the respective property considering that the rental income gained by the Group by leasing out the respective property was of an insignificant amount when compared to the annual revenue generated by the Group in FY18; and (iv) there may be additional risks for the Group to rent the property to unfamiliar tenant. To the best knowledge and belief of the Directors of the Group after reasonable enquiries, the rent charged by the Group is comparable to the market rent. To the best knowledge of the Directors after reasonable enquiries, there have not been any sharing of labour or other resources between the Group and Deyun Knitting. The Group shall regularly monitor and assess if there is any opportunity arises that enabling the Group to lease to any other Independent Third Parties without causing any undue effort.

The nature of the aforementioned land is rural collective-owned land (農民集體所有的土地). According to the Article 63 of the Land Administration Law of the PRC applicable at the time when the land was acquired, the land cannot be assigned, transferred or rented for non-agricultural construction, except in the case of legal transfer of the land due to bankruptcy or acquisition conforms to the general plan for the utilisation of land and legally obtained by enterprises.

As advised by our PRC Legal Advisers, the legal title, including the land use right and the building ownership of the property, has been duly obtained with the valid real estate certificate issued by the relevant competent administrative regulatory authority, the legal title of the property was properly transferred to Deyun due to acquisition, whereas the transfer of land due to acquisition is explicitly specified to be exempted under the Article 63.

In addition, the usage of the property remains at industrial use and conformed to its approved usage. According to the confirmation dated 17 January 2020 issued by the Fuzhou Changle Natural Resources and Planning Bureau* (福州市長樂區自然資源和規劃局), our Group

BUSINESS

has legally and effectively acquired the collective land use right, and we can use the land in accordance with the relevant laws and regulations. As advised by our PRC Legal Advisers, being the land administration department of Changle District, Fuzhou, the Fuzhou Changle Natural Resources and Planning Bureau is responsible for, among others, all matters in relation to the unify registration of the titleship of natural resources and real estates within Changle District and therefore is the competent authority to provide the confirmation.

Given (i) valid title certificate has been obtained, (ii) the transfer due to acquisition is exempted under the Article 63, (iii) the usage of the property remains at its industrial use and conformed with the approved usage, (iv) the confirmations issued by the Fuzhou Changle Natural Resources and Planning Bureau, the PRC Legal Advisers are of the view that it is legal for the Group to lease the property in Long Fang Industrial Zone for industrial use.

AWARDS AND CERTIFICATES

The following table sets out the major certificates granted to us as at the Latest Practicable Date:

Award/Certificate	Awarding authority/ Accrediting body	Month of award
High and New Technology Enterprise (高新技術企業)	Department of Science and Technology of Fujian, Department of Finance of Fujian and Fujian Provincial Tax Service, State Taxation Administration	From December 2019 to December 2022
OEKO-TEX® Confidence in Textiles STANDARD 100 Certificate	OEKO-TEX® Association <i>(Note 1)</i>	From September 2018 to October 2020
Environmental Management System Certification in conformity with GB/T24001-2016/ ISO14001: 2015 (環境管理體系認證證書 (符合GB/T24001-2016/ ISO14001: 2015標準))	Beijing ZhongLian Tianrun Certification Centre (北京中聯天潤認證中心) <i>(Note 2)</i>	From October 2018 to October 2021

BUSINESS

Award/Certificate	Awarding authority/ Accrediting body	Month of award
Occupational Health and Safety Management System Certification in conformity with GB/T28001-2011/OHSAS 18001:2007 standard (職業健康安全管理體系認證證書 (符合GB/T28001-2011/OHSAS 18001:2007標準))	Beijing ZhongLian Tianrun Certification Centre (北京中聯天潤認證中心) <i>(Note 2)</i>	From October 2018 to March 2021
Quality Management System Certification in conformity with GB/T19001-2016/ISO 9001: 2015 (質量管理體系認證證書 (符合GB/T19001-2016/ISO 9001: 2015標準))	Beijing ZhongLian Tianrun Certification Centre (北京中聯天潤認證中心) <i>(Note 2)</i>	From November 2015 to October 2021
China Knitting Industry Association (Lace division) Second session of the President Unit Executive vice president unit* 中國針織工業協會花邊分會第二屆會長委員會常務副會長單位	China Knitting Industry Association (Lace division) 中國針織工業協會花邊分會 <i>(Note 3)</i>	From 2018 to 2022
Famous trade mark of Fujian* (福建省著名商標)	Fujian Provincial Administration of Industry and Commerce (福建省工商行政管理局)	December 2016
Top 10 competitive enterprise of the weaving industry of China (2005-2015)* (2005-2015年度中國經編行業競爭力十強企業)	China Knitting Industry Association (Weaving division)* (中國針織工業協會經編分會) <i>(Note 3)</i>	November 2015

BUSINESS

Award/Certificate	Awarding authority/ Accrediting body	Month of award
Provincial Level Enterprise Technology Centre* (省級企業技術中心)	Fuzhou Economics and Trade Commission (福州市經濟貿易委員會), Department of Science and Technology of Fujian (福建省科學技術廳), Department of Finance of Fujian (福建省財政廳), National Taxation Bureau of Fujian (福建省國家稅 務局), Local Taxation Bureau of Fujian (福建省 地方稅務局), Fuzhou Customs District PRC (福州海關) Xiamen Customs District PRC (廈門海關)	December 2009

Notes:

1. OEKO-TEX® Association is a research and test body comprised of 18 independent institutes in the field of textile and leather ecology in Europe and Japan, responsible for the development of test methods and limit values of the basis for the standards of product labels, production facilities certification, chemicals certification and status report.
2. Beijing ZhongLian TianRun Certification Centre (北京中聯天潤認證中心) was an accredited management systems certification company based in Beijing, the PRC.
3. China Knitting Industry Association (中國針織工業協會) (CKIA) is a national, industrial, non-profit body formed by entities and individuals who are engaged in the production and research of knitting products. Lace Division and Weaving Division are sub-divisions under CKIA.

BUSINESS

LICENSE AND PERMITS

As advised by our PRC Legal Advisers, Our Group has obtained all material requisite licenses, permits and approvals for our operations. We set out below the material licenses, permits and approvals for our operations:

Type of licenses, permits and approvals	Holding entity	Issuing authority	Validity period/Term
Pollutant Discharge Permit* (排污許可證)	Deyun	the Department of Ecology and Environment of Changle District, Fuzhou City (福州市長樂生態環境局)	From 25 December 2017 to 24 December 2020 (Updated on 30 April 2019) <i>(Note)</i> and from 25 December 2020 to 24 December 2025
Registration Certificate of the Customs of the People's Republic of China for Customs Declaration Entitles* (中華人民共和國海關報關單位註冊登記證書) (Customs Registration Code: 3501966523)	Deyun	Fuzhou Customs District of PRC (中華人民共和國福州海關)	No expiry date

Note: On 30 April 2019, the Department of Ecology and Environment of Changle District, Fuzhou City (福州市長樂生態環境局) updated the Pollutant Discharge Permit to Deyun by including particulates (顆粒物), SO₂ (二氧化硫), Nox (氮氧化物) and total nitrogen (總氮) into the scope of automatic monitoring. For further details, please refer to the paragraph headed "Pollutant Discharge Permit and the Discharge Standard" in this section for further details.

Legal Proceedings

Save as disclosed below, during the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration is known to the Directors to be pending or threatened against an member of our Group which would have a material adverse effect on our financial position or results of operations.

Legal Non-compliance

Save for certain incidents of non-compliance set out below, our Directors are not aware of any incident of material non-compliance of our Group during the Track Record Period and as at the Latest Practicable Date:

Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions (if any) taken and current status
During the Track Record Period, Deyun failed to make social insurance and housing provident fund contributions in full and failed to complete the housing provident fund registration according to relevant applicable PRC laws and regulations for some of its employees	The non-compliance incident is due to the fact that the relevant staff of our human resource department were unfamiliar with the relevant PRC laws and regulations	According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), for outstanding social insurance fund contributions that we did not fully pay, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay; if we fail to make such payments within the stipulated deadline upon receiving the demand notice from the relevant PRC authorities, we may be liable to a fine of one to three times the outstanding contribution amount.	In order to prevent future potential non-compliance incidents in relation to social insurance and housing provident fund contributions, we have formulated written policies and procedures and strengthen our internal control specifying that: <ul style="list-style-type: none"> (i) the registration and account opening for social insurance and housing provident fund contributions of all employees will be completed within the prescribed time limit; (ii) personnel of our human resources department with relevant knowledge and expertise will be responsible for the calculation of social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations, which shall then be checked by human resources manager to ensure the correctness and compliance with regulatory requirements; (iii) training will be provided to the relevant personnel of our human resources department on the social insurance and housing provident fund contributions requirements under the relevant PRC laws and regulations; and (iv) Ms. Xu Jing, our company secretary, will regularly review policies and procedures in relation to the social insurance and housing provident fund contributions to ensure compliance with the regulatory requirements.
We estimate that the aggregate unpaid amount of social insurance payments and housing provident fund contributions for the years ended 31 December 2017, 2018 and 2019 were approximately RMB1.3 million, RMB1.1 million and RMB2.2 million, respectively, with respect to social insurance payments, and approximately RMB0.2 million, RMB0.3 million and RMB0.3 million, respectively, with respect to housing provident fund contribution.		Under the Administrative Regulations on Housing Provident Fund (住房公積金管理條例), for housing provident fund registrations that we fail to complete the relevant PRC authorities may demand us to rectify within a specified deadline and if we don't rectify accordingly before the deadlines, we may be subject to a fine ranging from RMB10,000 to RMB50,000 for each non-compliant subsidiary or branch and (ii) for housing provident fund contributions that we fail to fully pay, we may be subject to any order by the relevant people's court to make such payments.	
		As of the Latest Practicable Date, we had not been ordered by any government authorities to make contributions previously unpaid or to pay any fines or penalties, nor are we aware of any employee complaints or demands for payment of previously unpaid contributions.	

Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions (if any) taken and current status
		<p>Based on the interview with the relevant local authorities and their confirmations issued in January 2020, our PRC Legal Advisers opined that the likelihood that the relevant authorities will order us to make up for any outstanding contributions or penalise us for the non-compliance is extremely low. Further, considering the indemnity given by the Controlling Shareholders, our PRC Legal Advisers are of the view that the likelihood that we would suffer financial loss due to the non-compliance incidents in relation to social security insurance and housing provident fund is extremely low.</p>	<p>Our Controlling Shareholders undertook to indemnify our Group when we are ordered by the relevant authorities to make retroactive contributions to the social insurance and/or housing provident fund or being punished due to such non-compliance incidents.</p>

RISK MANAGEMENT AND INTERNAL CONTROL

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. In order to continuously improve our Group's corporate governance and to prevent recurrence of the non-compliance incidents in the future, we have engaged an independent internal control consultant to perform compliance procedures in connection with our internal control policies related to the historical non-compliance incidents and further put forward respective recommendations for enhanced internal control measure as mentioned below. We have adopted the following internal control policies and procedures:

- we will form an audit committee comprising four independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control, and risk management system of our Group, to oversee the audit process, and to perform other duties and responsibilities as assigned by our Directors;
- we have adopted and implemented comprehensive control policies in respect of various aspects of our business operations such as (i) risk management policies; (ii) conflict of interest guidelines; and (iii) disclosure guidelines;
- we shall establish system and manuals in relation to, among others, distribution of annual or interim reports and publication, handling and monitoring of inside information prior to public announcement and other requirements under the Listing Rules;
- our Directors have attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- we will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. To avoid potential conflicts of interest, we will implement corporate governance measures as set out in the section headed "Relationship with Our Controlling Shareholders – Corporate governance measures" in this prospectus. 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;
- we have engaged Dakin Capital Limited as our compliance adviser and will, upon Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company; and

BUSINESS

- when considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal controls and legal compliance.

In August 2019, we engaged SHINEWING Risk Services Limited, an independent internal control consultant (the “**Internal Control Consultant**”), to perform a review over certain key areas of our internal control system. The Internal Control Consultant provided recommendations for our management’s consideration to enhance our internal controls and procedures.

The following table sets out the major findings of the internal control review and the corresponding measures recommended to be taken by our Group:

Major findings	Corresponding measures
We have not set up Board committees and appointed company secretary as required under the Listing Rules.	We should set up the audit committee, remuneration committee and nomination committee and appoint company secretary to ensure compliance with the Listing Rules before Listing.
Standalone corporate governance policies and procedures including code of conduct, management override, risk management and financial reporting and disclosure are not available for employees to follow.	We have put in place standalone corporate governance policies to address areas including those mentioned.

The Internal Control Consultant conducted a follow-up review in December 2019 and to assess whether we have implemented the internal control measures recommended by the Internal Control Consultant and whether the deficiencies identified in the review have been rectified. Based on the result of this follow-up review, save for the setting up of our Board committees, which will be done upon Listing, we demonstrated we have implemented all major internal control measures recommended. No material deficiencies were identified during the internal control review.

After considering that (i) our Group has implemented (or, where applicable, will implement) the above measures; (ii) our Group has established a proper internal control system to prevent future non-compliance with the relevant laws and regulations; and (iii) the above non-compliance incidents were not material and have not resulted, and are not expected to result, in any material impact on our financial and operational aspects, our Directors are of the view that, and the Sole Sponsor concurs that, our internal control measures adopted are adequate and effective and consider that the non-compliance incidents do not have any material impact on our suitability for listing under Rule 8.04 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen will be interested in a total of 67.5% of our Company's issued Shares through owning 100% of the issued shares of their common investment holding vehicle Deyong Investment. Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen are therefore entitled to, through Deyong Investment, control the exercise of a total of 67.5% of the voting power at the general meetings of our Company. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, and Mr. Lin Chaowen entered into an Acting in Concert Agreement to acknowledge and confirm, among other things, that they are parties acting in concert shall continue to do so after Listing. For details regarding the Acting in Concert Agreement, please refer to the section headed "History, Development and Reorganisation – Acting in Concert Agreement" in this prospectus. Therefore, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen, and Deyong Investment will form and remain as a group of controlling shareholders pursuant to the "Guidance on issues relating to 'controlling shareholder' and related listing rules implications" (HKEx-GL89-16) (updated in October 2017, February 2018 and February 2020). For details regarding the shareholding interests of the Controlling Shareholders, please refer to the section headed "Substantial Shareholders" in this prospectus. For further details of the background of the Controlling Shareholders, please refer to the sections headed "History, Development and Reorganisation" and "Directors and Senior Management" in this prospectus.

Our Controlling Shareholders have confirmed that none of them and their respective close associates is interested in any business which competes or is likely to compete, directly or indirectly, with the business of our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

We are satisfied that we can operate independently of our Controlling Shareholders and their respective associates after the Listing on the basis of the following information:

Management independence

Our Group's management and operational decisions are made by our Board and our senior management. Our Board has ten Directors comprising six Executive Directors and four Independent Non-executive Directors. Save for Mr. Lin Minqiang, Mr. Lin Chaowei, Mr. Lin Chaowen and Mr. Lin Bingzhong, who are both Controlling Shareholders and Executive Directors, none of our Directors or members of senior management held any Shares. Having considered the following factors, our Directors are of the view that our Group has management independence from our Controlling Shareholders and their associates on the basis of the followings:

- (a) Each of the Controlling Shareholders is aware of his/her fiduciary duties as a director which require, amongst others, that he acts for the benefit and in the best interests of our Group and does not allow any conflict between his/her duties as a director and his personal interests;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) Pursuant to our Articles, a Director who is to his/her knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Group, shall declare the nature of his/her interest in the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration, if he/she knows his/her interest then exists, or in any other case, at the first meeting of our Board after he/she knows that he/she is or has become so interested. Our Articles do not require such a Director who is so interested not to attend any meeting of our Board. However, a Director shall not be entitled to vote nor be counted in the quorum on a resolution of our Directors in respect of any board resolution approving any contract or arrangement or any proposal in which he or any of his/her associates is materially interested. For details, please refer to the section headed “Appendix III – Summary of the Constitution of our Company and Cayman Islands Company Law” in this prospectus;
- (c) Our Articles ensure that matters involving a conflict of interest which may arise from time to time will be managed in line with accepted corporate governance practice so as to ensure that the best interests of our Group and Shareholders taken as a whole are preserved. Following the Listing, our Directors are required to comply with the Listing Rules. This includes review of connected transactions by our Independent Non-executive Directors and where appropriate, independent financial advice and independent shareholders’ approval will be required. For details, please refer to the paragraph headed “Corporate Governance Measures” in this section;
- (d) Besides our Controlling Shareholders themselves, none of our other Directors or members of senior management serve any role or function in other business ventures of our Controlling Shareholders and/or their associates, who thereby will devote their full time and capacity for our Group;
- (e) All our senior management members are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and have served our Group for a period of time during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders; and
- (f) the essential daily operations of our Group are carried out by a team of staff employed by our Group independently of and without any support from our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

We have full rights to make business decisions and to carry out our business independent of our Controlling Shareholders and their associates. On the basis of the following reasons, our Directors consider that our Group will continue to be operationally and administratively independent of our Controlling Shareholders and their associates after Listing:

- (a) We have our own organisational structure comprising individual departments, each with specific areas of responsibilities, including but not limited to our own accounting and finance, research and development, procurement, sales, production, quality control and administration departments;
- (b) All of the properties used as our principal place of business and operational facilities are self-owned by our Company and/or our subsidiary;
- (c) Our Group also has its own fleet of machinery and are owned by our Group;
- (d) Our Group has not shared operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates;
- (e) We hold all relevant licenses material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently;
- (f) All external services and/or procurement required by our Group or our operating subsidiary are provided by and, if needed, can be easily sourced from, Independent Third Parties;
- (g) We have established a set of internal control procedures to facilitate the effective operation of our business; and
- (h) Our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their associates upon or shortly after Listing.

Financial independence

We have our independent financial management system and make financial decisions according to our own business needs. As at Latest Practicable Date, no amount was owed by our Group to the Controlling Shareholders and/or their respective associates. During the Track Record Period, our Group had certain bank borrowings that were secured by personal guarantee from our Controlling Shareholders, such guarantees had been released during FY19.

In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their associates after Listing.

CORPORATE GOVERNANCE MEASURES

Our Group will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (a) our Articles provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, a Director shall not vote on any Board resolution approving any contract in relation to which he has a material interest, nor shall such director be counted in the quorum present at that meeting. Furthermore, a Director who holds directorship and/or senior management positions in our Controlling Shareholders or any of its close associates (other than our Group or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and our Controlling Shareholders or any of its close associates (other than our Company or any member of our Group), nor shall such director be counted in the quorum present at such meeting;
- (b) we have appointed Dakin Capital Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors' duties and internal controls;
- (c) the management structure of our Group includes our Audit Committee, our Remuneration Committee and our Nomination Committee, the written rules of each of which will require them to be alert to prospective conflict of interests and to formulate their proposals accordingly; and
- (d) pursuant to the Corporate Governance Code set out in Appendix 14 of the Listing Rules, our Directors, including our Independent Non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Group's costs.

Our Group expects to comply with the Corporate Governance Code set out in Appendix 14 of the Listing Rules which sets out principles of good corporate governance in relation to, among others, Directors, chief executive, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our shareholders. Our Group will state in our interim and annual reports whether we have compiled with such code, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), the following persons and entities will have interests or short positions in our Shares and underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings:

Long Position

Name	Capacity/nature of Interest	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding interest in our Company
Deyong Investment	Beneficial owner <i>(Note 2)</i>	850,500,000 (L)	67.5%
Mr. Lin Minqiang (林民強)	Interest in a controlled corporation <i>(Note 3)</i>	850,500,000 (L)	67.5%
	Interest held jointly with other persons <i>(Note 4)</i>		
Ms. Lin Yueyun (林月雲)	Interest of spouse <i>(Note 5)</i>	850,500,000 (L)	67.5%
Mr. Lin Bingzhong (林秉忠)	Interest held jointly with other persons <i>(Note 4)</i>	850,500,000 (L)	67.5%
Ms. Jiang Yanyun (蔣艷雲)	Interest of spouse <i>(Note 6)</i>	850,500,000 (L)	67.5%
Mr. Lin Chaoji (林朝基)	Interest held jointly with other persons <i>(Note 4)</i>	850,500,000 (L)	67.5%
Ms. Zheng Xiuqin (鄭秀欽)	Interest of spouse <i>(Note 7)</i>	850,500,000 (L)	67.5%

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/nature of Interest	Number of Shares (Note 1)	Approximate percentage of shareholding interest in our Company
Mr. Lin Chaowei (林朝偉)	Interest held jointly with other persons (Note 4)	850,500,000 (L)	67.5%
Ms. Lin Yunzhen (林雲珍)	Interest of spouse (Note 8)	850,500,000 (L)	67.5%
Mr. Lin Chaowen (林朝文)	Interest held jointly with other persons (Note 4)	850,500,000 (L)	67.5%
Ms. Lin Aimei (林愛美)	Interest of spouse (Note 9)	850,500,000 (L)	67.5%
Glorious Way	Beneficial owner (Note 10)	94,500,000 (L)	7.5%
Mr. Tsoi Wing Sing (蔡榮星)	Interest in a controlled corporation (Note 11)	94,500,000 (L)	7.5%

Notes:

1. The Letter (L) denotes the person's long position in the Shares.
2. Deyong Investment is an investment holding company incorporated in the BVI and is owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen as to 60%, 11.6%, 10.54%, 9.22% and 8.64%, respectively.
3. Mr. Lin Minqiang beneficially owns 60% of the issued shares of Deyong Investment, which in turn holds 67.5% of the Shares. Therefore, Mr. Lin Minqiang is deemed, or taken, to be interested in the Shares held by Deyong Investment for the purposes of the SFO. Mr. Lin Minqiang is a director of Deyong Investment.
4. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen entered into the Acting in Concert Agreement to acknowledge and confirm (among other things) that they are parties acting in concert during the Track Record Period and that to continue to act in the same manner in our Group after Listing. As such, by virtue of the SFO, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen are deemed to be interested in all the Shares held by Deyong Investment.
5. Ms. Lin Yueyun is the spouse of Mr. Lin Minqiang. Therefore, Ms. Lin Yueyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Minqiang is interested in for the purposes of the SFO.
6. Ms. Jiang Yanyun is the spouse of Mr. Lin Bingzhong. Therefore, Ms. Jiang Yanyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Bingzhong is interested in for the purposes of the SFO.

SUBSTANTIAL SHAREHOLDERS

7. Ms. Zheng Xiuqin is the spouse of Mr. Lin Chaoji. Therefore, Ms. Zheng Xiuqin is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaoji is interested in for the purposes of the SFO.
8. Ms. Lin Yunzhen is the spouse of Mr. Lin Chaowei. Therefore, Ms. Lin Yunzhen is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowei is interested in for the purposes of the SFO.
9. Ms. Lin Aimei is the spouse of Mr. Lin Chaowen. Therefore, Ms. Lin Aimei is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowen is interested in for the purposes of the SFO.
10. Glorious Way is an investment holding company incorporated in the BVI and is wholly owned by Mr. Tsoi Wing Sing.
11. Mr. Tsoi Wing Sing beneficially owns 100% of the issued shares of Glorious Way, which in turn holds 7.5% of the Shares. Therefore, Mr. Tsoi Wing Sing is deemed, or taken to be interested in the Shares held by Glorious Way for the purpose of the SFO. Mr. Tsoi Wing Sing is a director of Glorious Way.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Group and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 5% or more of the issued voting shares of any other members 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 Group.

DIRECTORS AND SENIOR MANAGEMENT

OUR DIRECTORS

The Board is responsible for and has general powers over the management and conduct of our business. The Board consists of ten Directors including six Executive Directors and four Independent Non-executive Directors. The major functions and duties of the Board include, but are not limited to, convening the general meetings, reporting on the performance of the Board at the general meetings, implementing the resolutions passed at the general meetings, formulating and approving business plans and investment plans of our Company, preparing the annual financial budgets and final accounts, preparing proposals on profit distribution and increasing or decreasing the registered capital, as well as performing the other authorities, functions and responsibilities in accordance with the Articles. The following table sets forth the information in respect of the members of the Board:

Name of Directors	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Roles and Responsibilities	Relationship with other directors and senior management
Executive Directors						
Mr. Lin Minqiang (林民強)	64	Executive Director, chairman of the Board	23 January 2006	7 January 2019	Overseeing the management, strategic planning and overall budget of our Group	Brother-in-law of Mr. Lin Bingzhong, father of Ms. Lin Lili, uncle of Mr. Lin Chaowei and Mr. Lin Chaowen
Mr. Lin Chaowei (林朝偉)	49	Executive Director, general manager	11 December 2002	17 February 2020	Overseeing the business development and marketing strategy of our Group	Cousin of Mr. Lin Chaowen and Ms. Lin Lili, nephew of Mr. Lin Minqiang
Mr. Lin Chaowen (林朝文)	55	Executive Director	11 December 2002	17 February 2020	Overseeing the purchasing aspects of our Group	Cousin of Mr. Lin Chaowei and Ms. Lin Lili, nephew of Mr. Lin Minqiang
Mr. Lin Bingzhong (林秉忠)	55	Executive Director	11 December 2002	17 February 2020	Overseeing and managing the technical aspects of our Group	Brother-in-law of Mr. Lin Minqiang uncle of Ms. Lin Lili

DIRECTORS AND SENIOR MANAGEMENT

Name of Directors	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Roles and Responsibilities	Relationship with other directors and senior management
Mr. Wei Cunzhuo (魏存灼)	56	Executive Director, chief financial officer	11 December 2002	17 February 2020	Overseeing the financial and administration department of our Group	Nil
Ms. Lin Lili (林莉莉)	37	Executive Director	1 April 2016	17 February 2020	Overseeing the information disclosure of our Group; serves as the chairman of the Nomination Committee	Daughter of Mr. Lin Minqiang, niece of Mr. Lin Bingzhong, cousin of Mr. Lin Chaowei and Mr. Lin Chaowen

Independent Non-executive Directors

Mr. Sheng Zijiu (盛子九)	76	Independent Non-executive Director	16 December 2020	16 December 2020	Supervising and providing independent advice to our Group; serves on the Audit Committee, the Nomination Committee and the Remuneration Committee	Nil
Mr. Chow Kit Ting (周傑霆)	35	Independent Non-executive Director	16 December 2020	16 December 2020	Supervising and providing independent advice to our Group; serves as the chairman of the Audit Committee; serves on the Remuneration Committee	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name of Directors	Age	Position/Title	Date of joining our Group	Date of appointment as Director	Roles and Responsibilities	Relationship with other directors and senior management
Mr. Yip Koon Shing (葉冠成)	55	Independent Non-executive Director	16 December 2020	16 December 2020	Supervising and providing independent advice to our Group; serves as the chairman of the Remuneration Committee; serves on the Audit Committee and the Nomination Committee	Nil
Mr. Wong Chun Sek Edmund (黃俊碩)	35	Independent Non-executive Director	16 December 2020	16 December 2020	Supervising and providing independent advice to our Group; serves on the Audit Committee, the Nomination Committee and the Remuneration Committee	Nil

Executive Directors

Mr. Lin Minqiang

Mr. Lin Minqiang (林民強), aged 64, is a Controlling Shareholder, an Executive Director, and the chairman of the Board. Mr. Lin Minqiang was appointed as a Director of our Company on 7 January 2019 and was re-designated as our Executive Director on 20 March 2020. Mr. Lin Minqiang is also a director of all of the subsidiaries of our Group. He is responsible for the strategic planning and overall budget of our Group.

Mr. Lin Minqiang has over 31 years of experience in the fabrics weaving and dyeing business. Mr. Lin Minqiang was the committee member of the Party Branch of Longxia Village of Changle District in Fuzhou from April 1978 to August 1992. In August 1988, Mr. Lin Minqiang took the role of the factory director of “Changle Warp Knitted Fabrics Factory”, a collective enterprise established in Fujian, which subsequently reformed as a limited liability company and changed its name into Xingsheng in October 1996. Mr. Lin Minqiang was the executive director and the manager of Xingsheng from October 1996 to January 2006. After Deyun merged with Xingsheng by way of absorption, Mr. Lin Minqiang was appointed as a director of Deyun in January 2006. Over the years, he has been responsible for planning the company strategy and overall budget of Deyun.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Minqiang was awarded the certificate of completion of the course of Business Information Strategy and Knowledge Management CEO Advanced Training Class by School of Information Science and Technology, Tsinghua University in July 2005.

Mr. Lin Minqiang was a director of the following companies prior to their respective dissolution:

Company	Place of incorporation	Principal business activity immediately before business cessation	Date of dissolution	Means of dissolution
Changle Hengyang Knitwear Co., Ltd.* (長樂恒陽針紡有限公司)	PRC	Development and manufacturing of textile products	6 November 2013	Dissolved by deregistration
Xingsheng	PRC	Manufacturing of textile, import of machinery, spare parts and technology	23 January 2006	Dissolved by deregistration

Mr. Lin Minqiang confirmed that the reason for dissolution of Changle Hengyang Knitwear Co., Ltd. was that it had ceased to carry on business or operation prior to its dissolution, and that the reason for dissolution of Xingsheng was that it was merged by Deyun by way of absorption, that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of the dissolution, that the above companies have been deregistered or dissolved with no outstanding liability or claim in relation thereto and were solvent at the time of dissolution, that the dissolution of the companies had not resulted in any liability or obligation being imposed against him, that his involvement in the above companies was in relation to his appointment as director of each entity and that no misconduct or misfeasance on his part had been involved in the dissolution.

Mr. Lin Minqiang is the father of Ms. Lin Lili. Mr. Lin Minqiang is the brother-in-law of Mr. Lin Bingzhong, the uncle of Mr. Lin Chaowen and Mr. Lin Chaowei. Saved as disclosed in this section, Mr. Lin Minqiang is not connected with any other Directors or members of the senior management of our Company.

During the three years immediately preceding the Latest Practicable Date, Mr. Lin Minqiang has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Chaowei

Mr. Lin Chaowei (林朝偉), aged 49, is a controlling shareholder and an Executive Director. Mr. Lin Chaowei was appointed as a Director of our Company on 17 February 2020 and was re-designated as our Executive Director on 20 March 2020. He is responsible for the overall business development and marketing strategy of our Group.

Mr. Lin Chaowei has over 31 years of experience in the fabrics weaving and dyeing industry. Mr. Lin Chaowei served as an employee, then the factory deputy director and the deputy general manager at Xingsheng from October 1988 to December 2002. In December 2002, he joined Deyun as a director and the general manager where he has been responsible for making marketing strategy, liaising with clients for business contracts, planning overall budgets, administering site operations, and monitoring the safety and health issues arising from production since then.

Mr. Lin Chaowei was awarded the certificate of completion of the course of Corporate Leadership Advanced Training Class by Peking University Private Economic Research Institute in May 2017.

Mr. Lin Chaowei is the nephew of Mr. Lin Minqiang, the cousin of Mr. Lin Chaowen and Ms. Lin Lili. Saved as disclosed in this section, Mr. Lin Chaowei is not connected with any other Directors or members of the senior management of our Company.

During the three years immediately preceding the Latest Practicable Date, Mr. Lin Chaowei has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Lin Chaowen

Mr. Lin Chaowen (林朝文, previously known as Lin Aihong* (林愛洪)), aged 54, is a controlling shareholder and an Executive Director. Mr. Lin Chaowen was appointed as a Director of our Company on 17 February 2020 and was re-designated as our Executive Director on 20 March 2020. He is responsible for overseeing the purchasing aspects of our Group.

Mr. Lin Chaowen has over 35 years of experience in the fabrics weaving and dyeing industry. He was a staff of Changle County Chemical Fiber Weaving Factory from October 1984 to August 1988. From October 1988 to January 2006, he took the position of the deputy general manager of Xingsheng. Mr. Lin Chaowen joined Deyun in January 2006 as a deputy general manager and has been a director of Deyun since then, where he gained extensive knowledge and experience in the fabrics weaving and dyeing industry. He has been primarily responsible for managing suppliers and communicating with suppliers on product procurement.

Mr. Lin Chaowen is the nephew of Mr. Lin Minqiang, the cousin of Mr. Lin Chaowei and Ms. Lin Lili. Saved as disclosed in this section, Mr. Lin Chaowen is not connected with any other Directors or members of the senior management of our Company.

DIRECTORS AND SENIOR MANAGEMENT

During the three years immediately preceding the Latest Practicable Date, Mr. Lin Chaowen has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Lin Bingzhong

Mr. Lin Bingzhong (林秉忠), aged 55, is a controlling shareholder and an Executive Director. Mr. Lin Bingzhong was appointed as a Director of our Company on 17 February 2020 and was re-designated as our Executive Director on 20 March 2020. He is responsible for overseeing and managing the technical aspects of our Group.

Mr. Lin Bingzhong has over 19 years of experience in the fabrics weaving and dyeing industry. Mr. Lin Bingzhong was the shop assistant and then the executive of Changle District Supply and Marketing Cooperative in Fuzhou from November 1980 to December 1999. From January 2000 to December 2002, Mr. Lin Bingzhong was the business manager of Xingsheng. Mr. Lin Bingzhong joined Deyun in December 2002 as a director and the deputy general manager. He has been supervising and managing the technical affairs of Deyun since then.

Mr. Lin Bingzhong is the brother-in-law of Mr. Lin Minqiang and the uncle of Ms. Lin Lili. Saved as disclosed in this section, Mr. Lin Bingzhong is not connected with any other Directors or members of the senior management of our Company.

During the three years immediately preceding the Latest Practicable Date, Mr. Lin Bingzhong has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Wei Cunzhuo

Mr. Wei Cunzhuo (魏存灼), aged 56, is an Executive Director. Mr. Wei Cunzhuo was appointed as a Director of our Company on 17 February 2020 and was re-designated as our Executive Director on 20 March 2020. He is responsible for the financial and administration functions of our Group.

Mr. Wei Cunzhuo has over 25 years of experience in the accounting position in the weaving and dyeing industry. Mr. Wei Cunzhuo was the accountant of Changle City Association of Supply and Marketing Cooperatives since August 1983. From March 1994 to January 2006, Mr. Wei Cunzhuo was the financial manager of Xingsheng. Mr. Wei Cunzhuo joined Deyun in January 2006 as the chief financial officer and the manager of the administration department, and he has been appointed as a director and has been managing the financial work, coordinating financial institutions and handling human resources issues of Deyun since then.

Mr. Wei Cunzhuo obtained his graduation certificate in Financial Accounting major from Jingiang District Supply and Marketing School in July 1983.

DIRECTORS AND SENIOR MANAGEMENT

Saved as disclosed in this section, Mr. Wei Cunzhuo is not connected with any other Directors or members of the senior management of our Company.

During the three years immediately preceding the Latest Practicable Date, Mr. Wei Cunzhuo has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Ms. Lin Lili

Ms. Lin Lili (林莉莉), aged 37, is an Executive Director and the chairman of the Nomination Committee.

Ms. Lin Lili was appointed as a Director of our Company on 17 February 2020 and was re-designated as our Executive Director on 20 March 2020. She is responsible for the information disclosure of our Group.

Ms. Lin was a lecturer in the Foreign Language College of Jimei University in Xiamen from March 2009 to March 2016. In April 2016, she took the position of the secretary of the board of Deyun.

Ms. Lin obtained her Master of Arts degree from Xiamen University in June 2008. She obtained the certificate for the qualifications of teachers in institutions of higher learning from the Education Department of Fujian in December 2011.

Ms. Lin Lili is the daughter of Mr. Lin Minqiang and the niece of Mr. Lin Bingzhong. Ms. Lin Lili is the cousin of Mr. Lin Chaowei and Mr. Lin Chaowen. Saved as disclosed in this section, Ms. Lin Lili is not connected with any other Directors or members of the senior management of our Company.

During the three years immediately preceding the Latest Practicable Date, Ms. Lin has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Sheng Zijiu

Mr. Sheng Zijiu (盛子九), aged 76, was appointed as our Independent Non-executive Director, a member of the Remuneration Committee, the Audit Committee and the Nomination Committee on 16 December 2020. Mr. Sheng Zijiu is primarily responsible for supervising the management of our Group independently.

Mr. Sheng Zijiu has over 52 years of experience in the fabrics weaving and dyeing industry. Mr. Sheng was the deputy director of the chief engineers department in Changde Textile Machinery Company Limited from September 1968 to April 1987. Subsequently Mr. Sheng took the position of the deputy general manager of Zhejiang Textile Machinery Industry Company Limited, the deputy president of Zhejiang Textile Machinery Industry Association and the head of Zhejiang Textile Machinery Quality Supervision and Inspection Center from April 1987 to September 1997. He then worked in Shanghai Chunchao Industry Company Limited as the project participant for the preparation and operation of knitting and woven projects from September 1999 to July 2003. Mr. Sheng is currently working in Zhejiang Fangzheng Textile Machinery Testing Center Company Limited and Quality Appraisal Center as the company consultant.

Company	Place of incorporation	Principal business activity immediately before business cessation	Date of dissolution	Means of dissolution
Hangzhou Jiuhua Trading Co., Ltd.* (杭州久華貿易有限公司)	PRC	Wholesale and retail of textile machinery, electrical machinery and equipment	31 December 2001	Struck off

Mr. Sheng Zijiu confirmed that the reason for dissolution of the above company was due to the failure to submit the annual report within the specified time prior to its dissolution, that he has not been involved in any dispute with the above company's creditors, shareholders and directors in respect of the dissolution, that the above company has been dissolved with no outstanding liability or claim in relation thereto and was solvent at the time of dissolution, that the dissolution of the company had not resulted in any liability or obligation being imposed against him, that his involvement in the above company was in relation to his appointment as director of each entity and that no misconduct or misfeasance on his part had been involved in the dissolution.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sheng Zijiu obtained his Bachelor degree majoring in textile machinery design from Donghua University in July 1967. He was awarded the qualification certificate of senior engineer by the Zhejiang Light Industry Engineering and Technical Personnel of Senior Position Assessing Committee in August 1993. From January 1993 to January 1998, he was a member of the Zhejiang Provincial Party Congress Council.

During the three years immediately preceding the Latest Practicable Date, Mr. Sheng has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Chow Kit Ting

Mr. Chow Kit Ting (周傑霆), aged 35, was appointed as our Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee on 16 December 2020. Mr. Chow Kit Ting is primarily responsible for supervising the management of our Group independently.

Mr. Chow has over 13 years of experience in accounting, corporate finance, compliance and company secretarial matters. Mr. Chow previously worked in the audit department of Deloitte Touche Tohmatsu from September 2007 to March 2015 and last held the position of manager. Mr. Chow subsequently took the position of the financial controller and company secretary of Link Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8237) from March 2015 to January 2016. He then acted the financial controller and company secretary of Kin Shing Holdings Limited, a company listed on Main Board of the Stock Exchange (Stock Code: 1630) from February 2016 to August 2018. Afterwards, he joined a private company, HY Technology Holding Limited as its financial controller from August 2018 to December 2019 and was re-designated to Hua Yu (S) Pte. Ltd. since January 2020. He has been appointed as the financial controller and company secretary of Rich River Holdings Limited since July 2020 and September 2020, respectively. Mr. Chow has also been an independent non-executive director of Eternity Technology Holding Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1725), since July 2018.

Mr. Chow obtained his Bachelor's degree of commerce majoring in accountancy from Macquarie University in November 2007. He became a member of the Certified Public Accountants (CPA) Australia in September 2011 and a member of the Hong Kong Institute of Certified Public Accountants in May 2015.

Saved as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Chow has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yip Koon Shing

Mr. Yip Koon Shing (葉冠成, previously known as Yip Shing Kee 葉成基), aged 55, was appointed as our Independent Non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and of the Nomination Committee on 16 December 2020. Mr. Yip Koon Shing is primarily responsible for supervising the management of our Group independently.

Mr. Yip has over 25 years of experience in business development and management in the transportation and logistics industry. Mr. Yip was an executive of 3M Cogent Systems Inc. from March 1987 to January 1991. He worked as an executive assistant in Freight Services Group of Jardine Matheson & Co. in Hong Kong from April 1992 to October 1993, and took the position of assistant general manager and chief representative of Jardine Transport Services Group from October 1993 to June 1997 as his last position. At this position, Mr. Yip was mainly responsible for managing business and operations of the entity and acting as key liaison with overseas in managing business in China. Subsequently, Mr. Yip started his own company, Good One Logistics Group, in July 1997 and has been acting as its founder and chief advisor since then. Mr. Yip is currently also an independent non-executive director of Orange Tour Cultural Holding Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8627).

Mr. Yip obtained his Bachelor of Science in business administration degree from California State Polytechnic University, Pomona in June 1988. Mr. Yip obtained his master of business administration degree from Loyola Marymount University in May 1992.

Mr. Yip was a director of the following companies prior to their respective dissolution:

Company	Place of incorporation	Principal business activity immediately before business cessation	Date of dissolution	Means of dissolution
C.J. Associates Limited	Hong Kong	Dormant	21 November 2008	Dissolved by deregistration
D.D.H. Development Company Limited	Hong Kong	Dormant	11 April 2003	Dissolved by deregistration
Good One Global Shipping Services Limited	Hong Kong	Dormant	10 October 2008	Dissolved by deregistration
Good One Consolidators Limited	Hong Kong	Logistics	10 February 2017	Dissolved by deregistration

DIRECTORS AND SENIOR MANAGEMENT

Company	Place of incorporation	Principal business activity immediately before business cessation	Date of dissolution	Means of dissolution
Good One Holidays Limited	Hong Kong	Tourism projects	2 February 2011	Dissolved by deregistration
Good One Express Limited	Hong Kong	Logistics	2 January 2015	Dissolved by deregistration
Good One Holdings Limited	Hong Kong	Investment holding	28 December 2007	Dissolved by deregistration

Mr. Yip confirmed that the reason for dissolution of the above companies was that they had ceased to carry on business or operation prior to their respective dissolution, that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of the dissolution, that the above companies have been deregistered or dissolved with no outstanding liability or claim in relation thereto and were solvent at the time of dissolution, that the dissolution of the companies had not resulted in any liability or obligation being imposed against him, that his involvement in the above companies was in relation to his appointment as director of each entity and that no misconduct or misfeasance on his part had been involved in the dissolution.

Saved as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Yip has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Wong Chun Sek Edmund

Mr. Wong Chun Sek Edmund (黃俊碩), aged 35, was appointed as our Independent Non-executive Director, a member of the Remuneration Committee, the Audit Committee and the Nomination Committee on 16 December 2020. Mr. Wong is primarily responsible for supervising the management of our Group independently.

Mr. Wong has over 13 years of accounting and corporate management experience. Mr. Wong joined Deloitte Touche Tohmatsu as audit associate in September 2007 and left as audit senior in November 2011. He then took the position of audit manager of Patrick Wong CPA Limited from February 2012 and has been its practising director since March 2013. Mr. Wong has also been an independent non-executive director of InvesTech Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1087), since 5 June 2017 and an independent non-executive director of Confidence Intelligence Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1967), since 20 September 2019.

DIRECTORS AND SENIOR MANAGEMENT

In November 2007, Mr. Wong obtained his Bachelor of Commerce (Honors) in Accountancy degree from Hong Kong Baptist University. He subsequently obtained his Master of Science in Applied Accounting and Finance degree from Hong Kong Baptist University in November 2013. Mr. Wong obtained his Master of Business Administration degree in October 2016 and Master of Corporate Governance degree in August 2017 both from The Open University of Hong Kong.

In September 2011, Mr. Wong was admitted as a member of the Hong Kong Institute of Certified Public Accountants, In March 2013, he was registered as a certified public accountant (practising) by the Hong Kong Institute of Certified Public Accountants. Mr. Wong was also admitted as an associate of The Institute of Chartered Accountants in England and Wales in July 2012. In August 2015, Mr. Wong was admitted a member of the Association of Chartered Certified Accountants (ACCA).

Mr. Wong was admitted as an associate of the Hong Kong Institute of Chartered Secretaries and was elected associate of the Chartered Governance Institute, formerly known as Institute of Chartered Secretaries and Administrators in December 2017. In March 2019, Mr. Wong was elected as a fellow of the two aforesaid institutes.

Mr. Wong was a director of the following company prior to its dissolution:

Company	Place of incorporation	Principal business activity immediately before business cessation	Date of dissolution	Means of dissolution
Smart Well Business Consultants Limited	Hong Kong	Accounting services	30 November 2018	Dissolved by deregistration

Mr. Wong confirmed that the reason for dissolution of the above company was that it had ceased to carry on business or operation prior to its dissolution, that he has not been involved in any dispute with the above company's creditors, shareholders and directors in respect of the dissolution, that the above company has been deregistered or dissolved with no outstanding liability or claim in relation thereto and was solvent at the time of dissolution, that the dissolution of the company had not resulted in any liability or obligation being imposed against him, that his involvement in the above company was in relation to his appointment as director of each entity and that no misconduct or misfeasance on his part had been involved in the dissolution.

Saved as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Wong has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets forth the information regarding the senior management of our Company:

Name	Age	Date of joining our Group	Present position	Date of appointment to position	Roles and responsibilities	Relationship with Directors
Mr. Wu Guangqiang (吳光強)	42	2 March 2016	Business manager of lace sales	2 March 2016	Responsible for managing the lace sales business	Nil
Ms. Wang Guangyan (王光艷)	42	2 May 2015	Director of weaving factory	2 May 2015	Responsible for managing the manufacturing and operation of weaving factory	Nil

Mr. Wu Guangqiang

Mr. Wu Guangqiang (吳光強), aged 42, has been our business manager of lace sales since March 2016. He is primarily responsible for managing the sales, promotion and management of our lace products.

Mr. Wu has over 20 years of experience in the sales, purchase and management of textile products. Before joining our Group, he worked in the dyeing factory of Sun Hing Industries Holding Limited from March 2000 to March 2001, and then he was transferred to Sun Hing Elastic and Lace Factory Limited as the group leader. In August 2002, Mr. Wu became a senior salesman in the business department of Sun Hing Industries Holding Limited. Subsequently, in September 2006, he took the position of assistant manager of the purchasing department at Chung Tai Garment Factory and as a special assistant to the general manager and factory director as his last position. From December 2011 to March 2016, Mr. Wu was the business manager of Xiamen Liying Knitting Co., Ltd. In March 2016, Mr. Wu joined Deyun as the business manager of lace sales and has been working with us since then.

During the three years immediately preceding the Latest Practicable Date, Mr. Wu has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang Guangyan

Ms. Wang Guangyan (王光燕), aged 42, has been our director of weaving factory since May 2015. She is primarily responsible for managing the manufacturing and operations of the weaving factory.

Ms. Wang has over 23 years of experience in the manufacturing and management of textiles industry. Prior to joining Deyun, she was the workshop director in Qinghong Fuqing Lace Co., Ltd. In March 2000, Ms. Wang joined Changle Yongyi Lace Co., Ltd as a workshop director. She then took her position as production manager of Changle Xinyu Lace Co., Ltd. In May 2015, Ms. Wang Guangyan joined Deyun as the director of the weaving factory and has been working with us since then.

During the three years immediately preceding the Latest Practicable Date, Ms. Wang has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Ms. Xu Jing

Ms. Xu Jing (徐靜), aged 43, was appointed as our company secretary on 20 February 2020. She is responsible for our Group's company secretarial duties and corporate governance matters in relation to our Company.

Ms. Xu has over 18 years of experience in the corporate services field. Ms. Xu has been a company secretary of Dafeng Port Heshun Technology Company Limited (Stock Code: 8310) since May 2016. She is responsible for supervising the company secretarial teams to provide a full range of listed and private company secretarial services as director in a local enterprise service provider in Hong Kong, Excellent Enterprise Services Limited. Prior to her current position, Ms. Xu was a company secretary and a financial internal control audit director at China Health Group Inc., a company listed on the GEM of the Stock Exchange (Stock Code: 8225) from December 2015 to June 2016. She also worked as a chief financial officer at Shenzhen Jiantao Technology Company Limited from February 2012 to April 2015. During June 2007 to March 2012, Ms. Xu took the position of the financial director and a qualified accountant at Shenzhen Neptunus Interlong Bio-Technique Company Limited, a company listed on the GEM of the Stock Exchange (Stock code: 8329). From July 2002 to May 2007, Ms. Xu worked at Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (the wholly owned subsidiary of a Hong Kong listed company, Coolpad Group Limited (Stock code: 2369), formerly known as China Wireless Technologies Limited) as the company accountant.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Xu obtained her Bachelor of Administration degree from Zhongnan University of Economics and Law in June 2002. Ms. Xu was awarded the certificate of certified public accountant by the Chinese Institute of Certified Public Accountants in October 2003. Ms. Xu has been a fellow of the Association of Chartered Certified Accountants since September 2013. Ms. Xu has also been a fellow of the Hong Kong Institute of Certified Public Accountants since July 2016.

COMPLIANCE ADVISER

We have appointed Dakin Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. During the term of the compliance adviser agreement, the compliance adviser will advise us on the following circumstances:

- (i) the publication of any announcements, circulars or financial reports under any applicable laws, rules, codes and guidelines;
- (ii) where a transaction, which might be discloseable or being a notifiable or connected transaction under Chapters 13, 14 and/or 14A of the Listing Rules, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us in respect of unusual price movement and trading volume or other issues under Rule 13.10 of the Listing Rules.

The term of this appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the financial results of the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

BOARD COMMITTEES

We have established the following committees in our Board of Directors: an Audit Committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

DIRECTORS AND SENIOR MANAGEMENT

Audit committee

We established an Audit Committee on 16 December 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 and paragraph D3 of the Code as set forth in Appendix 14 to the Listing Rules. Our Audit Committee is chaired by Mr. Chow Kit Ting, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules and have three other members, namely Mr. Sheng Zijiu, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund. The primary duties of our Audit Committee include, but are not limited to, the following: (i) assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iii) developing and reviewing our policies and practices on corporate governance; (iv) making recommendations to our Board; and (v) ensuring that good corporate governance practices and procedures are established.

Remuneration committee

We established a Remuneration Committee on 16 December 2020 with written terms of reference in compliance with paragraph B1 of the Code as set forth in Appendix 14 to the Listing Rules. Our Remuneration Committee is chaired by Mr. Yip Koon Shing, and have three other members, namely Mr. Sheng Zijiu, Mr. Wong Chun Sek Edmund and Mr. Chow Kit Ting. The primary duties of our Remuneration Committee include, but are not limited to, the following: (i) making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time.

Nomination committee

We established a Nomination Committee on 16 December 2020 with written terms of reference in compliance with paragraph A5 of the Code as set forth in Appendix 14 to the Listing Rules. Our Nomination Committee is chaired by Ms. Lin Lili, and have three other members, namely Mr. Sheng Zijiu, Mr. Yip Koon Shing and Mr. Wong Chun Sek Edmund. The primary duties of our Nomination Committee include, but are not limited to, the following: (i) reviewing the structure, size and composition of the Board; (ii) assessing the independence of Independent Non-Executive Directors; (iii) making recommendations to our Board on matters relating to the appointment of Director; and (iv) reviewing our board diversity policy.

DIRECTORS AND SENIOR MANAGEMENT

COMPENSATION OF THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

Our Directors and senior management receive compensation in the form of salaries, and other benefits-in-kind, including our contribution to employees' provident fund. Our Remuneration Committee determines the salaries of our Directors based on each Director's qualification, position and seniority.

The aggregate amount of remuneration (including salaries, directors' fees, other benefits and contributions to employees' provident scheme) accrued to our six Executive Directors for the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 were approximately RMB0.51 million, RMB0.52 million, RMB1.08 million and RMB0.58 million, respectively.

The aggregate amount of remuneration (including salaries directors' fees, other benefits and contributions to employees' provident scheme) paid to the five highest paid individuals of our Group for the financial years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020 including our Directors were approximately RMB0.55 million, RMB0.53 million, RMB1.09 million and RMB0.73 million, respectively.

It is estimated that an aggregate amount of remuneration equivalent to approximately RMB1.08 million will be paid and granted to our Directors by us for the year ending 31 December 2020 under arrangements in force on the date of this prospectus.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors during the Track Record Period for the loss of office as 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. None of our Directors waived any emoluments during the same period.

To incentivise our Directors, senior management and employees, we have conditionally adopted the Share Option Scheme on 16 December 2020. Please refer to the section headed "Appendix IV – Statutory and General Information – F. Share Option Scheme" in this prospectus for further details.

DIRECTORS AND SENIOR MANAGEMENT

Our policy concerning the remuneration of our Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, performance and the time devoted to our business. Except as disclosed in this prospectus, no Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

For additional information on the Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Note 29 in the Accountant's Report set out in Appendix I.

BOARD DIVERSITY POLICY

To enhance the effectiveness of our Board and to maintain high standard of corporate governance, we have adopted a board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. The board diversity policy sets out the criteria in selecting candidates to our Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

We are also committed to adopting a similar approach to promote diversity of the management (including but not limited to the senior management) of our Company to enhance the effectiveness of corporate governance of our Company as a whole.

Our Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of fabrics weaving and dyeing, transportation and logistics auditing and accounting business administration. Furthermore, our Directors range from 35 years old to 76 years old, and comprise 9 males and 1 female.

Our Nomination Committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the Corporate Governance Code. Our Nomination Committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. Our Nomination Committee will discuss any revision that may be required and recommend any such revisions to the Board. We will also disclose in our corporate governance report on the Board's composition under diversified perspectives on an annual basis.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTOR'S INTEREST

Except as disclosed in this section, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management, substantial shareholders or the Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in Hong Kong or overseas during the three years prior to the date of this prospectus.

For details regarding our Directors' respective interests or short positions (if any) in our Shares, particulars of our Directors' service agreements and our Directors' remuneration, please refer to the section headed "Appendix IV – Statutory and General Information – D. Further Information About Our Directors, Chief Executive and Substantial Shareholders" in this prospectus.

Except as disclosed in this section, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

None of our Directors and their respective close associates are interested in any business which competes or is likely to compete with that of our Group.

SHARE CAPITAL

SHARE CAPITAL

Without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the share structure of our Company immediately following the Capitalisation Issue and the Share Offer will be as follows:

Maximum authorised shares:

10,000,000,000 Shares of HK\$0.01 each	HK\$100,000,000
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Shares in issue or to be issued, fully paid or credited as fully paid:

20,000	Shares in issue as at the date of this prospectus	HK\$200
944,980,000	Shares to be issued under the Capitalisation Issue	HK\$9,449,800
<u>315,000,000</u>	Shares to be issued under the Share Offer	<u>HK\$3,150,000</u>

Total

<u>1,260,000,000</u>	<u>HK\$12,600,000</u>
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ASSUMPTIONS

The above tables assume the Listing has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account (i) any Shares which may be issued upon (i) the exercise of the Over-allotment Option; (ii) any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme; or (iii) any Shares which may be issued or repurchased by our Company under the Issuing Mandate and Repurchase Mandate as referred to below.

RANKING

The Shares are ordinary Shares in the share capital of our Company and are identical in all respects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus, save for entitlements to the Capitalisation Issue.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules).

SHARE CAPITAL

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. For details regarding the principal terms of the Share Option Scheme, please refer to the section headed “Appendix IV – Statutory and General Information – F. Share Option Scheme” in this prospectus.

ISSUING MANDATE

Our Directors have been granted an Issuing Mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (1) 20% of the aggregate nominal value of the share capital of our Company in issue immediately upon completion of the Capitalisation Issue and the Share Offer (not including any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), and
- (2) the aggregate nominal value of the share capital of our Company repurchased by our Company, if any, under the Repurchase Mandate referred to below.

The aggregate nominal value of the Shares which our Company authorised our Directors to allot and issue under this Issuing Mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue; (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles; (iii) any specific authority granted by our Shareholders in general meeting(s); or (iv) the exercise of any option which may be granted under the Share Option Scheme or any arrangement which may be regulated under Chapter 17 of the Listing Rules.

The Issuing Mandate will expire at the earliest of:

- (1) the conclusion of our Company’s next annual general meeting;
- (2) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or our Articles to hold our next annual general meeting; or
- (3) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed “Appendix IV – Statutory and General Information – A. Further Information about our Group and our subsidiaries – 5. Resolutions in writing of our shareholders dated 16 December 2020” in this prospectus for further details.

SHARE CAPITAL

REPURCHASE MANDATE

Our Directors have been granted a Repurchase Mandate to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately upon completion of the Capitalisation Issue and the Share Offer.

This Repurchase Mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares by our Company is set out in the section headed “Appendix IV – Statutory and General Information – B. Repurchase of our Shares”.

The Repurchase Mandate will expire at the earliest of:

- (1) the conclusion of our Company’s next annual general meeting;
- (2) the expiration of the period within which our Company is required by the applicable Cayman Islands laws or our Articles to hold our next annual general meeting; or
- (3) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed “Appendix IV – Statutory and General Information – A. Further Information about our Group and our Subsidiaries – 5. Resolutions in writing of our shareholders dated 16 December 2020” in this prospectus for further details.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Pursuant to the Companies Law and the terms of our Articles, our Company may from time to time by ordinary resolution of our Shareholders (1) increase our capital, (2) consolidate and divide our capital into Shares of larger amount, (3) divided our Shares into several classes, (4) subdivide our Shares into Shares of smaller amount, and (5) cancel any Shares which have not been taken. In addition, our Company may subject to the provision of the Companies Law reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. Please refer to the section headed “Appendix III – Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of Capital” in this prospectus for further details.

SHARE CAPITAL

Pursuant to the Companies Law and the terms of our Articles, all or any of the special rights attached to our Shares or class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal of issued Shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the Shares of that class. Please refer to the section headed “Appendix III – Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares” in this prospectus for further details.

Other than the circumstances above, certain corporate actions may require the approval of our Shareholders, which would be obtained in a general meeting. For details, please refer to the section headed “Appendix III – Summary of the Constitution of Our Company and Cayman Islands Company Law” in this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis of our Group's financial condition and results of operations should be read together with our consolidated financial information as of and for each of the three years ended 31 December 2019 and the six months ended 30 June 2020 with the accompanying notes as set out in the Accountant's Report in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRS. Prospective investors should read the whole of the Accountant's Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risk and uncertainties. However, whether our actual results and developments will meet our expectations and projection depend on a number of risks and uncertainties over which our Group does not have control. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a long-established dyeing service provider and lace manufacturer based in Fuzhou City, Fujian, the PRC in the textile industry. During the Track Record Period, our businesses included providing dyeing services and manufacture of lace. Our total revenue amounted to approximately RMB146.0 million, RMB172.5 million, RMB203.4 million, RMB108.2 million and RMB95.1 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

For our dyeing business, our customers are mainly lace and swim wear manufacturers who would provide us with their own lace and swim wear fabrics for us to dye before further fabrication. Our dyeing revenue amounted to approximately RMB72.7 million, RMB87.9 million, RMB117.9 million, RMB61.0 million and RMB57.5 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

For our lace business, we offer a wide portfolio of lace design for our customers to choose or tailor-made our lace products according to their specifications, such as design, length, width, threads density count and texture. Our lace revenue amounted to approximately RMB73.3 million, RMB84.6 million, RMB85.5 million, RMB47.2 million and RMB37.6 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

Depending on the needs of our customers, we would both manufacture lace as well as provide dyeing services to the same customers.

We primarily transact with domestic customers located among areas of Fujian, Guangdong and Zhejiang. During the Track Record Period, our domestic sales amounted to approximately RMB144.5 million, RMB169.2 million, RMB200.9 million, RMB107.0 million and RMB94.3 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, represented approximately 99.0%, 98.1%, 98.8%, 98.9% and 99.2% of our total revenue over the same periods.

FINANCIAL INFORMATION

Our customers could be broadly classified into two types, namely the manufacturers and the trading companies. Our customer base has been broadened from FY17 to FY19, from over 280 customers for FY17 to over 600 customers for FY19.

During the Track Record Period, our net profit amounted to approximately RMB16.8 million, RMB31.6 million, RMB41.9 million, RMB27.5 million and RMB21.2 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, represented net profit margins of approximately 11.5%, 18.3%, 20.6%, 25.4% and 22.3%, respectively, over the same periods.

BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 4 January 2019 and became the indirect holding company of Deyun pursuant to the Reorganisation completed on 26 December 2019. Details of which are set out in the section headed “History, development and Reorganisation” in this prospectus.

The historical financial information of our Group has been prepared by our Directors based on accounting policies which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, on the basis of presentation preparation as set out in Notes 1.3 and 2.1 in the Accountant’s Report contained in Appendix I to this prospectus.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Regulatory development on environmental protection

For production of lingerie materials, lace typically requires dyeing prior to any further fabrication. Dyeing process emits waste water and a valid pollutant discharge permit should be obtained from the relevant regulatory government authority in PRC prior to engage in dyeing process.

In order to meet the relevant environmental protection standards, effective sewage and waste water treatment infrastructure should be installed to qualify and obtain the proper pollutant discharge permit in PRC. Any material change in government policy to place a more stringent requirement on environmental protection may cause marginally qualified dyeing factories to invest substantial cost to upgrade or rectify the sewage and water treatment infrastructure, or otherwise its relevant business license will be revoked. Any change in government policy may also increase the compliance cost for enterprises continue to engage in dyeing process and thus affect the overall cost of production.

FINANCIAL INFORMATION

Hence, any material change in government policy to place a more stringent requirement may significant reduce number of our competitors and thus increase demand for our products in view of temporary shortage in dyeing process providers, vice versa, affect overall compliance cost, and our financial condition and results of operations would be materially affected.

Demand on lingerie products and lingerie materials

A key driver of our revenue is customer demand for our products, which is highly driven by the downstream consumers' demand on lingerie products. If there is a decline in the market demand for our products, or if the market demand of our products does not increase, or if we fail to direct our efforts to product development, our business, financial condition, and operation results may be adversely affected. Our business may be affected significantly by natural, economic or social events, lifestyle, demographic factors and circumstances in the PRC. If these events of circumstances arise in the PRC and cause detrimental effect to us, our business, financial condition, operation results and growth prospects may be materially and adversely affected.

Cost of raw materials and direct labour costs

Cost of raw materials and direct labour costs are the major components of our cost of sales and have direct impact on our profitability. For each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our cost of raw materials accounted for approximately 50.6%, 53.7%, 49.5%, 53.3% and 46.1% of our total cost of sales, respectively, and our direct labour cost accounted for approximately 21.7%, 19.5%, 25.1%, 22.0% and 28.0% of our total cost of sales, respectively.

Our ability to purchase raw materials from our suppliers at commercially reasonable prices directly affects our profitability. Our major raw materials include yarns, dyeing compounds and fuels. Our Group did not engage in any hedging contracts on the raw material costs. Therefore, any unexpected price fluctuations in our major raw materials may affect our financial results if we are unable to transfer the additional purchase costs to our customers.

FINANCIAL INFORMATION

SENSITIVITY ANALYSIS

Hypothetical fluctuations in our average selling price of dyeing

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our average selling prices on our profit before tax during the Track Record Period, assuming the fluctuation of average selling price of dyeing to be 5% and 10% during each of the three years ended 31 December 2019 and the six months ended 30 June 2020 with other variables remaining constant.

	+/- 5% <i>RMB'000</i>	+/- 10% <i>RMB'000</i>
Changes in profit before tax		
For FY17	+/-3,649	+/-7,298
For FY18	+/-4,380	+/-8,760
For FY19	+/-5,867	+/-11,733
For 1H20	+/-2,882	+/-5,764

Hypothetical fluctuations in our average selling prices of lace

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our average selling prices of lace on our profit before tax during the Track Record Period, assuming the fluctuation of average selling price of manufactured lace to be 5% and 10% during each of the three years ended 31 December 2019 and the six months ended 30 June 2020 with other variables remaining constant.

	+/- 5% <i>RMB'000</i>	+/- 10% <i>RMB'000</i>
Changes in profit before tax		
For FY17	+/-3,665	+/-7,331
For FY18	+/-4,227	+/-8,455
For FY19	+/-4,275	+/-8,549
For 1H20	+/-1,882	+/-3,763

FINANCIAL INFORMATION

Hypothetical fluctuations in cost of raw materials

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of raw materials on our profit before tax during the Track Record Period, assuming the fluctuation of cost of raw materials to be 5% and 10% during each of the three years ended 31 December 2019 and the six months ended 30 June 2020 with other variables remaining constant.

	+/- 5% <i>RMB'000</i>	+/- 10% <i>RMB'000</i>
Changes in profit before tax		
For FY17	+/-3,007	+/-6,013
For FY18	+/-3,415	+/-6,829
For FY19	+/-3,382	+/-6,764
For 1H20	+/-1,461	+/-2,921

BREAKEVEN ANALYSIS

The following table sets forth the percentage of fluctuation of each of the average selling prices of dyeing, the average selling price of manufactured lace and cost of raw materials that will cause us to incur a loss before taxation for the year ended 31 December 2019 and the six months ended 30 June 2020, assuming that all other factors remain unchanged.

	For FY19		For 1H20	
	Decrease in the average selling price	Increase in the average purchases cost	Decrease in the average selling price	Increase in the average purchases cost
Dyeing	41.6%	N/A	44.2%	N/A
Manufactured lace	57.4%	N/A	67.6%	N/A
Raw materials	N/A	72.6%	N/A	88.1%

In addition to the fluctuation of the average selling prices of our products and the cost of raw materials, the occurrence of certain events disclosed in the section headed “Risk factors” in this prospectus may also cause us to incur a loss.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group has been prepared in accordance with HKFRS issued by the HKICPA. 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.

Some of the accounting policies involve judgements, estimates and assumptions made by our management. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Further information regarding the key judgements made in applying our accounting policies are set forth in Note 4 to the Accountant's Report as set out in Appendix I.

Set forth below are the most critical accounting policies, judgements and estimates used in the preparation of our financial statements:

Revenue recognition

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

Rendering of manufacturing of lace and provision of dyeing services is recognised when or as the control of the goods or services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may transfer over time or at a point in time. Control of the goods or services is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue is recognised over time using the input method with reference to the costs incurred for the goods or services.

Circumstances to recognise the revenue over time

Pursuant to HKFRS 15, the Company recognises its revenue over time for contracts of both the manufacturing of lace and the provision of dyeing services as the Group's manufacturing and dyeing services create an asset with no alternative use to the Group; and the Group has an enforceable right to payment for performance completed to date if these contracts were to be terminated before completion for reasons other than the Group's failure to perform as promised.

FINANCIAL INFORMATION

Bundled sales

The Company does not engage in bundled sales contract which involves both the manufacturing of lace and provision of dyeing services as the promised final output to be delivered to customers. The Company either provides dyeing only services to customers who provide their own fabrics, or manufactures lace as a finished good according to the specification and colour requested by customers.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. 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.

Impairment of financial assets

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets, trade and bills receivables.

To measure the expected credit losses, contract assets, trade and bills receivables have grouped bases on shared credit risk characteristics and the days past due. The contract assets relate to unbilled services and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Measurement of expected credit loss on individual basis

Contract assets, trade and bills receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the balance of loss allowance in respect of these individually assessed receivables was approximately RMB399,000, RMB612,000, RMB612,000 and RMB444,000 respectively.

FINANCIAL INFORMATION

Measurement of expected credit loss on collective basis

The expected loss rates are based on the historical payment profiles of revenue from the contracts and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Trade receivables without known insolvencies are assessed on a collective basis based on shared credit risk characteristic. Based on the Group's assessment, expected credit loss rate of these trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivable balances was not material and no provision was recognised.

Impairment losses on contract assets, trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Adoption of HKFRS 9

HKFRS 9 Financial instruments ("**HKFRS 9**") has been adopted and applied consistently in our consolidated financial statements since the beginning of, and throughout, the Track Record Period, in lieu of HKAS 39 Financial instruments: Recognition and measurement ("**HKAS 39**"), so as to make our consolidated financial statements comparable on a year-to-year basis and to allow the investors to better understand our financial performance and position.

Based on our internal assessment, the adoption of HKFRS 9 has no significant impact on our Group's financial position and performance as compared with HKAS 39 throughout the Track Record Period.

Adoption of HKFRS 15

HKFRS 15 Revenue from contracts with customers ("**HKFRS 15**") has been adopted and applied consistently in our consolidated financial statements since the beginning of, and throughout, the Track Record Period, in lieu of HKAS 18 Revenue ("**HKAS 18**"), so as to make our consolidated financial statements comparable on a year-to-year basis and to allow the investors to better understand our financial performance and position.

Under HKFRS 15, the Group's revenue from rendering of manufacturing of lace and provision of dyeing services is recognised over time using the input method with reference to the costs incurred for service. Under HKAS 18, the Group's revenue from the same would be recognised at a point in time when goods are delivered and the risk and rewards of the goods are transferred to the customers. The timing differences between the transfer of control of service under HKFRS 15 and transfer of risk and reward of goods under HKAS 18 led to recognition of contract asset as a result of recognising revenue from services that the Group already transferred the control to customers but yet to have unconditional right to consideration. Concurrently, the Group also derecognised certain

FINANCIAL INFORMATION

inventories as costs incurred by the Group to provide the services of which corresponding revenue was recognised. Furthermore, the adoption of HKFRS 15 resulted in reclassification in relation to advanced payments received from the customers for services that have not been transferred to the customers; contract liabilities amounting to approximately RMB0.6 million, RMB0.5 million, RMB1.3 million and RMB0.3 million as of 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, would have been reclassified as receipt in advance if HKAS 18 has been applied throughout the Track Record Period.

We consider that the aforementioned impact from the adoption of HKFRS 15 would not result in significant impact on our financial position and performance as compared with HKAS 18.

Set forth below is the impact from adoption of HKFRS 15 on certain key items of our consolidated financial statements and key ratios:

<i>(in RMB'000)</i>	Currently reported under HKFRS 15 (a)	As if reported under HKAS 18 (b)	Difference (a)–(b)
Profit after tax			
– For the year ended 31 December 2017	16,798	16,627	171
– For the year ended 31 December 2018	31,550	31,444	106
– For the year ended 31 December 2019	41,851	41,111	740
– For the six months ended 30 June 2020	21,245	21,761	(516)
Total assets			
– As at 31 December 2017	207,951	207,096	855
– As at 31 December 2018	233,139	232,227	912
– As at 31 December 2019	234,423	234,472	1,951
– As at 30 June 2020	251,872	250,491	1,381
Total liabilities			
– As at 31 December 2017	80,460	80,061	399
– As at 31 December 2018	105,178	104,828	350
– As at 31 December 2019	55,155	54,505	650
– As at 30 June 2020	51,498	51,037	461
Current ratio <i>(Note 1)</i>			
– As at 31 December 2017	0.48	0.48	0.01
– As at 31 December 2018	0.71	0.70	0.01
– As at 31 December 2019	1.57	1.55	0.02
– As at 30 June 2020	2.12	2.10	0.02

FINANCIAL INFORMATION

<i>(in RMB'000)</i>	Currently reported under HKFRS 15 (a)	As if reported under HKAS 18 (b)	Difference (a)–(b)
Quick ratio <i>(Note 2)</i>			
– As at 31 December 2017	0.35	0.33	0.03
– As at 31 December 2018	0.63	0.61	0.02
– As at 31 December 2019	1.38	1.32	0.06
– As at 30 June 2020	1.99	1.95	(0.11)
Gearing ratio <i>(Note 3)</i>			
– As at 31 December 2017	0.33	0.33	–
– As at 31 December 2018	0.51	0.51	–
– As at 31 December 2019	0.07	0.07	–
– As at 30 June 2020	0.06	0.07	(0.01)

Note 1: Current ratio is calculated by dividing current assets by current liabilities.

Note 2: Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.

Note 3: Gearing ratio is calculated by dividing total debt by total equity multiplied by 100%. Total debt is defined as the sum of the bank borrowings, amount due to shareholders and amount due to related party.

Adoption of HKFRS 16

HKFRS 16 Leases (“**HKFRS 16**”) has been adopted and applied consistently in our consolidated financial statements since the beginning of, and throughout, the Track Record Period, in lieu of HKAS 17 Leases (“**HKAS 17**”), so as to make our consolidated financial statements comparable on a year-to-year basis and to allow the investors to better understand our financial performance and position.

Under HKAS 17, operating lease payments are charged to the consolidated statements of profit or loss and other comprehensive income on a straight-line basis over the period of the lease, and operating lease commitments are disclosed separately in a note to the consolidated financial statements and are recognised outside of the consolidated statements of financial position. Under HKFRS 16, all leases (except for those with a lease term of less than 12 months or of low value) must be recognised in the form of assets (being the right-of-use assets) and financial liabilities (being the lease liabilities) on our consolidated statements of financial position at the commencement of respective leases.

FINANCIAL INFORMATION

The Group has land use right which is recognised as right-of-use asset under HKFRS 16. Since the Group has prepaid all lease payments in respect of the right-of-use asset, no lease liabilities are recognised as at each of the reporting dates. Except the above, the Group assessed that adoption of HKFRS 16 does not have significant impact on the Group's net financial position and performance as compared with HKAS 17 for the Track Record Period.

RESULTS OF OPERATIONS

The following table sets out a summary of the results of our Group for the Track Record Period, derived from the Accountant's Report set out in Appendix I to this prospectus.

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	145,981	172,480	203,443	108,224	95,087
Cost of sales	<u>(118,826)</u>	<u>(127,107)</u>	<u>(136,539)</u>	<u>(70,876)</u>	<u>(63,341)</u>
Gross profit	27,155	45,373	66,904	37,348	31,746
Other income	1,544	296	744	607	3,570
Other (losses)/gains, net	(64)	244	(6)	40	558
Selling and distribution expenses	(2,025)	(1,893)	(2,324)	(1,182)	(1,074)
Administrative expenses	(4,557)	(4,959)	(14,335)	(3,506)	(8,877)
Provision for impairment of trade receivables	<u>(98)</u>	<u>(213)</u>	<u>–</u>	<u>–</u>	<u>(200)</u>
Operating profit	21,955	38,848	50,983	33,307	25,723
Finance costs, net	<u>(2,932)</u>	<u>(2,758)</u>	<u>(1,908)</u>	<u>(1,544)</u>	<u>(272)</u>
Profit before income tax	19,023	36,090	49,075	31,763	25,451
Income tax expense	<u>(2,225)</u>	<u>(4,540)</u>	<u>(7,224)</u>	<u>(4,248)</u>	<u>(4,206)</u>
Profit attributable to owners of the Company	<u>16,798</u>	<u>31,550</u>	<u>41,851</u>	<u>27,515</u>	<u>21,245</u>

FINANCIAL INFORMATION

SELECTED ITEMS OF CONSOLIDATED INCOME STATEMENTS

Revenue

During the Track Record Period, we provide dyeing services as well as manufacture and sale of lace to our customers, of which substantial portion of it were domestic sales. For dyeing, our customers are mainly lace and swim wear manufacturers who would provide us with their own lace and swim wear fabrics for us to dye. For lace, we offer a wide portfolio of lace design for our customers to choose or tailor-made our products according to their specification on order-by-order basis.

Our services and products can be broadly categorized into two types, namely (i) dyeing, and (ii) lace, and our total revenue was approximately RMB146.0 million, approximately RMB172.5 million, approximately RMB203.4 million, approximately RMB108.2 million and approximately RMB95.1 million for FY17, FY18, FY19, 1H19 and 1H20, respectively.

Revenue by product types

The following table sets out a breakdown of our revenue by major types for the years/periods as indicated:

	FY17				FY18				FY19			
	Revenue	% of	Sales	Average	Revenue	% of	Sales	Average	Revenue	% of	Sales	Average
	(RMB'000)	revenue	volume	selling	(RMB'000)	revenue	volume	selling	(RMB'000)	revenue	volume	selling
		(%)	(kg'000)	price		(%)	(kg'000)	price		(%)	(kg'000)	price
				(RMB/kg)				(RMB/kg)				(RMB/kg)
Dyeing	72,711	49.8	8,486	8.6	87,925	51.0	9,733	9.0	117,937	58.0	12,222	9.6
Lace												
High density	34,659	23.7	326	106.4	42,662	24.7	402	105.7	53,749	26.4	438	122.6
Regular density	38,611	26.5	494	78.2	41,893	24.3	522	80.3	31,757	15.6	364	87.4
Subtotal	73,270	50.2	820	89.4	84,555	49.0	924	91.5	85,506	42.0	802	106.6
Total revenue	145,981	100.0	9,306	N/A	172,480	100.0	10,657	N/A	203,443	100.0	13,024	N/A

FINANCIAL INFORMATION

	1H19				1H20			
	Revenue	% of	Sales	Average	Revenue	% of	Sales	Average
	(RMB'000)	revenue	volume	selling	(RMB'000)	revenue	volume	selling
	(unaudited)	(%)	(kg'000)	price		(%)	(kg'000)	price
				(RMB/kg)				(RMB/kg)
Dyeing	61,038	56.4	6,474	9.4	57,456	60.4	5,707	10.1
Lace								
High density	29,356	27.1	256	114.7	24,675	25.9	208	118.6
Regular density	17,830	16.5	194	91.9	12,956	13.7	132	98.2
Subtotal	47,186	43.6	450	104.9	37,631	39.6	340	110.7
Total revenue	108,224	100.0	6,924	N/A	95,087	100.0	6,047	N/A

We recorded total revenue of approximately RMB146.0 million, RMB172.5 million, RMB203.4 million, RMB108.2 million and RMB95.1 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. Our revenue could be split into two major components, namely (i) dyeing, and (ii) lace. Our revenue has been increasing from FY17 to FY19, to the best knowledge of the Directors after due and reasonable enquires, primarily due to the Regulatory Impact. Please refer to the section headed “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” for details on the Regulatory Impact.

As advised by CIC, the fluctuations of the Group’s sales volume and average selling price during the Track Record Period were generally in line with the market trend, having considered (i) the Regulatory Impact contributed to the shift of Guangdong demand to Fujian, as well as the decrease in overall supply surrounding Fujian and Guangdong market, and thus the impact to Fujian lace dyeing services providers, and (ii) after reasonable, due and careful enquiry, the period to period fluctuations of the Group were not in an unreasonable range which could infer a material departure from the market trend, or materially deviate from those of the top competitors.

Dyeing

The dyeing revenue amounted to approximately RMB72.7 million, RMB87.9 million and RMB117.9 million, respectively, for each of the three years ended 31 December 2019. Such increase in our dyeing revenue was primarily due to the increasing customer base and sales volume as driven by the Regulatory Impact. For further details of the impact from Regulatory Impact on our dyeing services in Fujian and Guangdong, please refer to the paragraphs headed “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Fujian” and “Selected items of consolidated income statements – Revenue – Revenue

FINANCIAL INFORMATION

by geographical regions - Guangdong” in this section. Our dyeing revenue decreased from approximately RMB61.0 million for 1H19 to approximately RMB57.5 million for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020 that caused factories in Fujian, including our Company, to postpone reopening after the Chinese New Year, and there were migrant workers who were unable to return to jobs immediately.

The sales volume of dyeing amounted to approximately 8.5 million kg, 9.7 million kg and 12.2 million kg, respectively, for each of the three years ended 31 December 2019. Such increase in the sales volume was primarily due to the increasing customer base as driven by the Regulatory Impact. For further details of the impact from Regulatory Impact on our dyeing services in Fujian and Guangdong, please refer to the paragraphs headed “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Fujian” and “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Guangdong” in this section. Our sales volume of dyeing decreased from approximately 6.5 million kg for 1H19 to approximately 5.7 million kg for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020 that caused factories in Fujian to postpone reopening after the Chinese New Year.

The average selling price of dyeing amounted to approximately RMB8.6/kg, RMB9.0/kg and RMB9.6/kg, respectively, for each of the three years ended 31 December 2019. The upward trend was primarily attributable to the pricing adjustment in view of the over-stretched dyeing facilities, from utilisation rate of approximately 84.9% for FY17, to approximately 100.1% for FY18 and further to approximately 117.9% for FY19. Our average selling price of dyeing increased from approximately RMB9.4/kg for 1H19 to approximately RMB10.1/kg for 1H20, which was primarily attributable to upward pricing pressure with the high utilisation rate of our dyeing facilities, reaching approximately 117.4%, in 1H20.

Lace

Our lace could be classified into two types, namely (i) regular density lace, and (ii) high density lace.

The lace revenue amounted to approximately RMB73.3 million, RMB84.6 million and RMB85.5 million, respectively, for each of the three years ended 31 December 2019. Such increase in our lace revenue was primarily due to the increasing customer base and sales volume as driven by the Regulatory Impact, partially offset by the decrease in sales volume in response to our increased pricing on lace products. For further details of the impact from Regulatory Impact on our lace sales in Fujian and Guangdong, please refer to the paragraphs headed “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Fujian” and “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Guangdong” in this section. Our lace revenue decreased from approximately RMB47.2 million for 1H19 to approximately RMB37.6 million for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020 and the economic activities in certain regions, in particular, Guangdong, were restricted in response to the outbreak of COVID-19.

FINANCIAL INFORMATION

The sales volume of lace increase from approximately 820,000 kg for FY17 to approximately 924,000 kg for FY18, primarily due to the increased customer base driven by the Regulatory Impact. For further details of the impact from Regulatory Impact on our lace sales in Fujian and Guangdong, please refer to the paragraphs headed “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Fujian” and “Selected items of consolidated income statements – Revenue – Revenue by geographical regions - Guangdong” in this section. The sales volume of lace decreased to approximately 802,000 kg for FY19, primarily resulted from our upward pricing adjustments on lace products accompany with change in product mix with more high density lace with higher margin. Our sales volume of lace decreased from approximately 450,000 kg for 1H19 to approximately 340,000 kg for 1H20, which was primarily attributable to the outbreak of COVID-19 since January 2020.

Average selling price of lace amounted to approximately RMB89.4/kg, RMB91.5/kg and RMB106.6/kg, respectively, for each of the three years ended 31 December 2019. The upward pricing trend was primarily resulted from (i) the increasing proportional sales on high density lace, and (ii) upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace. Our average selling price of lace increased from approximately RMB104.9/kg for 1H19 to approximately RMB110.7/kg for 1H20, which was primarily attributable to the upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace.

For further details of our revenue, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

Revenue by geographical regions

The following table sets out a breakdown of our revenue by geographical regions of the Group’s customers for the years/periods as indicated:

	FY17		FY18		FY19		1H19		1H20	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
Fujian	75,066	51.4	92,559	53.7	110,835	54.5	54,230	50.1	60,221	63.4
Guangdong	35,765	24.5	48,190	27.9	64,922	31.9	36,210	33.5	23,749	24.9
Zhejiang	25,802	17.7	21,722	12.6	9,636	4.8	6,676	6.1	5,953	6.3
Other PRC regions	7,915	5.4	6,721	3.9	15,550	7.6	9,909	9.2	4,403	4.6
Domestic sales	144,548	99.0	169,192	98.1	200,943	98.8	107,025	98.9	94,326	99.2
International sales	1,433	1.0	3,288	1.9	2,500	1.2	1,199	1.1	761	0.8
Total revenue	<u>145,981</u>	<u>100.0</u>	<u>172,480</u>	<u>100.0</u>	<u>203,443</u>	<u>100.0</u>	<u>108,224</u>	<u>100.0</u>	<u>95,087</u>	<u>100.0</u>

FINANCIAL INFORMATION

Also represented by:

	FY17		FY18		FY19		1H19		1H20	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
<i>Dyeing</i>										
Fujian	70,369	48.2	86,246	50.0	93,938	46.2	48,658	45.0	47,239	49.7
Guangdong	1,017	0.7	1,469	0.9	22,599	11.1	11,659	10.7	9,363	9.8
Zhejiang	1,132	0.8	75	–	802	0.4	684	0.6	174	0.2
Others ⁽¹⁾	193	0.1	135	0.1	598	0.3	37	0.1	680	0.7
Total dyeing	72,711	49.8	87,925	51.0	117,937	58.0	61,038	56.4	57,456	60.4

	FY17		FY18		FY19		1H19		1H20	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
<i>Lace (domestic sales)</i>										
Guangdong	34,748	23.8	46,721	27.1	42,323	20.8	24,551	22.7	14,386	15.1
Fujian	4,697	3.2	6,313	3.7	16,897	8.3	5,572	5.1	12,982	13.7
Zhejiang	24,670	16.9	21,657	12.5	8,834	4.4	5,992	5.5	5,779	6.1
Guizhou	–	–	–	–	3,672	1.8	2,230	2.1	–	–
Shandong	1,296	0.9	2,661	1.5	3,589	1.8	1,883	1.7	1,344	1.4
Shanghai	2,329	1.6	1,159	0.7	1,624	0.8	1,192	1.1	1,582	1.7
Chongqing	1,026	0.7	–	–	–	–	–	–	–	–
Others ⁽²⁾	3,071	2.1	2,766	1.6	6,067	2.9	4,567	4.2	797	0.8
Subtotal	71,838	49.2	81,267	47.1	83,006	40.8	45,987	42.4	36,870	38.8

FINANCIAL INFORMATION

	FY17		FY18		FY19		1H19		1H20	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
<i>Lace (international sales)</i>										
Hong Kong	849	0.6	1,992	1.2	1,368	0.7	476	0.5	342	0.4
Thailand	363	0.3	650	0.4	466	0.2	217	0.2	411	0.4
Vietnam	28	–	66	–	440	0.2	411	0.4	5	–
Others ⁽³⁾	193	0.1	580	0.3	226	0.1	95	0.1	3	–
Subtotal	1,432	1.0	3,288	1.9	2,500	1.2	1,199	1.2	761	0.8
Total lace	73,270	50.2	84,555	49.0	85,506	42.0	47,186	43.6	37,631	39.6
Total revenue	145,981	100.0	172,480	100.0	203,443	100.0	108,224	100.0	95,087	100.0

Notes:

- (1) include Jiangsu and Liaoning
- (2) mainly include Anhui, Beijing, Hunan, Jiangsu, Jiangxi and Nanjing
- (3) include Latvia, Indonesia, Brazil, Sri Lanka and Cambodia

For our dyeing business, our customers are typically responsible for arranging the logistics, it includes the delivery of their lace to our dyeing plant and the take it back when we finished dyeing. As such, our customers placing dyeing orders are usually located in geographical regions close to our plant. For our lace business, geographical regions were generally not a constraint, as we typically source the raw materials from our suppliers and arrange the delivery to our customers' destinations, it enables us to sell lace to farther areas such as Guangdong and Zhejiang.

During the Track Record Period, over 98% of our sales were domestic sales in the PRC, whereas 90% or above of our revenue were sales to Fujian, Guangdong and Zhejiang.

FINANCIAL INFORMATION

Fujian

Fujian was our largest market, where we predominately generate dyeing revenue in this region. The revenue from Fujian amounted to approximately RMB75.1 million, RMB92.6 million, RMB110.8 million, RMB54.2 million and RMB60.2 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

The dyeing revenue from Fujian amounted to approximately RMB70.4 million, RMB86.2 million and RMB93.9 million, respectively. The increases were primarily due to increased customer base, mainly driven by the Regulatory Impact. The Directors are of the view that (i) the Regulatory Impact has caused numerous dyeing factories to shut down in Shantou City, (ii) the supply of dyeing services of the market as a whole (includes Guangdong and Fujian) decreased as numerous suppliers in Shantou City were shut down, (iii) shutdown of lace dyeing services providers affected the whole value chain in lace manufacturing that the supply of the lace market as a whole (includes Guangdong and Fujian) decreases, primarily due to the remaining dyeing supply could no longer satisfy the lace production demand (for both Guangdong and Fujian), (iv) the remaining market survivors, also being our customers in Fujian, in generally encountered surge in orders received, as less competitors (mainly in Guangdong) could sustain given lack of supporting dyeing service providers in close proximity or otherwise they should incur higher operating cost in sourcing such services from other regions, and (v) thus, our customers face less competition and increased their dyeing orders to us, as well as new customers would place dyeing orders to us, resulted the increase in our revenue on dyeing in Fujian.

The lace revenue from Fujian amounted to approximately RMB4.7 million, RMB6.3 million, RMB16.9 million, RMB5.6 million and RMB13.0 million respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The increase for FY18 was primarily due to the increased orders made by a regular customer namely Customer H, who is a manufacturer customer, and increased its purchase of lace from approximately RMB0.4 million for FY17 to approximately RMB1.2 million for FY18.

The increase for FY19 was primarily due to (i) the increase of orders from one of our regular customers, who was a lace and lingerie manufacturer with more than 10 years of cooperation history with us, and was one of the top five customers for FY19, to meet its latest business development, and (ii) the new customers we have developed since FY19 through our marketing effort.

In addition to the above, unlike the Group's lace sales to Zhejiang, Fujian lace sales did not experience a significant decrease in response to the price increment. The Directors are of the view that (i) the Regulatory Impact was a major reason affecting the overall supply of dyeing services in market as a whole (includes Fujian and Guangdong), (ii) given dyeing which is a key production process in manufacturing of lace products, shutdown of lace dyeing services providers affected the whole value chain in lace manufacturing that the supply of the lace market as a whole (includes Guangdong and Fujian) decreases, primarily due to the remaining dyeing supply could no longer satisfy the lace production demand (for both Guangdong and

FINANCIAL INFORMATION

Fujian), (iii) the shrinking availability of close substitutes of lace products contributed to the price inelasticity faced by the Fujian customers, and (iv) thus the customers in Fujian reacted differently from customers in Zhejiang, and the overall sales volume in Fujian has not decreased in response to the price increment.

As advised by CIC, all the comparable local players providing lace dyeing services in Fuzhou had experienced over-stretching of their production facilities, and the Group's customers were not able to source similar quality standard of dyeing services in surrounding area with cheaper price from the Group's competitors, during the relevant time of the Regulatory Impact. Furthermore, the number of lace dyeing services providers was restricted due to the relevant environmental regulation in place. Therefore, the availability of supply for Fujian customers became lessen, as resources that were meant to fulfill the orders made by Fujian customers were diverted to fulfill orders from Guangdong customers. Given limited supply and increased local demand, despite the Company increases the overall pricing, it was understandable for the Fujian customers to accept the price increment amid lack of close substitutes in their near proximity in Fujian.

The lace revenue from Fujian increased for 1H20, to the best knowledge of the Directors after due and careful enquiry, primarily attributable to the competitors of the Fujian customers, who were predominately located in Guangdong, were more severely affected by the outbreak of COVID-19, and thus the market shares were temporarily filled by the Fujian customers.

Guangdong

Guangdong was our second largest market, where we predominately sell lace to this region. The revenue from Guangdong amounted to approximately RMB35.8 million, RMB48.2 million, RMB64.9 million, RMB36.2 million and RMB23.7 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

The dyeing revenue from Guangdong amounted to approximately RMB1.0 million, RMB1.5 million and RMB22.6 million, respectively, for each of the three years ended 31 December 2019. The increases were primarily due to increased customer base driven by the Regulatory Impact, in particular to its full implementation since 1 January 2019. Since numerous dyeing and printing enterprises were shut down in Shantou City, the original dyeing demand shifted from Shantou City to Fujian, allowing our Group to take up such market share in provision of dyeing services.

Our dyeing revenue from Guangdong decreased from approximately RMB11.7 million for 1H19 to approximately RMB9.4 million for 1H20, which was primarily attributable to the outbreak of COVID-19.

The lace revenue from Guangdong amounted to approximately RMB34.7 million, RMB46.7 million and RMB42.3 million, respectively, for each of the three years ended 31 December 2019. The increase for FY18 was primarily due to increased sales volume, driven by the Regulatory Impact that (i) shutdown of lace dyeing services providers in Shantou City causing Guangdong lace manufacturers to incur high cost to source dyeing services and reduce its competitiveness or

FINANCIAL INFORMATION

to reduce its production capacity in view of lack of suppliers, (ii) the demand of lace in Guangdong gradually shifted to other lace manufacturers who are more cost competitive and capable to produce dyed lace, such as our Group, and (iii) therefore, our Group has captured the market share in Guangdong and recorded an increase in lace sales to Guangdong.

The decrease for FY19 was primarily due to decreased sales volume in response to our increased pricing on lace products. The decrease was in a lesser extent to Zhejiang. The Directors are of the view that (i) the Regulatory Impact was a major reason affecting the overall supply of dyeing services in Guangdong, (ii) given dyeing is a key production process in manufacturing of lace products, shutdown of lace dyeing services providers affected the whole value chain of lace manufacturing that the supply of lace in Guangdong decreases, primarily due to the remaining dyeing supply could no longer satisfy the lace production demand in Guangdong, (iii) the shrinking availability of close substitutes of lace products contributed to the price inelasticity faced by the Guangdong customers, and (iv) thus the Guangdong customers reacted differently from customers in Zhejiang, and the volume decrease in response to the price increment was in a lesser extent to Zhejiang.

Our lace revenue from Guangdong decreased from approximately RMB24.6 million for 1H19 to approximately RMB14.4 million for 1H20, which was primarily attributable to the outbreak of COVID-19.

Zhejiang

Zhejiang was our third largest market, where we predominately sell lace to this region. The revenue from Zhejiang amounted to approximately RMB25.8 million, RMB21.7 million, RMB9.6 million, RMB6.7 million and RMB6.0 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The overall downward trend was primarily due to the decrease in sales volume in response to our increasing selling prices and our Group reserved the production capacity to serve the customers in Guangdong and Fujian that were willing to pay higher prices for our products.

The dyeing revenue from Zhejiang amounted to approximately RMB1.1 million, RMB0.1 million, RMB0.8 million, RMB0.7 million and RMB0.2 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

The lace revenue from Zhejiang amounted to approximately RMB24.7 million, RMB21.7 million, RMB8.8 million, RMB6.0 million and RMB5.8 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

Unlike Fujian and Guangdong, as advised by CIC, there was no significant factor affecting the overall supply in Zhejiang, and thus the availability of close substitutes in near proximity in Zhejiang remained generally unchanged. As such, the availability of supply contributed to the price elasticity faced by Zhejiang customers, thus the Zhejiang customers reacted differently from customers in Fujian and Guangdong, and the volume decrease in response to the price increment was in a greater extent to Fujian and Guangdong.

FINANCIAL INFORMATION

Other PRC regions

The revenue from other PRC regions decreased from approximately RMB7.9 million for FY17 to approximately RMB6.7 million for FY18, primarily due to decrease in orders made by our customers located in other provinces, mainly due to the geographical concern would increase the overall cost of such customers taking into account of the transportation cost.

The revenue from other PRC regions increased from approximately RMB6.7 million for FY18 to approximately RMB15.6 million for FY19, primarily due to (i) our Group newly acquired a customer located in Guizhou, who is a manufacturer customer incorporated since 2017 and principally engaged in manufacturing and sales of textile products, through our salesperson who was responsible to manage this customer in his former employment, and contributed revenue of approximately RMB3.7 million for FY19, and (ii) the increase in revenue from Customer J, who is located in Jiangsu, from approximately RMB2.4 million for FY18 to approximately RMB5.8 million for FY19.

The revenue from other PRC regions decreased from approximately RMB9.9 million for 1H19 to approximately RMB4.4 million for 1H20, primarily due to decrease in revenue from Customer J who located in Jiangsu, from approximately RMB4.4 million for 1H19 to approximately RMB0.7 million for 1H20, primarily due to the outbreak of COVID-19 in 1H20 that could have affected the transportation arrangement, causing decrease in the sales order made by the customer.

International sales

Apart from domestic sales, we also engaged in international sales, accounted for less than 2% throughout the Track Record Period, to Hong Kong, Thailand, Vietnam and other countries.

FINANCIAL INFORMATION

Revenue by customer types

The following table sets out a breakdown of our revenue by types of customers for the years/periods indicated:

	FY17			FY18			FY19		
	Revenue	% of	No. of	Revenue	% of	No. of	Revenue	% of	No. of
	(RMB'000)	(%)	customers	(RMB'000)	(%)	customers	(RMB'000)	(%)	customers
<i>Returning customers</i> ^(Note)									
Manufacturers	108,776	74.5	169	126,367	73.3	183	143,302	70.4	291
Trading entities	18,877	12.9	9	23,129	13.4	10	12,279	6.1	16
Subtotal	127,653	87.4	178	149,496	86.7	193	155,581	76.5	307
<i>New customers</i>									
Manufacturers									
– Fujian	5,045	3.5	33	9,997	5.8	146	17,202	8.4	185
– Guangdong	3,929	2.7	35	7,593	4.4	48	23,010	11.3	90
– Zhejiang	4,005	2.8	20	2,945	1.7	21	1,241	0.6	12
– Jiangsu	2,814	1.9	2	88	0.1	1	772	0.4	3
– Guizhou	–	–	–	–	–	–	3,672	1.8	1
– Others	1,228	0.8	12	1,547	0.9	10	1,556	0.8	5
	17,021	11.7	102	22,170	12.9	226	47,493	23.3	296
Trading entities	1,307	0.9	7	814	0.4	8	370	0.2	6
Subtotal	18,328	12.6	109	22,984	13.3	234	47,862	23.5	302
Total revenue	145,981	100.0	287	172,480	100.0	427	203,443	100.0	609
<i>Also represented by:</i>									
Manufacturers	125,797	86.2	271	148,537	86.1	409	190,794	93.8	587
Trading entities	20,184	13.8	16	23,943	13.9	18	12,649	6.2	22
Total revenue	145,981	100.0	287	172,480	100.0	427	203,443	100.0	609

FINANCIAL INFORMATION

	1H19			1H20		
	Revenue	% of	No. of	Revenue	% of	No. of
	(RMB'000)	revenue	customers	(RMB'000)	revenue	customers
	(unaudited)	(%)			(%)	
<i>Returning customers</i> ^(Note)						
Manufacturers	80,852	74.7	272	83,531	87.9	288
Trading entities	4,314	4.0	12	674	0.7	6
Subtotal	85,166	78.7	284	84,205	88.6	294
<i>New customers</i>						
Manufacturers						
– Fujian	6,193	5.7	133	4,713	4.9	56
– Guangdong	12,176	11.3	61	5,760	6.0	34
– Zhejiang	1,042	1.0	8	175	0.2	3
– Jiangsu	–	–	–	10	–	3
– Guizhou	2,230	2.1	1	–	–	–
– Others	1,280	1.1	4	23	0.1	1
	22,921	21.2	207	10,681	11.2	97
Trading entities	137	0.1	2	201	0.2	2
Subtotal	23,058	21.3	209	10,882	11.4	99
Total revenue	108,224	100.0	493	95,087	100.0	393
<i>Also represented by:</i>						
Manufacturers	103,773	95.9	479	94,212	99.1	385
Trading entities	4,451	4.1	14	875	0.9	8
Total revenue	108,224	100.0	493	95,087	100.0	393

Note: Returning customers refer to customers who have made at least one purchase in (i) the relevant financial year during the Track Record Period, and (ii) the previous financial year.

For each of the three years ended 31 December 2019, our revenue attributable to our returning customers amounted to approximately RMB127.7 million, RMB149.5 million and RMB155.6 million, represent approximately 87.5%, 86.7% and 76.5%, respectively, over the same period. Our revenue attributable to our returning customers remained at similar level of approximately RMB85.2 million for 1H19 and approximately RMB84.2 million for 1H20, represent approximately 78.7% and 88.6%, respectively, over the same period.

FINANCIAL INFORMATION

We sell our products mainly to manufacturers of lingerie products. Our revenue from sales to manufacturers amounted to approximately RMB125.8 million, RMB148.5 million, RMB190.8 million, RMB103.8 million and RMB94.2 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, representing approximately 86.2%, 86.1%, 93.8%, 95.9% and 99.1%, respectively, of our total revenue over the same period. Our number of manufacturer customers increased from over 270 for FY17 to over 400 for FY18, and further increased to over 580 for FY19, our Directors believe primarily driven by the Regulatory Impact, of which the Group has acquired 35 and 48, respectively, new manufacturer customers in Guangdong for each of FY18 and FY19, respectively. Our number of manufacturer customers decreased from 479 for 1H19 to 385 for 1H20, which was primarily attributable to certain travel restrictions applied in response to the outbreak of COVID-19 that constrained marketing effectiveness of the Group to reach out customers in the first half of 2020.

Our revenue from sales to new manufacturer customers from Fujian increased from approximately RMB5.0 million for FY17 to approximately RMB10.0 million for FY18, and further increased to approximately RMB17.2 million for FY19, mainly due to (i) the Regulatory Impact that (a) it has caused numerous dyeing factories to shut down in Shantou City, (b) the supply of dyeing services of the market as a whole (includes Guangdong and Fujian) decreased as numerous suppliers in Shantou City were shut down, (c) shutdown of lace dyeing services providers affected the whole value chain in lace manufacturing that the supply of the lace market as a whole (includes Guangdong and Fujian) decreases, primarily due to the remaining dyeing supply could no longer satisfy the lace production demand (for both Guangdong and Fujian), (d) the remaining market survivors, also being lace providers in Fujian, in generally encountered surge in orders received, as less competitors (mainly in Guangdong) could sustain given lack of supporting dyeing service providers in close proximity or otherwise they should incur higher operating cost in sourcing such services from other regions, and (e) thus, lace providers in Fujian face less competition, which allowed our Group to acquire more new customers to place dyeing orders from us, and (ii) marketing effort spent and reputation gained by the Group within Fujian. The revenue decreased from approximately RMB6.2 million for 1H19 to approximately RMB4.7 million for 1H20, mainly attributable to the outbreak of COVID-19.

Our revenue from sales to new manufacturer customers from Guangdong increased from approximately RMB3.9 million for FY17 to approximately RMB7.6 million for FY18, and further increased to approximately RMB23.0 million for FY19, mainly due to (i) the Regulatory Impact that (a) the shutdown of dyeing factories in Shantou City caused the dyeing demand to shift from Shantou City to Fujian, (b) our Group, as one of the limited number of lace dyeing services providers in Fujian, has captured such market share of dyeing demand in Shantou City and acquired more new customers in Guangdong, and (ii) marketing effort spent the reputation gained by the Group within Guangdong, in view of close proximity to Fujian. The revenue decreased from approximately RMB12.2 million for 1H19 to approximately RMB5.8 million for 1H20, mainly attributable to the outbreak of COVID-19.

Our revenue from sales to new manufacturer customers from Zhejiang decreased from approximately RMB4.0 million for FY17 to approximately RMB2.9 million for FY18, and

FINANCIAL INFORMATION

further decreased to approximately RMB1.3 million for FY19, mainly due to (i) comparatively less marketing effort spent on Zhejiang area in view of the distance away from Fujian, and (ii) Zhejiang customers could source from their surrounding area without significant change on Zhejiang supply. The revenue continued to decrease from approximately RMB1.0 million for 1H19 to approximately RMB0.2 million for 1H20.

Our revenue from sales to new manufacturer customers from Jiangsu decreased from approximately RMB2.8 million for FY17 to approximately RMB0.1 million for FY18, slightly increased to approximately RMB0.8 million for FY19, mainly due to (i) the new customers developed in FY17 became our returning customers in FY18 and FY19, and (ii) comparatively less marketing effort spent by the Group on Jiangsu area in view of the distance away from Fujian. The revenue continued to remain at low level of nil for 1H19 and less than RMB0.1 million for 1H20.

Our revenue from sales to new manufacturer customer from Guizhou increased from nil for FY17 and FY18 to approximately RMB3.7 million for FY19, mainly due to our sales person successfully acquired an apparel products manufacturer located in Guizhou, which such sales person served this new customer in prior employment. The revenue decreased from approximately RMB2.2 million for 1H19 to nil for 1H20, mainly due to such customer became our returning customer in 1H20.

We also sell our products to trading entities, which will resell the products to downstream manufacturers and/or brand owners of lingerie products. Our revenue from sales to trading entities accounted for approximately RMB20.2 million, RMB23.9 million, RMB12.6 million, RMB4.5 million and RMB0.9 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, representing approximately 13.8%, 13.9%, 6.2%, 4.1% and 0.9%, respectively, of our total revenue over the same period.

Revenue by fields of application

The following table sets out a breakdown of our revenue by the downstream applications:

	FY17		FY18		FY19		1H19		1H20	
	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of	Revenue	% of
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)									
Applications on lingerie production	131,667	90.2	157,439	91.3	194,555	95.6	103,901	96.0	93,779	98.6
Applications on swimsuit production	14,314	9.8	15,041	8.7	8,888	4.4	4,323	4.0	1,308	1.4
Total revenue	<u>145,981</u>	<u>100.0</u>	<u>172,480</u>	<u>100.0</u>	<u>203,443</u>	<u>100.0</u>	<u>108,224</u>	<u>100.0</u>	<u>95,087</u>	<u>100.0</u>

FINANCIAL INFORMATION

Our customers purchased our products primarily apply our products in production of lingerie products. Based on our Directors' understanding on our customers' business operation after due and reasonable enquiry, all lace products we sold will be used in lingerie production and majority of the products we dyed are lace products to be applied in lingerie production. Our revenue from sales of our products for application in lingerie products amounted to approximately RMB131.7 million, RMB157.4 million, RMB194.6 million, RMB103.9 million and RMB93.8 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, representing approximately 90.2%, 91.3%, 95.6%, 96.0% and 98.6%, respectively, of our total revenue over the same period. Our revenue from sales of our products for application in swimsuit products amounted to approximately RMB14.3 million, RMB15.0 million, RMB8.9 million, RMB4.3 million and RMB1.3 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, representing approximately 9.8%, 8.7%, 4.4%, 4.0% and 1.4%, respectively, of our total revenue over the same period.

The contribution of the new demand from Guangdong to the annual revenue growth in FY18 and FY19

According to CIC, since more than hundred of printing and dyeing plants in Shantou City were shut down by the end of year 2018, Guangdong customer group who originally relied on these Shantou City plants gradually seek supply from other regions.

Solely for illustrative purpose, based on hypothetical assumptions that (i) all the new customers from Guangdong were driven by the Regulatory Impact to migrate demand from Guangdong to Fujian (the “**Regulatory Factor**”), (ii) based on the Directors' best knowledge and enquires made on the new customers in Fujian, for those who have expressed that they have received increased orders mainly due to the Regulatory Impact, the revenue from these customers were entirely classified as driven by the Regulatory Impact (i.e., Regulatory Factor; for further details of the impact from Regulatory Impact on our revenue in Fujian, please refer to the paragraph headed “Selected items of consolidated income statements – Revenue – Revenue by geographical regions – Fujian” in this section), and (iii) all the rest of the new customers based in Fujian, Zhejiang and others excluding Guangdong, were driven by the initiatives other than the Regulatory Impact (collectively the “**Organic Factor**”), the Directors are of the view that the following table could provide a quantitative analysis with certain referential value on the revenue growth contributed by the Regulatory Impact.

FINANCIAL INFORMATION

	From FY17 to FY18					
	Dyeing		Lace		Total	
	Revenue growth <i>RMB'000</i>	No. of customers	Revenue growth <i>RMB'000</i>	No. of customers	Revenue growth <i>RMB'000</i>	No. of customers
Regulatory Factor						
Guangdong	659	7	6,994	43	7,653	50
Fujian	2,934	111	–	–	2,934	111
Subtotal	3,593	118	6,994	43	10,587	161
Organic Factor						
Fujian	6,982	37	774	3	7,755	40
Zhejiang	75	3	2,870	18	2,945	21
Others	88	1	1,610	11	1,697	12
Subtotal	7,145	41	5,254	32	12,397	73
Total revenue growth	10,738	159	12,247	75	22,984	234

FINANCIAL INFORMATION

Our annual revenue growth of approximately RMB23.0 million in FY18 includes approximately RMB10.6 million, representing approximately 46.1% of the total revenue growth attributable to the Regulatory Factor, and approximately RMB12.4 million, representing approximately 53.9% of the total revenue growth attributable to the Organic Factor.

	From FY18 to FY19					
	Dyeing		Lace		Total	
	Revenue growth RMB'000	No. of customers	Revenue growth RMB'000	No. of customers	Revenue growth RMB'000	No. of customers
Regulatory Factor						
Guangdong	18,200	55	4,941	37	23,141	92
Fujian	5,587	149	–	–	5,587	149
Subtotal	23,787	204	4,941	37	28,728	241
Organic Factor						
Fujian	3,970	29	7,824	9	11,794	38
Zhejiang	631	5	610	7	1,241	12
Others	632	3	5,468	8	6,099	11
Subtotal	5,233	37	13,901	24	19,134	61
Total revenue growth	<u>29,020</u>	<u>241</u>	<u>18,842</u>	<u>61</u>	<u>47,862</u>	<u>302</u>

Our annual revenue growth of approximately RMB47.9 million in FY19 includes approximately RMB28.7 million, representing approximately 60.0% of the total revenue growth, attributable to the Regulatory Factor, and approximately RMB19.1 million, representing approximately 40.0% of the total revenue growth, attributable to the Organic Factor.

FINANCIAL INFORMATION

Cost of sales

Our cost of sales consists mainly of cost of raw materials, direct labour costs, electricity and utilities, depreciation, lease payments and other manufacturing costs.

The table below sets out the components of our cost of sales and the components as a percentage of total cost of sales for the periods indicated:

	FY17		FY18		FY19		1H19		1H20	
	Cost of sales	% of cost of sales	Cost of sales	% of cost of sales	Cost of sales	% of cost of sales	Cost of sales	% of cost of sales	Cost of sales	% of cost of sales
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)									
Raw materials consumed	60,134	50.6	68,293	53.7	67,639	49.5	37,754	53.3	29,213	46.1
Direct labour	25,753	21.7	24,766	19.5	34,218	25.1	15,573	22.0	17,710	28.0
Manufacturing overhead, consists of:										
– depreciation and amortisation	15,319	12.9	16,242	12.8	15,638	11.5	8,080	11.4	7,552	11.9
– electricity	10,036	8.4	9,555	7.5	10,179	7.5	4,623	6.5	4,019	6.3
– wastewater treatment	4,367	3.7	3,642	2.9	4,089	3.0	2,121	3.0	2,252	3.6
– others	1,964	1.7	2,433	1.9	2,941	2.1	1,742	2.5	1,783	2.8
	31,686	26.7	31,872	25.1	32,847	24.1	16,566	23.4	15,606	24.6
Other tax and surcharges attributable to cost of sales	1,253	1.0	2,176	1.7	1,835	1.3	983	1.3	812	1.3
Total cost of sales	<u>118,826</u>	<u>100.0</u>	<u>127,107</u>	<u>100.0</u>	<u>136,539</u>	<u>100.0</u>	<u>70,876</u>	<u>100.0</u>	<u>63,341</u>	<u>100.0</u>

Our cost of sales amounted to approximately RMB118.8 million, RMB127.1 million, RMB136.5 million, RMB70.9 million and RMB63.3 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The fluctuation in our cost of sales during the Track Record Period were generally in line with our fluctuation in revenue over the same period.

Our raw materials consumed mainly represent our dyes, yarns, fuels, greige fabrics and greige lace consumed during production. Our raw materials consumed increased by approximately 13.6% from approximately RMB60.1 million for FY17 to approximately RMB68.3 million for FY18, mainly due to our increase in production scale driven by the increased sales of dyeing and lace. Our raw materials consumed decreased by approximately 1.0% to approximately RMB67.6 million for FY19, primarily caused by the combined effect of (i) the decrease in cost of raw materials consumed for the decreased sales volume of lace by approximately 13.2% or approximately 122,000 kg for FY19 whereas our average selling prices

FINANCIAL INFORMATION

were upward adjusted, offset by (ii) the increase in cost of raw materials consumed for the increased sales volume on dyeing business by approximately 25.6% or approximately 2.5 million kg for FY19. Our raw materials consumed decreased by approximately 22.8% from approximately RMB37.8 million for 1H19 to approximately RMB29.2 million for 1H20, primarily due to the decrease in market price of raw materials, mainly filament yarns, reflected by the decrease in the average price of fully drawn polyester filament yarn (150D/96F), being the industry benchmark used by National Bureau of Statistics of China, decreased from RMB9,403 per ton for 1H19 to RMB6,505 per ton for 1H20, according to the data published by National Bureau of Statistics of China.

Our direct labour cost mainly represent our staff cost attributable to our production. Our direct labour cost decreased by approximately 3.9% from approximately RMB25.8 million for FY17 to approximately RMB24.8 million, mainly due to decrease in our production headcount by approximately 3.1% for FY18 and decrease in the average monthly salary of production staff by approximately 2.2%, reflecting the replacement of departing higher paid experienced staff by newly recruited staff with comparatively lower starting salary. Our direct labour cost increased by approximately 37.9% to approximately RMB34.2 million for FY19, primarily due to (i) there were more overtime works during the year, particularly for dyeing business to meet our increasing dyeing orders, and (ii) we increased the average salary for production staff, release of one-off discretionary bonus, and increase in production headcount by approximately 4.8% to motivate our staff and to express gratitude for hard-working during the year. Our direct labour cost increased by approximately 13.5% from approximately RMB15.6 million for 1H19 to approximately RMB17.7 million for 1H20, primarily due to the Company increased the average salary for production staff.

Our manufacturing overhead amounted to approximately RMB31.7 million, RMB31.9 million, RMB32.8 million, RMB16.6 million and RMB15.6 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. Depreciation and amortisation and electricity are the two major items, constituted approximately 80.0%, 80.9%, 78.6%, 76.7% and 74.1% respectively, of our total manufacturing overhead for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

Our depreciation and amortisation expenses remained stable over the Track Record Period, amounted to approximately RMB15.3 million, RMB16.2 million, RMB15.6 million, RMB8.1 million and RMB7.6 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020.

Our electricity decreased by approximately 4.0% from approximately RMB10.0 million for FY17 to approximately RMB9.6 million for FY18, mainly due to decrease in per unit electricity cost charged by the respective electricity company for FY18. It increased by approximately 6.3% to approximately RMB10.2 million for FY19, mainly due to increase in our usage of electricity primarily for overtime works of factory operation. It decreased by approximately 13.0% from approximately RMB4.6 million for 1H19 to approximately RMB4.0 million for 1H20, primarily due to an overall decrease in electricity consumption, mainly attributable to the delay in re-opening of our production facilities after Chinese New Year caused by the outbreak of COVID-19.

FINANCIAL INFORMATION

Wastewater treatment expense mainly represents water treatment consumables and organic compounds we used for handling sewage and emissions, amounted to approximately RMB4.4 million, RMB3.6 million and RMB4.1 million, respectively, for each of the three years ended 31 December 2019. The wastewater treatment expenses decreased by approximately 18.2% from approximately RMB4.4 million for FY17 to approximately RMB3.6 million for FY18, primarily reflected the fact that we have paid particular attention to monitor our sewage and emissions during the year of renewal of pollutant discharge permit for FY17, which is valid for three years. It increased by approximately 13.9% to approximately RMB4.1 million for FY19, primarily driven by more water treatment materials consumed for the increased sales volume of dyeing business for FY19. It remained at similar level of approximately RMB2.1 million for 1H19 and approximately RMB2.3 million for 1H20.

Our other tax and surcharges increased by approximately 69.2% from approximately RMB1.3 million for FY17 to approximately RMB2.2 million for FY18, primarily due to the increase in our value added tax driven by our increase in total revenue. It decreased by approximately 18.2% to approximately RMB1.8 million for FY19, primarily due to the decrease in PRC value added tax rate from 16% to 13% during FY19. It decreased by approximately 17.4% from approximately RMB1.0 million for 1H19 to approximately RMB0.8 million for 1H20, primarily due to (i) the decrease in PRC value added tax rate from 16% to 13% since April 2019 has a full year effect on 1H20, and (ii) the decrease in revenue, primarily attributable to the outbreak of COVID-19.

The following table sets out the cost of sales breakdown by our services and products for the years/periods indicated:

	FY17			FY18			FY19		
	Cost of sales	% of cost of sales	Average unit cost	Cost of sales	% of cost of sales	Average unit cost	Cost of sales	% of cost of sales	Average unit cost
	(RMB'000)	(%)		(RMB'000)	(%)		(RMB'000)	(%)	
Dyeing	63,232	53.2	7.5	68,995	54.3	7.1	83,930	61.5	6.9
Lace									
High density	24,394	20.5	74.9	27,052	21.3	67.1	30,701	22.5	70.0
Regular density	31,200	26.3	63.2	31,060	24.4	59.5	21,908	16.0	60.3
Subtotal	55,594	46.8	67.8	58,112	45.7	62.9	52,609	38.5	65.6
Total cost of sales	118,826	100.0	N/A	127,107	100.0	N/A	136,539	100.0	N/A

FINANCIAL INFORMATION

	1H19			1H20		
	Cost of sales	% of cost of sales	Average unit cost	Cost of sales	% of cost of sales	Average unit cost
	(RMB'000)	(%)		(RMB'000)	(%)	
	(unaudited)					
Dyeing	42,047	59.3	6.5	39,884	63.0	7.0
Lace						
High density	16,592	23.4	64.8	14,633	23.1	70.4
Regular density	12,237	17.3	63.1	8,824	13.9	66.8
Subtotal	28,829	40.7	64.1	23,457	37.0	69.0
Total cost of sales	70,876	100.0	N/A	63,341	100.0	N/A

Our cost of sales in relation to dyeing increased from approximately RMB63.2 million for FY17 to approximately RMB69.0 million for FY18, and further increased to approximately RMB83.9 million for FY19, representing approximately 53.2%, 54.3% and 61.5%, respectively, of our total cost of sales over the same period. Our cost of sales in relation to dyeing decreased from approximately 42.0 million for 1H19 to RMB39.9 million for 1H20, representing approximately 59.3% and 63.0%, respectively, of our total cost of sales over the same period. These increase and decrease were broadly in line with the increase and decrease in our sales volume of dyeing over the same period.

While we have an upward trend on cost of sales attributable to our dyeing business from FY17 to FY19, the average unit cost of dyeing trended downward over the same period, primarily due to the economy of scale, the increased sales volume caused the per unit depreciation and other factory overheads to be lower. On the contrary, we have recorded a decrease in our cost of sales attributable to dyeing business in 1H20, and thus recorded an increase in the average unit cost of dyeing in 1H20, both compared to those in 1H19, primarily due to the lower level of economy of scale.

Our average unit cost of lace during the Track Record Period were generally negatively related to our sales volume of lace, primarily due to the fact that the higher sales volume, the lower per unit depreciation and other factory overheads, and vice versa.

For further details of our cost of sales, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

FINANCIAL INFORMATION

Gross profit and gross profit margin

Our gross profit amounted to approximately RMB27.2 million, RMB45.4 million, RMB66.9 million, RMB37.3 million and RMB31.7 million for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, respectively, representing gross profit margin of approximately 18.6%, 26.3%, 32.9%, 34.5% and 33.4%, over the same period.

Gross profit and gross profit margin by service and product types

The following table sets out a breakdown of our gross profit and gross profit margin by service and product types for the years/periods as indicated:

	FY17		FY18		FY19		1H19		1H20	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
							(unaudited)			
Dyeing	9,479	13.0	18,930	21.5	34,007	28.8	18,991	31.1	17,572	30.6
Lace										
High density	10,265	29.6	15,609	36.6	23,048	42.9	12,764	43.5	10,042	40.7
Regular density	7,411	19.2	10,834	25.9	9,849	31.0	5,593	31.4	4,132	31.9
Subtotal	17,676	24.1	26,443	31.3	32,897	38.5	18,357	38.9	14,174	37.7
Total gross profit	27,155	18.6	45,373	26.3	66,904	32.9	37,348	34.5	31,746	33.4

Our overall gross profit increased by approximately 66.9% from approximately RMB27.2 million for FY17 to approximately RMB45.4 million for FY18, primarily due to the combined effect of increase in gross profit of dyeing by approximately 98.9% from approximately RMB9.5 million for FY17 to approximately RMB18.9 million for FY18, and increase in gross profit of lace by approximately 49.2% from approximately RMB17.7 million for FY17 to approximately RMB26.4 million for FY18, primarily driven by the increase in customer base and increase in our utilisation rates of production facilities. Our overall gross profit margin increased from approximately 18.6% for FY17 to approximately 26.3% for FY18, primarily due to the combined effect of increased average selling price of dyeing leading to the increase in its respective gross profit margin, and decrease in cost of sales of lace causing its respective gross profit margin to increase from approximately 24.1% for FY17 to approximately 31.3% for FY18.

FINANCIAL INFORMATION

Our overall gross profit increased by approximately 47.4% from approximately RMB45.4 million for FY18 to approximately RMB66.9 million for FY19, primarily due to increase in our average selling price in dyeing, caused our gross profit margin of dyeing to increase from approximately 21.5% for FY18 to approximately 28.8% for FY19, in response to our over-stretched dyeing facilities with utilisation rate reached approximately 117.9% for FY19. Our overall gross profit margin increased from approximately 26.3% for FY18 to approximately 32.9% for FY19, primarily reflected the increase in our gross profit margin of dyeing as aforementioned.

Our overall gross profit decreased by approximately 15.0% from approximately RMB37.3 million for 1H19 to approximately RMB31.7 million for 1H20, primarily reflecting our decrease in revenue mainly caused by the outbreak of COVID-19. Our overall gross profit margin remained at similar level of approximately 34.5% for 1H19 and 33.4% for 1H20. The overall gross profit margin of 33.4% in 1H20 was also similar to the overall gross profit margin of 32.9% in FY19.

Historically, our Company has achieved increase in gross profit margin. In addition, our Company has also, been able to pass on increases in raw material prices to our customers which based on our Directors' best knowledge and concurred by CIC, was primarily due to (i) the increasingly stringent environmental regulations set a high entry barrier and limit the number of lace dyeing service providers in the industry, and (ii) notable customers of the Group were domestic brand lingerie producers, unlike international brand lingerie producers who might be able to set up or source dyeing services from other countries, they have less alternatives in sourcing their upstream services providers.

Gross profit and gross profit margin by customer types

The following table sets out a breakdown of our gross profit and gross profit margin by types of customers for the years/periods indicated:

	FY17		FY18		FY19		1H19		1H20	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)									
Manufacturers	23,547	18.7	39,058	26.3	62,602	32.8	35,892	34.6	31,485	33.4
Trading entities	3,608	18.3	6,315	26.4	4,302	34.0	1,456	32.7	261	29.9
Total gross profit	27,155	18.6	45,373	26.3	66,904	32.9	37,348	34.5	31,746	33.4

FINANCIAL INFORMATION

For each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our gross profit of sales to manufacturers amounted to approximately RMB23.5 million, RMB39.1 million, RMB62.6 million, RMB35.9 million and RMB31.5 million, respectively, representing approximately 86.7%, 86.1%, 93.6%, 96.1% and 99.2%, respectively, of our total gross profit and gross profit margin of approximately 18.7%, 26.3%, 32.8%, 34.5% and 33.4% respectively, over the same period.

For each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our gross profit of sales to trading entities amounted to approximately RMB3.7 million, RMB6.3 million, RMB4.3 million, RMB1.5 million and RMB0.3 million, respectively, representing approximately 13.3%, 13.9%, 6.4%, 3.9% and 0.8%, respectively, of our total gross profit and gross profit margin of approximately 18.3%, 26.4%, 34.0%, 32.7% and 29.9%, respectively, over the same period.

Our gross profit margin primarily depends on different services and products we sold. As such, the gross profit margin of sales to manufacturers is generally similar to our gross profit margin of sales to trading entities in material respect.

Gross profit and gross profit margin by fields of application

The following table sets out a breakdown of our gross profit and gross profit margin by the downstream applications:

	FY17		FY18		FY19		1H19		1H20	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)									
Applications on lingerie production	25,307	19.0	42,060	26.7	64,079	32.9	36,187	34.8	31,427	33.5
Applications on swimsuit production	1,848	13.0	3,313	22.0	2,825	31.8	1,161	26.9	319	24.4
Total gross profit	27,155	18.6	45,373	26.3	66,904	32.9	37,348	34.5	31,746	33.4

For each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our gross profit generated from sales to lingerie application amounted to approximately RMB25.3 million, RMB42.1 million, RMB64.1 million, RMB36.2 million and RMB31.5 million, respectively, representing approximately 93.2%, 92.7%, 95.8%, 96.9% and 99.0%, respectively, of our total gross profit and gross profit margin of approximately 19.0%, 26.7%, 32.9%, 34.8% and 33.5%, respectively, over the same period.

FINANCIAL INFORMATION

For each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our gross profit of sales to swimsuit application amounted to approximately RMB1.8 million, RMB3.3 million, RMB2.8 million, RMB1.2 million and RMB0.3 million, respectively, representing approximately 6.8%, 7.3%, 4.2%, 3.1% and 1.0%, respectively, of our total gross profit and gross profit margin of approximately 13.0%, 22.0%, 31.8%, 26.9% and 24.4%, respectively, over the same period.

Our gross profit margin for lingerie application is in general higher than our gross profit margin for swimsuit application, mainly reflecting the fact that we do not involve production of the swimsuit fabrics, whereas we are capable to produce the lace fabrics for our customers.

Other income

Our other income were approximately RMB1.5 million, RMB0.3 million, RMB0.7 million, RMB0.6 million and RMB3.6 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The following table sets out a breakdown of our other income:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Government grants	1,470	180	580	513	3,383
Rental income	29	29	34	17	17
Others	45	87	130	77	170
	<u>1,544</u>	<u>296</u>	<u>744</u>	<u>607</u>	<u>3,570</u>

Our income from government grants were approximately RMB1.5 million, RMB0.2 million and RMB0.6 million, respectively, for each of the three years ended 31 December 2019, primarily attributable to one-off non-recurring nature government subsidies and allowances in relation to various areas, including successful listing on NEEQ, achievement of corporate research and development, achievement of high-technology supporting business, corporate authorised patent award and corporate research subsidies. The government grants increase from approximately RMB0.5 million for 1H19 to approximately RMB3.4 million for 1H20, primarily attributable to the local government subsidy granted to support the Company's seeking for listing. Rental income represented income from leasing out the investment properties during the Track Record Period. Others primarily represent selling of scrap materials which were not part of our standard products.

FINANCIAL INFORMATION

Other (losses)/gains, net

We had recorded other losses of approximately RMB64,000, other gains of approximately RMB244,000, other losses of approximately RMB6,000, other gains of RMB40,000 and other gains of RMB0.6 million, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The following table sets out a breakdown of our other (losses)/gains, net:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Gain/(loss) on disposal of properties, plant and equipment	7	–	(101)	1	–
Exchange differences	(71)	244	95	39	558
	<u>(64)</u>	<u>244</u>	<u>(6)</u>	<u>40</u>	<u>558</u>

The other losses recorded for FY17 of approximately RMB64,000 were turned into other gains of approximately RMB244,000 for FY18, mainly due to the gains from exchange rate derived from our export sales during the year. The other gains were turned into other losses for FY19, mainly due to our loss on disposal of properties, plant and equipment during the year. The other gains increased from approximately RMB40,000 for 1H19 to approximately RMB0.6 million for 1H20, mainly attributable to the exchange gain arising from the foreign currency transaction.

FINANCIAL INFORMATION

Selling and distribution expenses

Selling and distribution expenses primarily consist of packaging expenses and staff cost in relation to sales and marketing staff. The table below sets out the components of our selling and distribution expenses for the years/periods indicated:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Packaging expenses	1,569	1,402	1,522	800	683
Staff cost, consists of:					
– salaries and wages	309	470	560	262	311
– social security fund contributions	18	20	29	8	27
– discretionary bonus	–	–	209	111	50
Subtotal	327	490	798	381	388
Others ⁽¹⁾	129	1	4	1	3
Total selling and distribution expenses	<u>2,025</u>	<u>1,893</u>	<u>2,324</u>	<u>1,182</u>	<u>1,074</u>

Note: mainly represent exhibition fees and depreciation expenses.

For each of three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our selling and distribution expenses amounted to approximately RMB2.0 million, RMB1.9 million, RMB2.3 million, RMB1.2 million and RMB1.1 million, respectively, representing approximately 1.4%, 1.1%, 1.1%, 1.1% and 1.1%, respectively, of our total revenue over the same period.

FINANCIAL INFORMATION

Administrative expenses

The table below sets out the components of our administrative expenses for the years/periods indicated:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Staff cost	1,826	2,242	3,468	1,701	1,687
Depreciation and amortisation	692	679	691	351	355
Listing expenses	–	–	7,190	–	5,686
Professional and inspection fee	786	918	1,572	686	781
Office expenses	123	200	313	168	88
Motor vehicle expenses	150	142	110	60	52
Repairs and maintenance	128	46	69	2	8
Others <i>(Note)</i>	852	732	922	538	220
Total administrative expenses	<u>4,557</u>	<u>4,959</u>	<u>14,335</u>	<u>3,506</u>	<u>8,877</u>

Note: the amount mainly includes travelling expense and telecommunication expense.

For each of three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our administrative expenses amounted to approximately RMB4.6 million, RMB5.0 million, RMB14.3 million, RMB3.5 million and RMB8.9 million, respectively, representing approximately 3.1%, 2.9%, 7.0%, 3.2% and 9.3%, respectively, of our total revenue over the same period.

Staff cost

Except for the Listing expenses included in administrative expenses for FY19, staff cost was the largest component in the administrative expenses during the Track Record Period. Staff cost consists of the monthly salary and wages of our administrative staff, staff welfare, social security fund contributions and labour dispatch service fees. The increases from FY17 to FY19 were primarily due to (i) we engaged labour dispatch services since FY18 in addition to our regular administrative headcounts, and (ii) the release of one-off discretionary bonus for FY19. The staff cost remained at similar level of approximately RMB1.7 million for 1H19 and RMB1.7 million for 1H20.

FINANCIAL INFORMATION

Depreciation and amortisation

Depreciation and amortisation were related to property, plant and equipment used for administrative function and remained stable over the Track Record Period. Slight fluctuation between years primarily attributable to the acquisition of new fixed assets for administrative use, offset by the fixed assets fully depreciated during the respective period.

Professional and inspection fees

Professional and inspection fees include legal and professional fees paid to support and maintain the listing status on the NEEQ, as well as other matters relevant to the daily business operation. The amounts remained at similar level of approximately RMB0.8 million for FY17 and approximately RMB0.9 million for FY18. The amount increased from approximately RMB0.9 million for FY18 to approximately RMB1.6 million in FY19, primarily due to the advisory and consultation expenses paid for, included but not limited to, accounting advisory. It remained at similar level of approximately RMB0.7 million for 1H19 and approximately RMB0.8 million for 1H20.

Finance cost, net

Our finance income represents interest income on cash at bank. For each of three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our finance income was approximately RMB47,000, RMB102,000, RMB131,000, RMB72,000 and RMB30,000, respectively.

Our finance costs mainly represents interest or bank borrowings. For each of three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020, our finance costs were approximately RMB3.0 million, RMB2.9 million, RMB2.0 million, RMB1.6 million and RMB0.3 million, respectively. The decrease during the Track Record Period was mainly due to the Group's repayment of bank borrowings.

Income tax expenses

Income tax expense represented our total current and deferred tax expenses. The current taxes are calculated based on taxable profits at the applicable tax rates for the relevant years or periods.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

No provision for Hong Kong profits tax was made during the Track Record Period as our Group had no assessable profit subject to Hong Kong profits tax during the Track Record Period.

FINANCIAL INFORMATION

Under the Law of the PRC Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Deyun is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% during the Track Record Period.

The qualification of High and New Technology Enterprise* (高新技術企業) of Deyun is re-evaluated every three years and will expire in December 2022. Deyun will continue to receive the qualification of the High and New Technology Enterprise* (高新技術企業) preferential tax treatment only if the relevant authorities determine that Deyun continues to qualify, which depends on a number of factors, such as whether the production technology fall within the scope of supported high and new technology, whether the incurred research and development expenses as a percentage of revenue reaches certain threshold percentages, whether the research and development staff as a percentage of total number of staff reaches certain threshold percentages and whether Deyun has its own independent, core intellectual property rights.

As confirmed by the Directors, Deyun has been closely monitoring its eligibility of the qualification and fully complied with the relevant requirements to hold the qualification, and the Directors are not aware of any major obstacles for Deyun to continue to hold such qualification as at the Latest Practicable Date.

The following table sets out a breakdown of our current and deferred tax expenses for the Track Record Period:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Current income tax	1,786	4,635	7,015	4,387	4,518
Deferred income tax	439	(95)	209	(139)	(312)
Income tax expense	<u>2,225</u>	<u>4,540</u>	<u>7,224</u>	<u>4,248</u>	<u>4,206</u>

During the Track Record Period, our effective tax rates were as follows:

	FY17	FY18	FY19	1H19	1H20
Effective tax rate (<i>Note</i>)	11.7%	12.6%	14.7%	13.4%	16.5%

Note: The effective tax rate is calculated by dividing the income tax expense by the profit before income tax for the respective year multiplied by 100%.

FINANCIAL INFORMATION

Our effective tax rates were approximately 11.7%, 12.6%, 14.7%, 13.4% and 16.5%, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 and 2020. The difference between the effective tax rates during Track Record Period with the preferential tax rate of 15% as a High and New Technology Enterprise* (高新技術企業) is mainly due to the tax effect of the non-taxable income and additional qualified tax deduction relating to research and development costs.

The increase of our effective tax rate during the Track Record Period were primarily due to (i) the increases in our research and development expenses, which qualified for additional tax credit, were slower than the our increases in profit before tax, (ii) the Listing expenses incurred for FY19 and 1H20 were non-deductible for tax purpose.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY17 vs. FY18

Revenue

Our overall revenue increased by approximately 18.2% from approximately RMB146.0 million for FY17 to approximately RMB172.5 million for FY18. The increase was primarily due to the combined effect of:

- (i) the increase in dyeing revenue from approximately RMB72.7 million for FY17 to approximately RMB87.9 million for FY18, primarily due to the increased customer base driven by the (a) the continuous marketing effect (148 new Fujian dyeing customers contributed RMB9.9 million revenue) and (b) Regulatory Impact (7 new Guangdong dyeing customers contributed RMB0.7 million revenue) and the fully loaded dyeing facilities from utilisation rate of approximately 84.9% for FY17 to approximately 100.1% for FY18; and
- (ii) the increase in lace revenue from approximately RMB73.3 million for FY17 to approximately RMB84.6 million for FY18, primarily due to the increased customer base driven by (a) the continuous marketing effect (3 new Fujian lace customers contributed RMB0.8 million revenue) and (b) the Regulatory Impact (43 new Guangdong lace customers contributed RMB7.0 million revenue) and the fully loaded lace facilities from utilisation rate of approximately 83.4% for FY17 to approximately 98.9% for FY18.

For further information regarding our returning customers and new customers during the Track Record Period, please refer to the section headed “Selected items of consolidated income statements – Revenue – Revenue by customer types” in this prospectus.

FINANCIAL INFORMATION

Sales volumes

The sales volume of dyeing increased from approximately 8.5 million kg for FY17 to approximately 9.7 million kg for FY18, primarily due to (i) the increased customer base driven by (a) the continuous marketing effort (148 new Fujian dyeing customers contributed dyeing sales volume of 1.1 million kg) and (b) the Regulatory Impact (7 new Guangdong dyeing customers contributed dyeing sales volume of 0.1 million kg), and (ii) the increase of utilisation rate of dyeing facilities to meet customers' orders.

The sales volume of lace increased from approximately 820,000 kg for FY17 to approximately 924,000 kg for FY18, primarily due to (i) the increased customer base driven by (a) the continuous marketing effort (3 new Fujian lace customers contributed lace sales volume of 14,000 kg) and (b) the Regulatory Impact (43 new Guangdong lace customers contributed lace sales volume of 65,000 kg), and (ii) the increase of utilisation rate of lace facilities to meet customers' orders.

Average selling prices

The average selling price of dyeing increased from approximately RMB8.6/kg for FY17 to approximately RMB9.0/kg for FY18, primarily reflected our pricing adjustments in view of the exhausted dyeing facilities.

The average selling price of regular density lace increased from approximately RMB78.2/kg for FY17 to approximately RMB80.3/kg for FY18, primarily reflected our pricing adjustments in view of the exhausted lace facilities.

The average selling price of high density lace slightly decreased from approximately RMB106.4/kg for FY17 to approximately RMB105.7/kg for FY18, primarily due to the decrease in average unit cost, mainly driven by the economy of scale, the increased volume caused per unit depreciation and other factory overheads to be lower, enabled us to offer more competitive pricing.

Cost of sales

Our overall cost of sales increased from approximately RMB118.8 million for FY17 to approximately RMB127.1 million for FY18, primarily due to the increased sales volume for FY18.

FINANCIAL INFORMATION

Average unit cost

The average unit cost of dyeing decreased from approximately RMB7.5/kg for FY17 to approximately RMB7.1/kg for FY18, the average unit cost of high density lace decreased from approximately RMB74.9/kg for FY17 to approximately RMB67.1/kg for FY18, and the average unit cost of regular lace decreased from approximately RMB63.2/kg for FY17 to approximately RMB59.5/kg for FY18, primarily due to the economy of scale, the increased sales volume for FY18 caused per unit depreciation and other factory overheads to be lower.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 66.9% from approximately RMB27.2 million for FY17 to approximately RMB45.4 million for FY18 mainly due to the combined effect of:

- (1) the increase in our gross profit of dyeing by approximately 98.9% from approximately RMB9.5 million for FY17 to approximately RMB18.9 million for FY18, mainly driven by the increased customer base, and
- (2) the increase in gross profit of manufactured lace by approximately 49.2% from approximately RMB17.7 million for FY17 to approximately RMB26.4 million for FY18, primarily driven by the increase in customer base and increase in our utilisation rates of production facilities.

Our overall gross profit margin increased from approximately 18.6% for FY17 to approximately 26.3% for FY18, primarily due to the combined effect of increased average selling price in dyeing, and decrease in cost of sales of manufactured lace caused its respective gross profit margin to increase from approximately 24.1% for FY17 to approximately 31.3% for FY18. The overall gross profit margin in general followed the trend of the fluctuation of the gross profit margin of dyeing and manufactured lace during the period.

The average selling price of lace has increased from approximately RMB89.4 for FY17 to approximately RMB91.5 for FY18, primarily due to the combined effects of (i) the increasing proportional sales on high density lace, and upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace; (ii) the regulatory development in Shantou City drove the market price of dyeing and lace to increase further, there were crowds of Guangdong customers seeking supply in Fujian which tensed up the Company's production capacity, which could be reflected by 50 Guangdong customers were newly acquired during the year and contributed RMB7.7 million of revenue; and (iii) cost of sales decreased primarily due to number of production quantity increased, diluted the fixed production cost, were the major reasons leading to the improvement of the gross profit margin during the year. For details, please refer to the section headed "Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian" in this prospectus.

FINANCIAL INFORMATION

Other income

Other income decreased from approximately RMB1.5 million for FY17 to approximately RMB0.3 million for FY18. The decrease was primarily due to the fact that we were awarded by the local government authority for FY17 on certain developments, including but not limited to successful listing on the NEEQ in 2016 and the achievement of high and new technology supporting business, which were one-off and non-recurring in nature for FY17.

Other losses/gains, net

The other losses, net, of approximately RMB64,000 recorded for FY17 turned into other gain, net, of approximately RMB244,000, primarily attributable to the changes in exchange differences.

Selling and distribution expenses

Our selling and distribution expenses remained stable at approximately RMB2.0 million for FY17 and approximately RMB1.9 million for FY18.

Administrative expenses

Our administrative expenses increased from approximately RMB4.6 million for FY17 to approximately RMB5.0 million for FY18, primarily attributable to the increased staff cost, mainly driven by the engagement of labour dispatch services since FY18 in addition to our regular administrative headcount.

Finance costs, net

The finance costs, net, decreased from approximately RMB2.9 million for FY17 to approximately RMB2.8 million for FY18. The decrease was generally in line with the decrease in average bank borrowings from approximately RMB58.2 million for FY17 to approximately RMB54.1 million for FY18, being the principal of bank borrowings multiplied by the respective days borrowed during the year divided by number of days for the year, interest on bank borrowings was partially offset by the bank interest income generated from our cash in bank.

Income tax expenses

Our income tax expense increased from approximately RMB2.2 million for FY17 to approximately RMB4.5 million for FY18. The increase was primarily due to (i) increase in our profit before tax by approximately 89.7%, and (ii) the increase in research and development cost enabled us to claim a higher amount of tax credit for FY18.

FINANCIAL INFORMATION

Net profit and net profit margin

As a results of foregoing, our net profit increased by approximately 88.1% from approximately RMB16.8 million for FY17 to approximately RMB31.6 million for FY18, primarily attributable to the increase in revenue as well as the increase in gross profit.

Our net profit margin increased from approximately 11.5% for FY17 to approximately 18.3% for FY18, primarily attributable to the increase in gross profit margin from approximately 18.6% for FY17 to approximately 26.3% for FY18.

FY18 vs. FY19

Revenue

Our overall revenue increased by approximately 17.9% from approximately RMB172.5 million for FY18 to approximately RMB203.4 million for FY19. The increase was primarily due to the combined effect of:

- (i) the increase in dyeing revenue from approximately RMB87.9 million for FY18 to approximately RMB117.9 million for FY19, primarily due to the increased customer base driven by (a) the continuous marketing effort (178 new Fujian dyeing customers contributed RMB9.6 million revenue) and (b) the Regulatory Impact (55 new Guangdong dyeing customers contributed RMB18.2 million revenue) and the over-stretched dyeing facilities from utilisation rate of approximately 100.1% for FY17 to approximately 117.9% for FY19; and
- (ii) the increase in lace revenue from approximately RMB84.6 million for FY18 to approximately RMB85.5 million for FY19, primarily due to the increased proportional sales of high density lace and overall upward pricing adjustments on lace products, partially offset by the decrease in sales volume from approximately 924,000 kg for FY18 to approximately 802,000 kg for FY19 in response to the increased pricing on lace products, as well as there were 9 new Fujian lace customers contributed RMB7.8 million revenue and 37 new Guangdong lace customers contributed RMB4.9 million revenue.

For further information regarding our returning customers and new customers during the Track Record Period, please refer to the section headed “Selected items of consolidated income statements – Revenue – Revenue by customer types” in this section.

FINANCIAL INFORMATION

Sales volumes

The sales volume of dyeing increased from approximately 9.7 million kg for FY18 to approximately 12.2 million kg for FY19, primarily due to increase in sales from Guangdong, mainly driven by the Regulatory Impact (among which 55 new Guangdong dyeing customers contributed dyeing sales volume of 1.6 million kg), as well as the 178 new Fujian dyeing customers contributed dyeing sales volume of 0.9 million kg.

The sales volume of lace decreased from approximately 924,000 kg for FY18 to approximately 802,000 kg for FY19, primarily resulted from overall increased pricing on lace products outweighed the new orders from new Fujian lace customers and new Guangdong lace customers.

Average selling prices

The average selling price of dyeing increased from approximately 9.0/kg for FY18 to approximately RMB9.6/kg for FY19, primarily due to the continued upward pricing adjustment resulted from the over-stretched dyeing facilities from utilisation rate of approximately 100.1% for FY18 to approximately 117.9% for FY19.

The average selling prices of (i) regular density lace increased from approximately RMB80.3/kg for FY18 to approximately RMB87.4/kg for FY19, and (ii) high density lace increased from approximately RMB105.7/kg for FY18 to approximately RMB122.6/kg for FY19. The increases were primarily due to our overall upward pricing adjustments in view of the over-stretched lace facilities to support production of lace.

Cost of sales

Our overall cost of sales increased from approximately RMB127.1 million for FY18 to approximately RMB136.5 million for FY19, primarily due to our increased volume in dyeing business, partially offset by decrease in the cost of sales of lace business.

Average unit cost

The average unit cost of dyeing decreased from approximately RMB7.1/kg for FY18 to approximately RMB6.9/kg for FY19, primarily due to the economy of scale, the increased sales volume of dyeing for FY19 caused per unit depreciation and other factory overheads to be cheaper.

The average unit cost of high density lace increased from approximately RMB67.1/kg for FY18 to approximately RMB70.0/kg for FY19. The decrease in utilisation rate of lace facilities for FY19, caused the depreciation charge for the respective machinery per lace product to be more expensive. The sales volume of high density lace was higher than that of the regular density lace for FY19, thus the more expensive depreciation charge during FY19 was more obviously reflected in the average unit cost of the high density lace.

FINANCIAL INFORMATION

To a lesser extent of increase when compared to the high density lace, the average unit cost of regular density lace increased from approximately RMB59.5/kg for FY18 to RMB60.3/kg for FY19.

Gross profit and gross profit margin

Our overall gross profit increased by approximately 47.4% from approximately RMB45.4 million for FY18 to approximately RMB66.9 million for FY19, primarily due to increase in our average selling price in dyeing business, caused our gross profit margin of dyeing to increase from approximately 21.5% for FY18 to approximately 28.8% for FY19, in response to our over-stretched dyeing facilities with utilisation rate reached approximately 117.9% for FY19.

Our overall gross profit margin increased from approximately 26.3% for FY18 to approximately 32.9% for FY19, primarily reflected the increase our gross profit margin of dyeing as aforementioned. The overall gross profit margin in general followed the trend of the fluctuation of the gross profit margin for our dyeing and manufactured lace during the period.

The average selling price of lace has increased from approximately RMB91.5 for FY18 to approximately RMB106.6 for FY19, primarily due to the combined effects of (i) the increasing proportional sales on high density lace, and upward pricing pressure in view of the over-stretched dyeing facilities to support production of lace; (ii) the regulatory development in Shantou City drove the market price of dyeing and lace to increase further, crowds of Guangdong customers continue to seek supply in Fujian which tensed up the Company's production capacity, which could be reflected by 92 Guangdong customers were newly acquired during the year and contributed RMB23.1 million of revenue; and (iii) cost of sales decreased primarily due to number of production quantity increased, diluted the fixed production cost, were the major reasons leading to the further improvement of the gross profit margin during the year. For details, please refer to the section headed "Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian" in this prospectus.

Other income

Other income increased from approximately RMB0.3 million for FY18 to approximately RMB0.7 million for FY19, primarily due to the regulatory approval on granting allowance and subsidy for our corporate research and development for FY19.

Other losses/gains, net

The other gain, net, of approximately RMB244,000 recorded for FY18 turned into other losses, net, of approximately RMB6,000, primarily attributable to the loss on disposal of properties, plant and equipment during the year of 2019 which was non-recurring.

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB1.9 million for FY18 to approximately RMB2.3 million for FY19. The increase was primarily due to (i) increase in our staff cost attributable to the increase in headcount for sales and marketing staff, and (ii) increased packaging expenses for our increased sales volume in dyeing business, partially offset by the decreased sales volume in lace business.

Administrative expenses

Our administrative expenses increased from approximately RMB5.0 million for FY18 to approximately RMB14.3 million for FY19, primarily due to (i) the Listing expenses, and (ii) the increased staff cost in the form of one-off discretionary bonus to motivate our staff.

Finance costs, net

The finance costs, net, decreased from approximately RMB2.8 million for FY18 to approximately RMB1.9 million for FY19. The decrease was generally in line with the decrease in average bank borrowings from approximately RMB54.1 million for FY18 to approximately RMB39.8 million for FY19, being the principal of bank borrowings multiplied by the respective days borrowed during the year divided by number of days for the year.

Income tax expenses

Our income tax expenses increased from approximately RMB4.5 million for FY18 to approximately RMB7.2 million for FY19. The increase was primarily due to (i) the increase in our profit before tax, and (ii) the incurrence of Listing expense for FY19 was non-deductible for tax purpose.

Net profit and net profit margin

As a results of foregoing, our net profit increased by approximately 32.6% from approximately RMB31.6 million for FY18 to approximately RMB41.9 million for FY19, primarily attributable to the increase in revenue as well as the increase in gross profit.

Our net profit margin increased from approximately 18.3% for FY18 to approximately 20.6% for FY19, primarily attributable to the increase in gross profit margin from approximately 26.3% for FY18 to approximately 32.9% for FY19.

FINANCIAL INFORMATION

1H19 vs. 1H20

Revenue

Our overall revenue decreased by approximately 12.1% from approximately RMB108.2 million for 1H19 to approximately RMB95.1 million for 1H20. The increase was primarily due to the combined effect of:

- (i) the decrease in dyeing revenue from approximately RMB61.0 million for 1H19 to approximately RMB57.5 million for 1H20, primarily attributable to the outbreak of COVID-19 since January 2020, that caused factories in Fujian, including our Company, to postpone reopening after the Chinese New Year, and there were migrant workers who were able to return to jobs immediately; and
- (ii) the decrease in lace revenue from approximately RMB47.2 million for 1H19 to approximately RMB37.6 million for 1H20, primarily attributable to outbreak of COVID-19 since January 2020, in particular, caused decrease in the Group's lace revenue in Guangdong.

For further information regarding our returning customers and new customers during the Track Record Period, please refer to paragraph headed “Selected items of consolidated income statements – Revenue – Revenue by customer types” in this prospectus.

Sales volumes

The sales volume of dyeing decreased from approximately 6.5 million kg for 1H19 to approximately 5.7 million kg for 1H20, primarily due to the outbreak of COVID-19 caused delay in re-opening of factories after Chinese New Year, particularly to our customers located in Guangdong, where is the second highest number of cumulative confirmed COVID-19 cases reported in China among all provinces as at the Latest Practicable Date.

The sales volume of lace decreased from approximately 450,000 kg for 1H19 to approximately 340,000 kg for 1H20, primarily due to the outbreak of COVID-19 caused delay in re-opening of factories after Chinese New Year, particularly to our customers located in Guangdong, where is the second highest number of cumulative confirmed COVID-19 cases reported in China among all provinces as at the Latest Practicable Date.

Average selling prices

The average selling price of dyeing increased from approximately RMB9.4/kg for 1H19 to approximately RMB10.1/kg for 1H20, primarily reflecting the continued upward pricing pressure from the over-stretched dyeing facilities, with the utilisation rate of approximately 117.9% for FY19, and continued to reach approximately 117.4% for 1H20.

FINANCIAL INFORMATION

The average selling prices of (i) regular density lace increased from approximately RMB91.9/kg for 1H19 to approximately 98.2/kg for 1H20, primarily reflecting the customers' willingness to pay a higher price to pursue more advanced regular density lace; (ii) high density lace remained at similar level of approximately RMB114.7/kg for 1H19 to approximately RMB118.6/kg for 1H20.

Cost of sales

Our overall cost of sales decreased from approximately RMB70.9 million for 1H19 to approximately RMB63.3 million for 1H20, primarily attributable to the decrease in revenue, mainly caused by the outbreak of COVID-19.

Average unit cost

The average unit cost of dyeing increased from approximately RMB6.5/kg for 1H19 to approximately RMB7.0/kg for 1H20, and it remained at a similar level as FY19 of approximately RMB6.9/kg. The increase was mainly caused by the lower sales volume in 1H20 compared to 1H19, mainly attributable to the outbreak of COVID-19, caused a lower economy of scale, the lower sales volume caused per unit depreciation and other factory overheads to be higher.

The average unit cost of high density lace increased from approximately RMB64.8/kg in 1H19 to approximately RMB70.4/kg in 1H20, and it remained at a similar level as FY19 of approximately RMB70.0/kg. The increase was mainly caused by the lower sales volume in 1H20 compared to 1H19, mainly attributable to the outbreak of COVID-19, caused a lower economy of scale, the lower sales volume caused per unit depreciation and other factory overheads to be higher.

The average unit cost of regular density lace increase from approximately RMB63.1/kg in 1H19 to approximately RMB66.8/kg in 1H20. The lower sales volume in 1H20, mainly attributable to the outbreak of COVID-19, caused per unit depreciation and other factory overheads to be higher.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately 15.0% from approximately RMB37.3 million for 1H19 to approximately RMB31.7 million for 1H20, primarily reflecting our decrease in revenue mainly caused by the outbreak of COVID-19.

Our gross profit margin remained at similar level of approximately 34.5% for 1H19 to approximately 33.4% for 1H20.

FINANCIAL INFORMATION

Other income

Other income increased from approximately RMB0.6 million for 1H19 to approximately RMB3.6 million for 1H20, primarily attributable to the local government subsidy granted to support the Company's seeking of Listing.

Other gains, net

The other gain, net, increased from approximately RMB40,000 for 1H19 to approximately RMB0.6 million for 1H20, mainly attributable to the exchange gain, mainly arising from the foreign currency transaction.

Selling and distribution expenses

Our selling and distribution expenses remained at similar level of approximately RMB1.2 million for 1H19 to approximately RMB1.1 million for 1H20.

Administrative expenses

Our administrative expenses increased from approximately RMB3.5 million for 1H19 to approximately RMB8.9 million for 1H20, primarily due to the Listing expenses.

Finance costs, net

The finance costs, net, decreased from approximately RMB1.5 million for 1H19 to approximately RMB0.3 million for 1H20, primarily due to the repayment of bank borrowings.

Income tax expenses

The income tax expenses remained at similar level of approximately RMB4.2 million for 1H19 to approximately RMB4.2 million for 1H20.

Net profit and net profit margin

As a results of foregoing, our net profit decreased from approximately RMB27.5 million for 1H19 to approximately RMB21.2 million for 1H20, primarily attributable to the outbreak of COVID-19.

Our net profit margin decreased from approximately 25.4% for 1H19 to approximately 22.3% for 1H20, primarily due to the Listing expenses.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our Group's operation and capital requirements were financed principally through a combination of internal resources and bank borrowings.

FINANCIAL INFORMATION

During the Track Record Period, we were able to repay our bank borrowings when they became due. We expect that there will not be any material change in the sources and uses of the cash of our Group upon completion of the Listing and in the future, except that we will have additional funds from the proceeds of the Listing for implementing our future plans as detailed in “Future Plans and Use of Proceeds” in this prospectus.

Cash flows of our Group

The following table sets out a condensed summary of our Group’s consolidated statements of cash flows during the Track Record Period:

	FY17	FY18	FY19	1H19	1H20
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				(unaudited)	
Operating cash flows before movements in working capital	<u>38,057</u>	<u>55,982</u>	<u>67,418</u>	<u>41,738</u>	<u>33,832</u>
Cash generated from operations	48,438	55,694	59,652	39,754	24,665
Income tax paid	(2,679)	(1,415)	(4,497)	(4,387)	(5,448)
Interest received	<u>47</u>	<u>102</u>	<u>131</u>	<u>72</u>	<u>30</u>
Net cash generated from operating activities	45,806	54,381	55,286	35,439	19,247
Net cash (used in)/generated from investing activities	(15,565)	(8,354)	(8,111)	1,359	(3,450)
Net cash used in financing activities	<u>(31,064)</u>	<u>(23,854)</u>	<u>(42,138)</u>	<u>(31,652)</u>	<u>(7,029)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(823)</u>	<u>22,173</u>	<u>5,037</u>	<u>5,146</u>	<u>8,768</u>
Cash and cash equivalents at the beginning of the year/period	11,841	10,687	33,327	33,327	38,480
Currency translation differences	<u>(331)</u>	<u>467</u>	<u>116</u>	<u>56</u>	<u>39</u>
Cash and cash equivalents at the end of the year/period	<u>10,687</u>	<u>33,327</u>	<u>38,480</u>	<u>38,529</u>	<u>47,287</u>

FINANCIAL INFORMATION

Net cash generated from operating activities

Our cash from operations was mainly generated from receipts of payments for the sales of our products. Our cash used in operations mainly comprised payment for our purchase of raw materials, employee benefit expenses, taxes and other operating expenses.

For 1H20, our Group's net cash generated from operating activities was approximately RMB19.2 million, which was mainly attributable to the cash generated from operations of approximately RMB24.7 million, partially offset by income tax paid of approximately RMB5.4 million. Our operating cash flows before working capital changes was approximately RMB33.8 million, which was primarily attributable to profit before income tax of approximately RMB25.5 million, before adjusted for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB7.7 million; (ii) interest expenses of approximately RMB0.3 million; and (iii) amortisation of intangible assets of approximately RMB0.1 million. Our changes in working capital was attributable to a cash outflow of approximately RMB9.2 million, which was primarily due to the (i) increase in trade and bills receivables of approximately RMB7.5 million; and (ii) increase in contract assets of approximately RMB7.7 million, partially offset by (i) decrease in inventories of approximately RMB3.9 million; (ii) increase in other payables and accruals of approximately RMB3.0 million; and (iii) increase in trade and bills payables of approximately RMB0.6 million.

For FY19, our Group's net cash generated from operating activities was approximately RMB55.3 million, which was mainly attributable to the cash generated from operations of approximately RMB59.7 million, partially offset by income tax paid of approximately RMB4.5 million. Our operating cash flows before working capital changes was approximately RMB67.4 million, which was primarily attributable to profit before income tax of approximately RMB49.1 million, before adjusted for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB16.0 million; (ii) interest expenses of approximately RMB2.0 million; and (iii) amortisation of intangible assets of approximately RMB0.2 million. Our changes in working capital was attributable to a cash outflow of approximately RMB7.8 million, which was primarily due to the (i) decrease in trade and bills payables of approximately RMB12.6 million; (ii) increase in contract assets of approximately RMB2.4 million; and (iii) the increase in inventories of approximately RMB1.8 million, and partially offset by the (i) increase in other payables and accruals of approximately RMB6.1 million; and (ii) decrease in prepayments and other receivables of RMB3.1 million.

For FY18, our Group's net cash generated from operating activities was approximately RMB54.4 million, which was mainly attributable to the cash generated from operations of approximately RMB55.7 million, partially offset by income tax paid of approximately RMB1.4 million. Our operating cash flows before working capital changes was approximately RMB56.0 million, which was primarily attributable to profit before income tax of approximately RMB36.1 million, before adjusted for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB16.7 million; (ii) interest expenses of approximately RMB2.9 million; and (iii) amortisation of intangible assets of approximately RMB0.1 million. Our changes in working capital was attributable to a

FINANCIAL INFORMATION

cash outflow of approximately RMB0.3 million, which was primarily due to the (i) increase in contract assets of approximately RMB10.5 million; and (ii) increase in trade and bills receivables of approximately RMB4.7 million, partially offset by (i) increase in trade and bills payables of approximately RMB11.0 million; (ii) decrease in the inventories of approximately RMB2.0 million; and (iii) decrease in prepayments and other receivables of approximately RMB1.1 million.

For FY17, our Group's net cash generated from operating activities was approximately RMB45.8 million, which was mainly attributable to the cash generated from operations of approximately RMB48.4 million, partially offset by income tax paid of approximately RMB2.7 million. Our operating cash flows before working capital changes was approximately RMB38.1 million, which was primarily attributable to profit before tax of approximately RMB19.0 million, before adjusted for non-cash or non-operating activities related items, which principally included (i) depreciation of properties, plant and equipment of approximately RMB15.8 million; and (ii) interest expenses of approximately RMB3.0 million. Our change in working capital was attributable to a cash inflow of approximately RMB10.3 million, which was primarily due to (i) decrease in trade and bills receivables of approximately RMB15.8 million; (ii) increase in trade and bills payables of approximately RMB3.1 million; and (iii) increase in other payables and accruals of approximately RMB0.6 million, partially offset by the (i) increase in inventories of approximately RMB6.8 million; (ii) increase in contract assets of approximately RMB2.2 million; and (iii) increase in prepayments and other receivables of approximately RMB0.5 million.

Net cash used in investing activities

During the Track Record Period, our Group derived cash outflow used in investing activities mainly attributable to purchases of properties, plant and equipment.

For 1H20, our net cash used in investing activities was approximately RMB3.5 million, which was primarily due to (i) purchase of properties, plant and equipment of approximately RMB3.4 million; and (ii) purchase of intangible assets of approximately RMB0.1 million.

For FY19, our net cash used in investing activities was approximately RMB8.1 million, which was primarily due to (i) purchase of properties, plant and equipment of approximately RMB9.8 million; and (ii) net decrease in pledged bank deposit of approximately RMB1.8 million, partially offset by (i) proceeds from disposal of properties, plant and equipment of approximately RMB0.2 million.

For FY18, our net cash used in investing activities was approximately RMB8.4 million, which was primarily due to (i) purchase of properties, plant and equipment of approximately RMB7.5 million; and (ii) purchase of intangible assets of approximately RMB0.8 million.

For FY17, our net cash used in investing activities was approximately RMB15.6 million, which was primarily due to (i) purchase of properties, plant and equipment of approximately RMB14.7 million; and (ii) net increase in pledged bank deposit RMB0.9 million.

FINANCIAL INFORMATION

Net cash used in financing activities

During the Track Record Period, our cash inflow from financing activities was primarily attributable to proceeds from bank borrowings. Our cash outflow from financing activities was mainly attributable to repayments of bank borrowings and interest paid.

For 1H20, our net cash used in financing activities was approximately RMB7.0 million. The net cash used in financing activities was primarily due to (i) consideration paid for the acquisition of a subsidiary in respect to reorganisation of approximately RMB5.0 million; (ii) payment of Listing expenses of approximately RMB1.7 million; and (iii) interest paid of approximately of RMB0.3 million.

For FY19, our net cash used in financing activities was approximately RMB42.1 million. The net cash used in financing activities was primarily due to (i) repayments of bank borrowings of approximately RMB79.0 million; (ii) payment of IPO listing expenses of approximately RMB2.3 million; and (iii) interest paid of approximately of RMB2.1 million, partially offset by (i) proceeds from bank borrowings of approximately RMB27.0 million; and (ii) capital injection from a Pre-IPO Investor of approximately RMB14.3 million.

For FY18, our net cash used in financing activities was approximately RMB23.9 million. The net cash used in financing activities was primarily due to (i) repayments of bank borrowings of approximately RMB42.0 million; (ii) dividends payment of approximately RMB31.1 million; (iii) repayment of amount due to a related party of approximately RMB9.0 million; and (iv) repayments of amounts due to shareholders of approximately RMB3.9 million partially offset by proceeds from bank borrowings of approximately RMB65.0 million.

For FY17, our net cash used in financing activities was approximately RMB31.1 million. The net cash used in financing activities was primarily due to (i) repayments of bank borrowings of approximately RMB70.0 million; and (ii) interest paid of approximately of RMB3.1 million, partially offset by proceeds from bank borrowings of approximately RMB42.0 million.

FINANCIAL INFORMATION

CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth our Group's current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 30 November
	2017	2018	2019	2020	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Current assets					
Inventories	10,160	8,170	9,922	6,031	8,100
Contract assets	3,613	14,159	16,585	24,280	24,280
Trade and bills receivables	10,842	14,869	15,694	23,208	3,408
Prepayments and other receivables	934	860	2,527	4,557	7,152
Amounts due from shareholders	–	–	140	–	–
Pledged bank deposits	1,750	1,800	–	–	–
Cash and cash equivalents	10,687	33,327	38,480	47,287	99,083
Total current assets	<u>37,986</u>	<u>73,185</u>	<u>83,348</u>	<u>105,363</u>	<u>142,023</u>
Current liabilities					
Trade and bills payables	15,607	26,656	14,058	14,623	13,469
Other payables and accruals	6,186	6,801	12,914	15,976	19,651
Contract liabilities	624	518	1,307	296	1,023
Amounts due to shareholders	3,906	–	5,000	–	–
Amount due to a related party	9,000	–	–	–	–
Bank borrowings	42,000	65,000	13,000	13,000	13,000
Current income tax liabilities	1,113	4,333	6,851	5,921	10,237
Total current liabilities	<u>78,436</u>	<u>103,308</u>	<u>53,130</u>	<u>49,816</u>	<u>57,380</u>
Net current (liabilities)/assets	<u>(40,450)</u>	<u>(30,123)</u>	<u>30,218</u>	<u>55,547</u>	<u>84,643</u>

Our net current liabilities decreased by approximately RMB10.4 million from approximately RMB40.5 million as at 31 December 2017 to approximately RMB30.1 million as at 31 December 2018, primarily attributable to increased in contract assets of approximately RMB10.6 million, primarily due to our expedited billing to our customers prior to the end of FY17 causing its lower balance as at 31 December 2017.

FINANCIAL INFORMATION

Our net current position improved by approximately RMB60.3 million from net current liabilities of approximately RMB30.1 million as at 31 December 2018 to net current assets of approximately RMB30.2 million as at 31 December 2019, primarily attributable to decrease in bank borrowings of approximately RMB52.0 million as at 31 December 2019 due to repayment of bank borrowings of approximately RMB79.0 million.

Our net current assets increased by approximately RMB25.3 million from approximately RMB30.2 million as at 31 December 2019 to approximately RMB55.5 million as at 30 June 2020, primarily attributable to the increase in contract assets and trade and bills receivables of approximately RMB15.2 million due to the outbreak of COVID-19 has resulted in our customers' delay in the resumption of the business operation, and thus delay in billing and settlement process for 1H20.

Our net current assets increased by approximately RMB29.1 million from approximately RMB55.5 million as at 30 June 2020 to approximately RMB84.6 million as at 30 November 2020, primarily attributable to the expedited cash collection process after the outbreak of COVID-19.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that after taking into account, the existing financial resources available to our Group including internally generated funds from operating activities, existing banking facilities and the estimated net proceeds from the Share Offer, our Group has sufficient working capital for its present requirements for the next 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

As at 31 December 2017, 2018 and 2019 and 30 June 2020, our Group's borrowings were RMB42 million, RMB65 million, RMB13 million and RMB13 million, respectively, to finance our business operations and to fulfil working capital requirements.

The following table set out the maturity profile of our borrowings as at the dates indicated:

	As at 31 December		As at		As at 30
	2017	2018	2019	30 June 2020	November
	RMB'000	RMB'000	RMB'000	RMB'000	2020
					RMB'000
					(unaudited)
Within one year	<u>42,000</u>	<u>65,000</u>	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>

FINANCIAL INFORMATION

As at 31 December 2017, 2018 and 2019, 30 June and 30 November 2020, the Group's bank borrowings were carried at floating rates ranged from 5.2% to 5.4%, 5.2% to 5.4%, 5.0%, 5.0% and 4.4% per annum, respectively. The Group's bank borrowings were denominated in RMB.

As at 31 December 2017, the above bank borrowings were secured by properties, plant and equipment with carrying amounts of RMB92,635,000 and personal guarantee from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Minqiang, Mr. Wei Cunzhuo, Mr. Lin Chaowen and Ms. Lin Yueyun.

As at 31 December 2018, the above bank borrowings were secured by properties, plant and equipment with carrying amounts of RMB79,990,000 and personal guarantee from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Minqiang, Mr. Wei Cunzhuo, Mr. Lin Chaowen and Ms. Lin Yueyun.

As at 31 December 2019, the above bank borrowings were secured by properties, plant and equipment with carrying amounts of RMB20,159,000.

As at 30 June 2020, the above bank borrowings were secured by the Group's properties, plant and equipment with carrying amounts of RMB19,760,000.

As at 30 November 2020, the above bank borrowings were secured continuously by the respective properties, plant and equipment.

As at 31 December 2017, 2018 and 2019, 30 June and 30 November 2020, the Group's total undrawn banking facilities amounted to approximately RMB79,500,000, nil, RMB40,000,000, nil and RMB62,000,000 respectively.

Our Directors confirmed that we have not experienced any withdrawal of facilities, default in payment of bank borrowings or breach of financial covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors confirmed that we had not experienced difficulties in obtaining or meeting our obligations during the Track Record Period and none of our Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Contingent liabilities

As at 31 December 2017, 2018 and 2019, 30 June 2020 and 30 November 2020, for the purpose of the indebtedness statement, we had no significant contingent liabilities or guarantees.

Lease liabilities

As at December 2017, 2018 and 2019, 30 June 2020 and 30 November 2020, for the purpose of the indebtedness statement, we had no lease liabilities.

FINANCIAL INFORMATION

Personal guarantees provided by directors, a shareholder and a related party

During the years ended 31 December 2017 and 2018, the Group's bank loans were secured by personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Wei Cunzhuo, Mr. Lin Minqiang, Mr. Lin Chaowen and Ms. Lin Yueyun as set out in Note 24.

The personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Wei Cunzhuo, Mr. Lin Minqiang, Mr. Lin Chaowen and Ms. Lin Yueyun were released during the year ended 31 December 2019.

Save as disclosed in the paragraph headed "Indebtedness" in this section, we did not have, at the close of business on 30 November 2020, any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Properties, plant and equipment and right-of-use assets

Our properties, plant and equipment consist of buildings, plant and machinery, office equipment, motor vehicles and construction in progress, accounted for approximately RMB165.8 million, RMB153.2 million, RMB146.8 million and RMB139.8 million, respectively, as at each of the three years ended 31 December 2019 and the six months ended 30 June 2020. Our right-of-use assets accounted for approximately RMB3.0 million, RMB2.9 million, RMB2.8 million and RMB2.8 million, respectively, as at each of the three years ended 31 December 2019 and the six months ended 30 June 2020.

The table below sets out the breakdown of our properties, plant and equipment and right-of-use assets as at the respective dates indicated:

	As at 31 December		As at 30 June	
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	29,483	29,399	30,735	29,795
Plant and machinery	134,112	120,298	112,978	106,581
Office equipment	1,441	1,194	1,217	1,489
Motor vehicles	597	493	390	410
Construction in progress	146	1,799	1,513	1,544
Subtotal	165,779	153,183	146,833	139,819
Right-of-use assets	2,968	2,886	2,804	2,763
Total	168,747	156,069	149,637	142,582

FINANCIAL INFORMATION

Depreciation to properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives. 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.

Construction-in-progress includes the costs of construction and acquisition and capitalised borrowing costs, primarily represents reconstruction and expansion program taken place in our existing manufacturing plant. No provision for depreciation is made until such time as the relevant assets are completed and ready for intended use.

Right-of-use assets represented the consideration paid by the Group in obtaining its land use rights for self-owned manufacturing plant less accumulative amortisation. Amortisation was calculated using the straight-line method over the remaining term of use.

The carrying amounts of our properties, plant and equipment and rights-of-use assets were decreasing during the Track Record Period, primarily attributable to the depreciation and amortisation charges, partially offset by the capital expenditures incurred for the respective periods.

As at each of the three years ended 31 December 2019 and the six months ended 30 June 2020, our properties, plant and equipment were pledged as securities for our bank borrowings, amounted to approximately RMB92.6 million, RMB80.0 million, RMB20.2 million and RMB19.8 million, respectively, represented approximately 54.9%, 51.3%, 13.5% and 13.9%, respectively, of our properties, plant and equipment and right-of-use assets over the same periods.

For further details of our capital expenditure and capital commitment, please refer to the paragraph headed “capital expenditures and capital commitment” in this section.

For details regarding our properties, plant and equipment and right-of-use assets, please refer to the section headed “Appendix I – note 13” in this prospectus.

For details regarding our assets pledged as securities, please refer to the section headed “Appendix I – note 30” in this prospectus.

FINANCIAL INFORMATION

Inventories

Our inventories represent raw materials. The value of our inventories accounted for approximately 26.7%, 11.2%, 11.9% and 5.7%, respectively, of our total current assets as at 31 December 2017, 2018 and 2019 and 30 June 2020. The following table sets out our inventories balance as at each of the dates indicated:

	As at 31 December		As at 30 June	
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	10,160	8,170	9,922	6,031

Our raw materials principally consist of dyes, yarns, fuels, greige fabrics and greige lace.

No work-in-progress or finished goods in the Group's inventories

The Group's accounting policies on revenue recognition comply with HKFRS, under which the Group's Historical Financial Information has been prepared and HKFRS 15 has been applied consistently throughout the Track Record Period.

Pursuant to HKFRS 15, the Group recognises revenue from sales contracts over time as the Group's service creates an asset with no alternative use to the Group; and the Group has an enforceable right to payment for performance completed to date if the sales contracts were to be terminated before completion for reasons other than the Group's failure to perform as promised.

In measuring its progress towards satisfaction of performance obligation over time, the Group uses input method, as permitted under HKFRS 15, to recognise revenue on the basis of the Group's inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of its performance obligation (i.e., with reference to the total actual costs incurred and the total estimated costs on completion for rendering the services).

As a result, satisfaction of the requirements for recognition over time implies that control does not transfer to customers at discrete points in time but as progress is made, and measure of progress should result in recognition of contracted assets, but not work-in-progress or finished goods for performance the Group has completed.

FINANCIAL INFORMATION

The following table sets out the average inventories turnover days during the Track Record Period:

	FY17	FY18	FY19	1H20
Average Inventories turnover days ^(Note)	41.1	49.0	48.8	49.7

Note: Average inventories turnover days is equal to the average of the beginning and ending inventories balance of the year/period divided by cost of raw materials consumed for the year/period and multiplied by number of days in the year/period.

The average inventories turnover days amounted to approximately 41.1 days, 49.0 days, 48.8 days and 49.7 days, respectively, for each of the three years ended 31 December 2019 and the six months ended 30 June 2020. The inventories turnover days were consistent with our inventories policy to maintain approximate one to two months inventory level to meet our production requirement.

As at the Latest Practicable Date, approximately RMB3.0 million of our inventories, representing approximately 50.0% of inventories as at 30 June 2020, were subsequently utilised.

Contract assets, trade and bills receivables

Contract assets

Contract assets represented the Group's rights to consideration for work completed but unbilled for its business. The contract assets are transferred to trade receivables when the rights become unconditional. The rights become unconditional upon completion of customers' inspection and monthly/periodic sales reconciliation procedures between the accounting department of the responsible personnel of each of the customers and the Group.

When the customers have reconciled to their satisfaction and agreed the goods that they have received to the amount to be billed by the Group, the customers' inspection and monthly/periodic reconciliation procedures is completed.

When performing these customers' inspection and monthly/periodic sales reconciliation procedures, certain customers of the Group prefer reconciling in a "by each completed purchase order containing all batches" manner which generally take a longer time, whereas certain other customers prefer reconcile in a "by each completed batch" manner which generally take a shorter time.

Due to the variation of customer's performance in conducting the reconciliation, there is a range for the passage of time, being generally one to three months, until the Group's contract assets are transferred to trade receivables.

FINANCIAL INFORMATION

In normal circumstances, if the goods were delivered to and received by our customers, it generally take one month for the customers' inspection and monthly/periodic reconciliation procedures to complete, and the Group's contract assets shall transfer to trade receivables.

The contract assets increased from approximately RMB3.6 million as at 31 December 2017 to approximately RMB14.2 million as at FY18, primarily due to our expedited billing to our customers prior to 31 December 2017 causing its lower balance as at 31 December 2017. The contract assets increased from approximately RMB14.2 million as at 31 December 2018 to approximately RMB16.6 million as at 31 December 2019, which was generally in line with our revenue growth for the year. The contract assets increased from approximately RMB16.6 million as at 31 December 2019 to approximately RMB24.3 million as at 30 June 2020, primarily due to the outbreak of COVID-19 has resulted our customers required more time to verify the quality and amounts of products we delivered to them, which caused delays in our billing progress for 1H20.

As at the Latest Practicable Date, (i) approximately RMB16.6 million of our contract assets, representing approximately 99.9% of our contract assets as at 31 December 2019, were subsequently billed and transferred to trade receivables, of which approximately RMB16.5 million, representing approximately 99.4% of our contract assets as at 31 December 2019 subsequently billed and transferred to trade receivables, were subsequently settled, and (ii) approximately RMB23.2 million of our contract assets, representing approximately 95.5% of our contract assets as at 30 June 2020, were subsequently billed and transferred to trade receivables, of which approximately RMB22.4 million, representing approximately 92.2% of our contract assets as at 30 June 2020 subsequently billed and transferred to trade receivables, were subsequently settled.

Trade and bills receivables

We typically allow credit period of 30 to 60 days to our customers, depending on the creditworthiness of the customers, determined on a case-by-case basis with reference to the customers' scale of operation, length of business relationship with us and repayment history, or otherwise sales would be made base on cash on delivery or in advance. The following table sets out our trade and bill receivables as at each of the dates indicated:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	10,792	14,291	12,549	23,208
Bills receivables	50	578	3,145	—
Trade and bills receivables	<u>10,842</u>	<u>14,869</u>	<u>15,694</u>	<u>23,208</u>

FINANCIAL INFORMATION

The trade and bills receivables increased from approximately RMB10.8 million as at 31 December 2017 to approximately RMB14.9 million as at 31 December 2018, primarily due to the fact that certain of our customers' balances were settled prior to the end of 31 December 2017. The trade and bills receivables increased from approximately RMB14.9 million as at 31 December 2018 to approximately RMB15.7 million as at 31 December 2019, primarily due to our increased sales for the year. The trade and bills receivables increased from approximately RMB15.7 million as at 31 December 2019 to approximately RMB23.2 million as at 30 June 2020, primarily due to the outbreak of COVID-19 has resulted our customers delay in resumption of the business operation, which resulted in certain delay in billing and settlement of our customers' balances.

The following table sets out the aging analysis of trade and bills receivables based on invoice date, as at each of the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	5,113	2,392	6,286	10,140
1 to 3 months	2,824	8,852	4,952	10,493
4 to 6 months	1,201	2,452	2,940	1,251
7 to 12 months	806	258	1,074	961
Over 1 year	898	915	442	363
	<u>10,842</u>	<u>14,869</u>	<u>15,694</u>	<u>23,208</u>

The following table sets out the turnover days of our trade and bills receivables for each of the years indicated:

	FY17	FY18	FY19	1H20
Average trade and bills receivables turnover days ^(Note)	46.6	27.2	27.4	37.2

Note: Average trade and bills receivables turnover days is equal to the average of the beginning and ending balance of trade and bills receivables for the year/period divided by revenue for the year/period and multiplied by number of days for a year/period.

The average trade and bills receivables turnover days decreased from approximately 46.6 days for FY17 to approximately 27.2 days for FY18, primarily due to our comparatively large amount of balance as at 1 January 2017, which caused the average trade and bills receivables amount for FY17 to be higher than that of FY18. The average trade and bills receivables turnover days remained at similar level of approximately 27.2 days for FY18 and approximately 27.4 days for FY19. The average trade and bills receivables turnover days increased from approximately 27.4 days for FY19 to approximately 37.2 days for 1H20. The increase was

FINANCIAL INFORMATION

primarily due to the outbreak of COVID-19 has resulted our customers delay in resumption of the business operation, which resulted in certain delay in billing and settlement of our customers' balances.

The average trade and bills receivables turnover days during the Track Record Period was generally consistent with our credit policy of 30 to 60 days to our customers.

The following table sets out the average contract assets, trade and bills receivables turnover days for each of the years indicated:

	FY17	For FY18	FY19	1H20
Average contract assets, trade and bills receivables turnover days (Note)	52.9	46.0	55.0	76.3

Note: Average contract assets, trade and bills receivables turnover days is equal to the average of the beginning and ending balance of contract assets, trade and bills receivables for the year/period divided by revenue for the year and multiplied by the number of days for a year/period.

The average contract assets, trade and bills receivables turnover days measure the general timing from completion of our products to our collection of cash.

The average contract assets, trade and bills receivables turnover days decreased from approximately 52.9 days for FY17 to approximately 46.0 days for FY18, primarily due to our comparatively large amount of trade and bills receivable balance as at 31 December 2016, which caused the average contract assets, trade and bills receivables amount for FY17 to be higher than that of FY18. The average contract assets, trade and bills receivables turnover days increased from approximately 46.0 days for FY18 to approximately 55.0 days for FY19. The increase was generally in line with our revenue growth for the year. The average contract assets, trade and bills receivables turnover days increased from approximately 55.0 days for FY19 to approximately 76.3 days for 1H20. The increase was primarily due to the outbreak of COVID-19 has resulted our customers delay in resumption of the business operation, which resulted in certain delay in settlement of our customers' balances.

As at the Latest Practicable Date, approximately RMB22.5 million of our trade and bills receivables, representing approximately 97.0% of our trade and bills receivables as at 30 June 2020, were subsequently settled.

FINANCIAL INFORMATION

Prepayment and other receivables

The table below sets out the breakdown of our prepayment and other receivables as at the respective dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Classified as non-current assets</i>				
Prepayments of acquisition of properties, plant and equipment	603	2,644	223	2,786
<i>Classified as current assets</i>				
Prepayments to suppliers	714	159	107	448
Other prepayments	41	160	5	45
Other receivables	179	278	66	19
Prepaid listing expenses	–	263	2,349	4,045
	934	860	2,527	4,557

Our prepayment classified as non-current assets represents the prepayment made for acquisition of properties, plant and equipment. The fluctuation during the Track Record Period was primarily attributable to the payment made near the end of the respective year for the purpose of capital expenditures. For further details of our capital expenditure and capital commitment, please refer to the paragraph headed “capital expenditures and capital commitment” in this section.

Prepayments and other receivables under current assets accounted for approximately RMB0.9 million, RMB0.9 million, RMB2.5 million and RMB4.6 million, respectively, represents approximately 2.5%, 1.2%, 3.0% and 4.3%, respectively, of our total current assets over the same periods. The fluctuations during Track Record Period were primarily attributable to (i) payments made to individual suppliers near the end of the year for raw materials and other operating expenses, and (ii) prepaid listing expenses made to professional parties.

For further information regarding our prepayments and other receivables, please refer to note 17 in Appendix I headed “Prepayments and other receivables” to this prospectus.

FINANCIAL INFORMATION

Trade and bills payables

Our Group's trade and bills payables mainly related to the purchase of raw materials. Our Group is generally required to pay for the raw materials between 30 to 90 days upon delivery.

The following table sets out the components of our trade and bills payables as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	12,107	23,056	14,058	14,623
Bills payables	3,500	3,600	–	–
	<u>15,607</u>	<u>26,656</u>	<u>14,058</u>	<u>14,623</u>
Trade and bills payables	<u>15,607</u>	<u>26,656</u>	<u>14,058</u>	<u>14,623</u>

The trade and bills payables increased from approximately RMB15.6 million as at 31 December 2017 to approximately RMB26.7 million as at 31 December 2018, primarily due to a number of our suppliers were holding back their respective invoices as at 31 December 2018, foreseeing the lower value-add tax rates to be enacted in early 2019, resulted an exceptional high level of amount as at 31 December 2018. The trade and bills payable, decreased from approximately RMB26.7 million as at 31 December 2018 to approximately RMB14.1 million as at 31 December 2019, primarily reflected that the suppliers issued their respective invoices normally as at 31 December 2019 after a lower value-added tax was enacted in early 2019. The trade and bills payables remained at similar level of approximately RMB14.1 million as at 31 December 2019 and approximately RMB14.6 million as at 30 June 2020.

The following table sets out the aging analysis of trade payables based on invoice date, as at each of the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	2,978	17,153	11,365	10,984
1 to 3 months	8,913	3,305	1,258	2,600
4 to 6 months	2,897	3,187	612	270
7 to 12 months	92	2,278	86	35
Over 1 year	727	733	737	734
	<u>15,607</u>	<u>26,656</u>	<u>14,058</u>	<u>14,623</u>

FINANCIAL INFORMATION

The following table sets out the turnover days of our trade and bills payables for each of the years indicated:

	FY17	FY18	FY19	1H20
Average trade and bills payables turnover days ^(Note)	85.3	112.9	109.9	89.3

Note: Average trade and bills payables turnover days is equal to the average of the beginning and ending balance of trade and bills payables for the year/period divided by the raw materials consumed for the year/period and multiplied by the number of days for a year/period.

The average trade and bills payable turnover days increased from approximately 85.3 days for FY17 to approximately 112.9 days for FY18, primarily due to numbers of our suppliers were holding back their respective invoices as at 31 December 2018, foreseeing the lower value-add tax rates to be enacted in early 2019, the delay in acknowledging the settlement amount by our suppliers made us unable to settle our accrued purchases accumulated in our trade payable balance, resulted an exceptional high level of amount of trade payables as at 31 December 2018. The average trade and bills payable turnover days decreased from approximately 112.9 days for FY18 to approximately 109.9 days for FY19 after a lower value-added tax was enacted in early 2019 and average trade and bills payable became lower when suppliers issued their invoices normally. The average trade and bills payable turnover days decreased from approximately 109.9 days for FY19 to approximately 89.3 days for 1H20. The decrease was primarily attributable to an exceptional high level of amount of trade payables as at 31 December 2018, mainly caused by the abovementioned reason, causing the turnover days for FY19 to be higher than regular level.

As at the Latest Practicable Date, approximately RMB9.9 million of our trade and bills payables, representing approximately 67.8% of our trade and bills payables as at 30 June 2020, were subsequently settled.

FINANCIAL INFORMATION

Contract liabilities, other payables and accruals

The table below sets out the breakdown of our contract liabilities, other payables and accruals as at the respective dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Classified as non-current liabilities</i>				
Other payables	1,705	1,646	1,592	1,561
<i>Classified as current liabilities</i>				
Payables for acquisition of				
properties, plant and equipment	546	1,281	1,809	1,671
Other tax payables	1,312	576	1,505	3,956
Accruals for employee benefits	2,156	2,240	5,022	4,116
Deposits from customers	1,940	2,410	3,246	2,102
Contract liabilities	624	518	1,307	296
Accrued listing expenses	–	–	38	3,252
Other payables and accruals	232	294	1,294	879
	6,810	7,319	14,221	16,272

The other payables classified under non-current liabilities represents employee benefits provided for one of our former employees for his work injury prior to the Track Record Period. Please refer to further details in the section headed “Business – Workplace accident prior to the Track Record Period” in this prospectus.

The contract liabilities, other payables and accruals under current liabilities increased from approximately RMB6.8 million as at 31 December 2017 to approximately RMB7.3 million as at 31 December 2018, primarily due to the increase in our customers’ deposit and contract liabilities, mainly driven by our increased sales. The amount increased from approximately RMB7.3 million as at 31 December 2018 to approximately RMB14.2 million as at 31 December 2019, primarily due to the (i) increase in accrued employee benefits, mainly driven by the increased headcount and the one-off discretionary bonus to motivate our staff, and (ii) increase in customers’ deposit and contract liabilities resulted from the continued increased sales. The amount increased from approximately RMB14.2 million as at 31 December 2019 to approximately RMB16.3 million as at 30 June 2020, primarily due to the increase in accrued listing expenses.

FINANCIAL INFORMATION

The Group's contract liabilities represent the Group's obligation to transfer the promised goods or services to a customer for which the Group has received consideration from the customer, whereas deposits from customers represents deposits received by the Group from customers in advance for indicative and uncommitted sales orders placed near year-end (which does not meet the definition of sales contracts under HKFRS 15) but were only committed by the customers as sales contracts after year-end.

For further information regarding our contract liabilities, other payables and accruals, please refer to note 21 in Appendix I headed "Contract liabilities, other payables and accruals" to this prospectus.

Amounts due to shareholders

The amounts due to shareholders accounted for approximately RMB3.9 million, nil, RMB5.0 million and nil, respectively, as at each of the three years ended 31 December 2019 and the six months ended 30 June 2020. The amounts were non-trade in nature, unsecured, interest free and repayable on demand. Our Directors confirm, as at the Latest Practicable Date, all the amounts due to shareholders has been settled.

For further details of related party transactions and balances, please refer to note 27 in Appendix I to this prospectus.

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

Capital expenditures

During the Track Record Period, our capital expenditures have principally consisted of expenditures on properties, plant and equipment. We incurred cash flows on capital expenditures for the purchase of properties, plant and equipment in the amounts of approximately RMB14.7 million, RMB7.5 million, RMB9.8 million and RMB3.4 million for each of the three years ended 31 December 2019 and the six months ended 30 June 2020.

For further information regarding our machinery and equipment, please refer to the section headed "Business – Machinery and equipment" in this prospectus.

FINANCIAL INFORMATION

Capital Commitment

The following table sets out our capital commitments as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for – Purchase of properties, plant and equipment	306	3,873	614	5,480

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Our Group did not have any material off-balance sheet commitments and arrangements.

SUMMARY OF KEY FINANCIAL RATIOS

The table below sets forth our major financial ratios during the Track Record Period:

	As at/for			
	FY17	FY18	FY19	1H20
Current ratio (times) <i>(Note 1)</i>	0.5	0.7	1.6	2.1
Quick ratio (times) <i>(Note 2)</i>	0.4	0.6	1.4	2.0
Gearing ratio <i>(Note 3)</i>	43.1%	50.8%	10.0%	6.5%
Net debt to equity ratio <i>(Note 4)</i>	33.3%	23.3%	Net Cash	Net Cash
Interest coverage (times) <i>(Note 5)</i>	7.4	13.6	25.0	85.2
Return on assets <i>(Note 6)</i>	8.1%	13.5%	17.9%	N/A <i>(Note 8)</i>
Return on equity <i>(Note 7)</i>	13.2%	24.7%	23.3%	N/A <i>(Note 8)</i>

Notes:

1. Current ratio is calculated by dividing current assets by current liabilities.
2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
3. Gearing ratio is calculated by dividing total debt by total equity multiplied by 100%. Total debt is defined as the sum of the bank borrowings, amount due to shareholders and amount due to related party.
4. Net debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include total debt net of cash and cash equivalent and pledged bank deposit.
5. Interest coverage is calculated by dividing operating profit before finance costs and income tax expenses by finance costs.
6. Return on assets is calculated by dividing profit for the year attributable to the owners of the Company by the closing balance of total assets.

FINANCIAL INFORMATION

7. Return on equity is calculated by dividing profit for the year attributable to the owners of the Company by the closing balance of total equity.
8. Such ratio is not applicable as it is not comparable to annual numbers.

Current ratio and quick ratio

Our Group's current ratio were approximately 0.5 times, 0.7 times and 1.6 times as at 31 December 2017, 2018 and 2019, respectively and our quick ratio as at those dates was approximately 0.4 times, 0.6 times and 1.4 times, respectively. Our current ratio and quick ratio were remain relatively stable as at 31 December 2017 and 2018. The improved current and quick ratio as at 31 December 2019 was mainly due to the decrease in the current portion of our bank borrowings of approximately RMB52.0 million. Our current ratio increased from approximately 1.6 times as at 31 December 2019 to approximately 2.1 times as at 30 June 2020, and our quick ratio increased from approximately 1.4 times as at 31 December 2019 to approximately 2.0 times as at 30 June 2020, the increases were primarily due to increase in contract assets of approximately RMB7.7 million and increase in trade and bills receivables of RMB7.5 million as at 30 June 2020, both were mainly due to the outbreak of COVID-19 caused our customers delay in billing and settlement process in 1H20.

Gearing ratio

Our gearing ratio as at 31 December 2017, 2018 and 2019 was approximately 43.1%, 50.8% and 10.0%, respectively. The gearing ratio increased from approximately 43.1% as at 31 December 2017 to approximately 50.8% as at 31 December 2018 which was primarily due to the increase in bank borrowings of approximately RMB23.0 million. The gearing ratio decreased from approximately 50.8% as at 31 December 2018 to approximately 10.0% as at 31 December 2019 as a result of (i) decrease in bank borrowings of approximately RMB52.0 million as at 31 December 2019 due to repayment of bank borrowings of approximately RMB79.0 million; and (ii) the increase in equity base as a result of the capital injection from a Pre-IPO Investor and accumulation of profit. Our gearing ratio further decreased from approximately 10.0% as at 31 December 2019 to approximately 6.5% as at 30 June 2020, primarily attributable to (i) the total equity base has increased by approximately RMB21.1 million as a result of the profit for the period attributable to owners of the Company of approximately RMB21.2 million, and (ii) the decrease of amounts due to shareholders of approximately RMB5.0 million.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 33.3% as at 31 December 2017 to approximately 23.3% as at 31 December 2018 which was primarily due to increase in cash and cash equivalents of approximately RMB22.6 million. As a result of decrease in bank borrowings of approximately RMB52.0 million as at 31 December 2019, we recorded net cash as at 31 December 2019. Our net debt to equity ratio maintained at net cash position as at 30 June 2020.

FINANCIAL INFORMATION

Interest coverage

Our interest coverage increased from approximately 7.4 times for FY17 to approximately 13.6 times for FY18 and further increased to approximately 25.0 times for FY19. The increase of interest coverage between FY17 and FY19 was primarily due to (i) decrease in interest expenses and (ii) increase in profit before interest and tax during the period. Our interest coverage increased from approximately 25.0 times for FY19 to approximately 85.2 times for 1H20, primarily due to the decrease in interest expenses.

Return on assets

Return on assets was approximately 8.1%, 13.5% and 17.9% for each of FY17, FY18 and FY19, respectively. The increase in our return on assets between FY17 and FY19 was primarily due to increase in profit for the year attributable to the owners of our Company during the period.

Return on equity

The return on equity increased from approximately 13.2% for FY17 to approximately 24.7% for FY18 and then decreased to approximately 23.3% for FY19. The increase for FY18 was primarily due to the profit for the year attributable to the owners of our Company increased by approximately 87.8%. The decrease in 2019 was primarily due to the increase in equity base as a result of the capital injection from a Pre-IPO Investor and accumulation of profit.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

FINANCIAL INFORMATION

DIVIDEND

For each of the three years ended 31 December 2019 and the six months ended 30 June 2020, Deyun declared and paid dividend of approximately nil, RMB31.1 million, nil and nil, respectively, to its then shareholders and were settled by our internal resources. 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 operations and financial performance, profitability, business development, prospects, capital requirements and economic outlook. It is also subject to the approval of our Shareholders, as well as any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy, and there is no guarantee that dividends will be paid in the future.

Subject to the Companies Law and the Memorandum and Articles of the Company, through a general meeting, we may declare dividends in any currency but no dividends may be declared in excess of the amount recommended by our Directors. Our Articles provided that dividend may be declared and paid out of profits of our Company, realised or unrealised, or from any resource set aside from profit which our Directors determined no longer needed. With the sanction of an ordinary resolutions, dividend may also be declared and paid out of our share premium account or other fund or account which can be authorised for this purpose in accordance with the Companies Law. Our Board has absolute discretion to decide whether to recommend payment of dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or any year.

LISTING EXPENSES

Assuming the Offer Price of HK\$0.45 per Offer Share, being the mid-point of the indicative Offer Price range, the total amount of Listing expenses and commissions in connection with the Share Offer is estimated to be approximately RMB37.0 million.

Of the aggregate Listing expenses of RMB37.0 million, approximately RMB15.8 million directly attributable to the issue of new Shares will be accounted for as a deduction from equity upon Listing. Listing expenses of approximately RMB7.2 million were charged to the profit or loss for FY19, approximately RMB5.7 million were charged to the profit or loss for 1H20, and the remaining amount of approximately RMB8.3 million will be charged to the profit or loss for the year ending 31 December 2020. Expenses in relation to the Listing are non-recurring in nature.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FINANCIAL INFORMATION

FINANCIAL RISK MANAGEMENT

Our Group is exposed to certain financial risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk in the ordinary course of our business. For further details of our financial risk management, please refer to note 3 in the Accountant's Report in Appendix I to this prospectus.

RECENT DEVELOPMENT

Outbreak of COVID-19

During the COVID-19 outbreak, the government of the PRC imposed a lockdown in the Wuhan City since 23 January 2020 in an attempt to quarantine the city and announced to extend the Chinese New Year holiday and delay the resumption of work in the PRC. Different local governments of the PRC have imposed temporary restrictions or bans on passenger traffic to control the spread of COVID-19. Various countries and territories have also imposed travel restrictions, such as travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days. On 30 January 2020, the World Health Organisation ("WHO") declared the outbreak of COVID-19 as a Public Health Emergency of International Concern but the World Health Organisation did not recommend any travel or trade restriction based on the information available.

Regarding the delay in the resumption of work, our Directors understand that it is generally the responsibility of both our company and customers to undergo relevant works resumptions following the advice by the relevant PRC authorities. Following the spread of COVID-19 to Fujian, on 4 February 2020, the relevant authorities in Fuzhou City have also imposed epidemic prevention measures such as compulsory temperature checks, closure of public venues and restrictions for factories to resume work during the extended Chinese New Year holiday. In line with the government policy, our Group has suspended operation since 4 February 2020 (i.e., after the end of the Chinese New Year holiday) and resumed full operation in early March 2020.

The outbreak of COVID-19 has resulted in a high number of fatalities in the world. The lockdown imposed in many countries, including the PRC has caused disruption of production activities and an adverse impact on the livelihood of the people and the economy globally, including the PRC. During the lockdown, the consumption markets of the PRC such as lingerie and apparel markets, which are downstream of our lingerie material industry, have been adversely affected, which has in turn caused certain delay in placing order from our customers. Therefore, our revenue during January to March 2020 has decreased as compared to the same period in 2019. The situation improved since March 2020 when the pandemic disease has slowed down. As a result, there is a significant increase in terms of revenue in March 2020 compared to the preceding two months. Based on our Group's sales record that our sales from January 2020 to June 2020 has been gradually increasing with diminishing shortfall as compared to the same period in 2019, the revenue for the six months ended 30 June 2020 has decreased by approximately 12.1% when compared to that in the same period in 2019. With the full resumption of business operations of our Group's major customers and suppliers since April

FINANCIAL INFORMATION

2020, our Directors are of the view that the outbreak of COVID-19 has only caused a short term negative impact to our Group. In respect of transportation and availability of raw materials from suppliers, since most of our major suppliers are located in Fujian which has restricted the travel of people between different provinces rather than transportation of goods, the lockdown arrangement has not adversely affected the local transportation. Further given we have maintained inventory stock of major raw materials such as yarns and dyes for one to two months, we have not encountered any disruption in the supply of raw materials up to the Latest Practicable Date. Also, we have not encountered any cancellation of purchase orders from, nor material delay in payment settlement from our customers up to the Latest Practicable Date. Therefore, our Group is able to discharge its obligations under all existing contracts without any financial compensation or claim from its customers and suppliers up to the Latest Practicable Date.

To the best knowledge and belief of the Directors, the ultimate customers of the Group are mainly domestic customers in the PRC. With the resumption of manufacturing and business activities in China in April 2020 and the various policies to support the recovery of economy announced or launched by the government in China, it is expected that the economy of China could recover gradually. Therefore, the demand from end customers in PRC would experience a rebound accordingly. On the other hand, with the continued wide spread of COVID-19 in overseas countries, the demand from our overseas customers are still negatively affected due to the weak economy. According to CIC, despite the global apparel market has experienced a significant drop in March and April 2020, the major apparel market rebounded afterwards. For the US, supported by the shifting of purchasing habit by the end customers from physical stores to online platforms, its retail sales volume of clothing rebounded by 188% in May 2020 comparing to April 2020; for the United Kingdom, its sales volume of clothing rebounded by 18.6% in May 2020 and 69.1% in June 2020 as compared to that in April 2020. The rebound of global apparel market is expected to relief the burden of international brands end customers.

In the event that we are forced to temporarily reduce or suspend part of our business operations, whether due to government policy or any other reasons beyond our control, due to the COVID-19 outbreak, we estimate, and the Sponsor concurs, our existing financial resources as at 30 June 2020 could satisfy our necessary costs for approximately 27 months. In the event that we take into account of only 9.7% of the net proceeds of the Share Offer to be used for general working capital purpose on top of our financial resources as at 30 June 2020, our financial resources could satisfy our necessary costs for approximately 31 months. Our key assumptions include: (i) we will not generate any income due to the suspension of business; (ii) minimal operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic factory maintenance cost, staff cost, utilities expenses, fees to be incurred for the purpose of listing such as annual listing fee, annual audit fee, financial reports and compliance adviser fee); (iii) the trade receivables would be settled based on historical settlement pattern and the payment of trade payables would be made when due; (iv) the expansion plan is delayed under such condition; (v) there will be no further internal or external financing from Shareholders or financial institutions; and (vi) no dividends will be

FINANCIAL INFORMATION

declared and paid under such situation. The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors assessed that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development, therefore it is possible that the impact to our Group may be out of our control and beyond our estimation and assessment.

Our Directors will continue to (i) assess the impact of the COVID-19 outbreak on our Group's business operations and financial performance; and (ii) closely monitor our Group's exposure to the relevant risks and uncertainties and respond accordingly.

(i) Our customers

None of our major PRC customers are from Wuhan City or other cities in Hubei. Moreover, none of our customers who had placed orders with us before the outbreak of COVID-19 have cancelled their orders and we have been able to perform our contracts with our customers.

Except for the delay in the resumption of business operation or transport restriction due to the government policies as mentioned above, they have confirmed that our business relationships with them will not be materially affected despite the outbreak of COVID-19.

There is also no indication that their ability to settle the sales payment has been adversely affected by the outbreak of coronavirus.

(ii) Our suppliers

Most of our major suppliers, majority of which are based in Fujian and given that our major raw materials are primarily dyes and yarns which are produced and readily available from suppliers in various regions of the PRC, we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease. Moreover, they have informed our Group that they will still be able to fulfil their obligations under their respective contracts with our Group. As such, after resumption of works, our Directors consider that we shall not encounter any major difficulties regarding our supply chain.

(iii) Our employees

To the best knowledge of our Directors after making reasonable enquiries, as at the Latest Practicable Date, none of our employees including our Directors or senior management, have been confirmed to be infected by COVID-19. As at the Latest Practicable Date, all staff had resumed work and our Directors consider that there is no material disruption to the day to day operations.

(iv) Our sales activities and production facilities

According to the notices announced by the local government, the Chinese New Year holiday was extended to 10 February 2020, and our production and sales activities have been

FINANCIAL INFORMATION

resumed since 18 February 2020. Generally, our production demand is comparatively lower after the Chinese New Year holiday and up to the date of this prospectus, none of our production facilities are located in the Hubei or cities or regions affected by lockdowns which would cause material operational disruption. To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group to undertake various precautionary measures.

(v) Our hygiene and preventive measure

Our Group has established an epidemic prevention and control working group to undertake various precautionary measures. These measures include (i) enhancing the hygienic level of our production plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) performing compulsory daily temperature checks of all our employees before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell.

(vi) Our contingency plan

In case the COVID-19 prolonged and escalated to an adverse extent, we have formulated our business contingency plan in response to the crisis, including mainly (i) encourage employees staying at our staff quarters after work and not to participate in mass social gathering; (ii) evaluate our existing orders on hand and liaise with the relevant customers for possible adjustment of delivery schedule; and (iii) increase our inventory level for our commonly used raw materials for an extra month for prevention of any interruption of existing production plan. Our Directors confirm there will be no material and adverse changes on our Group's financial and operational positions and could mitigate the potential impact effectively.

Other recent development

Based on our audited accounts for the six months ended 30 June 2020, our revenue, gross profit and gross profit margin for the six months ended 30 June 2020, being approximately RMB95.1 million, RMB31.7 million and 33.4%, respectively, have decreased by 12.1%, 15.0% and 1.1% when compared to that for the same period in 2019. The average contract assets, trade and bills receivables turnover days increased to 76 days in the first half of 2020 when compared to 55 days for the year ended 31 December 2019. This is primarily due to the postponement in the resumption of production and sales activities of our Company and our customers resulting from the outbreak of COVID-19. Due to the gradual resumption of manufacturing and business activities in the PRC since April 2020, subsequent to the Track Record Period, we have recorded a better performance for the five months ended 30 November 2020 as compared to that in the same period in 2019. In respect of our dyeing services, our revenue, sales volume, average selling price, gross profit and gross profit margin have increased by 11.6%, 10.3%, 1.1%, 33.4% and 5.3% (in absolute percentage figure), respectively. In respect of lace, our revenue, sales volume, gross profit and gross profit margin have increased by 10.0%, 19.4%, 34.7% and 8.7% (in absolute percentage figure), respectively, while the average selling price has decreased by

FINANCIAL INFORMATION

approximately 7.8%. In overall, our total revenue, sales volume (by the sum of the absolute amounts), average selling price (calculated by dividing the total revenue by the sum of sales volumes of dyeing services and lace), gross profit and gross profit margin have increased by approximately 11.0%, 10.8%, 0.1%, 34.0% and 6.6% (in absolute percentage figure), respectively. We would expect a continuous improvement in our business and financial performance due to the recovery and rebound of the global economy and, save as the Listing expenses, there will be no material adverse effect on our financial results for FY2020.

NO MATERIAL ADVERSE CHANGE

Save as the Listing expenses, our Directors confirmed that, since 30 June 2020 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountant's Report set out in Appendix I in this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details, please refer to the section headed "Appendix II – A. Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Our Directors believe that the proceeds will facilitate the implementation of our business strategies for continued growth and further business expansion. As a long-established lace manufacturer and dyeing service provider in the PRC, we strive to attain growth by expanding our market share through (i) increasing our dyeing capacity; (ii) enhancing our quality control; and (iii) strengthening our research and development capability, in order to capture the market opportunities in the PRC through various strategies as set out in the section headed “Business – Business strategies” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Share Offer, after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming no over-allotment option will be exercised and an Offer Price of HK\$0.45 per Share, being the mid-point of the indicative range of the Offer Price between HK\$0.4 and HK\$0.5 per Share, will be approximately HK\$100.3 million.

Our Directors currently intend to apply the net proceeds from the Share Offer in the following manner:

- Expand our dyeing service capacity and enhance efficiency by way of upgrading, replacing and acquiring of dyeing machineries and facilities, of which:
 - (i) approximately HK\$22.2 million, representing approximately 22.1% of the net proceeds, is intended to be used for replacing 40 dyeing machines;
 - (ii) approximately HK\$5.5 million, representing approximately 5.5% of the net proceeds is intended to be used for acquisition of a centralised control automation system;
 - (iii) approximately HK\$29.1 million, representing approximately 29.0% of the net proceeds is intended to be used for replacing five setting machines and acquiring two sets of combined dehydrators and scutchers;
 - (iv) approximately HK\$1.1 million, representing approximately 1.1% of the net proceeds is intended to be used for hiring two technicians for the centralised control automation system; and
 - (v) approximately HK\$0.5 million, representing approximately 0.5% of the net proceeds is intended to be used for hiring one environmental compliance technician.

FUTURE PLANS AND USE OF PROCEEDS

- Strengthen our research and development capability and quality control for our dyeing services, of which:
 - (i) approximately HK\$1.1 million, representing approximately 1.1% of the net proceeds is intended to be used for hiring two directors for quality control and product testing, respectively; and
 - (ii) approximately HK\$3.0 million, representing approximately 3.0% of the net proceeds is intended to be used for hiring four research and development technicians and one technical director.
- Continuous compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-boiler, of which:
 - (i) approximately HK\$9.2 million, representing approximately 9.2% of the net proceeds, is intended to be used for constructing a natural gas station, new pipelines and acquiring a natural-gas-boiler;
 - (ii) approximately HK\$6.7 million, representing approximately 6.7% of the net proceeds, is intended to be used for acquiring flue gas purifying treatment machine, sewage sludge drying equipment;
- Approximately HK\$1.1 million, representing approximately 1.1% of the net proceeds, is intended to be used to expanding our integrated ERP system;
- Approximately HK\$11.1 million, representing approximately 11.1% of the net proceeds is intended to be used for partial repayment of two bank loans, comprising of: (i) a bank loan of RMB8 million, with an interest rate of approximately 4.4%, maturing on 18 November 2021; and (ii) a bank loan of RMB5 million, with an interest rate of approximately 4.4%, maturing on 26 November 2021; and
- Approximately HK\$9.7 million, representing approximately 9.7% of the net proceeds, is intended to be used to for our general working capital.

The above allocation of the net proceeds will be adjusted on a pro-rata basis in the event that the Share Offer is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range stated in this prospectus.

To the extent that the net proceeds received by our Company from the Share Offer are not immediately applied to the purposes stated above, and to the extent permitted by applicable laws and regulations, we intend to deposit the proceeds into accounts with licensed financial institutions.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE LISTING

To realise our business strategies and implement our plans, our Directors consider that additional funding from proceeds will be beneficial to our Group taking into account of the followings:

(i) Potential market growth and implementation of our business strategies

The net proceeds from the Listing provide our Group with financial resources to implement our business plans which in turn drive the growth of our business. For further details, please refer to the section headed “Business – Our business strategies” in this prospectus.

According to the CIC Report, lace has been used for wider downstream applications on women’s garments due to the wide application of lace as main fabrics for newly launched women’s underwear, outerwear, lingerie production and swimsuit production. It is expected that the sales revenue of lace in China will reach approximately RMB44.5 billion by 2024, representing a CAGR of 8.1% between 2019 and 2024, while the market size for lace dyeing services provided to external lace manufacturers is expected to be increased from approximately RMB8.8 billion to RMB14.7 billion at a CAGR of 11.0% from 2019 to 2024, respectively. In particular, for the year ended 31 December 2017, 2018 and 2019 and six months ended 30 June 2020, our revenue generated from lace products accounted for approximately 50.2%, 49.0%, 42.0% and 40.0% of our total revenue, and the utilisation rates of our production lines for lace dyeing and weaving were approximately 84.9%, 100.1%, 117.9% and 117.4% and 83.4%, 98.9%, 85.5% and 85.0%, respectively. Given the high utilisation of our production lines for lace dyeing and weaving, our Directors recognise the imminent need for further capital to expand our production capacity of lace manufacturing and dyeing services in order to capture the expected growing demand for our lace products and services, along with the growth of the dyeing services and lace manufacturing from 2019 onwards. We believe that, given our active role in the dyeing and lace manufacturing industry, coupled with our plan to expand our production capacity, widen our product offerings and enhanced our research and development capabilities, we are well positioned to capture the business opportunities arising from the growth of the provision of dyeing services and lace products markets and expand our market share.

(ii) Enhance our corporate image and corporate governance

Our Directors believe that a public listing status will enhance our corporate profile and recognition which will provide higher confidence to our existing and potential customers to facilitate our obtaining of sales orders and also attract talents for research and product control for long term business growth.

We believe that our customers including established lace manufacturers and prefer working with business partners which are listed companies, given their reputation and corporate governance. By way of Listing, we can elevate our corporate image and status and strengthen our customers and suppliers confidence in us due to the higher level of transparency on our financial and operational performance.

(iii) Adapt to the continuous changes on local environmental protection policies

As the PRC government has implemented several policies that tightened the environmental protection requirement and pollution emission standard on dyeing industry over the years. In general, the government laid down the extensive pollutant emission standards and wastewater treatment guidelines under Environmental Protection Law of PRC* (中華人民共和國環境保護法) for all pollutant emitting industries. On top of the general law, the government further introduced the Printing and Dyeing Industry Regulations (2017)* (印染行業規範條件(2017版)) (“**the Regulation**”) and the Discharge Standard which is specifically tailored for the dyeing industry. The Regulation sets out comprehensive requirements on different aspects of the dyeing industry and provides a clear numerical calibre for the emission of pollutants emitted.

Also, the PRC government has issued another policy that aims to accelerate the use of natural gas instead of coal in industrial process in 2017 (加快推進天然氣利用的意見) (“**the Policy**”). The Policy requires factories that are using coal-burning-boilers to upgrade to natural-gas-boilers to reduce the emission of air pollutants. Our Directors believe additional funds enable us to be in compliance with local policies through replacement of a coal-burning-boiler by a natural-gas-boiler.

In FY 2018, many profitable dyeing businesses in Shantou City failed to comply with the standard have ceased to operate in recent years. The cessation of operation by certain industry peers led to an increase of dyeing service demand, we recorded a significant increase in revenue for our dyeing services in FY19 from FY18. In view of the expected implementation of environmental protection policies in Fujian by in 2021, we have increasing capital demand for our business operations in order to maintain the required environmental protection standard, which would provide more business opportunities to us in turn.

According to the CIC Report, the market size for lace dyeing services provided to external lace manufacturers is expected to increase from RMB8.8 billion to RMB14.7 billion at CAGR of 11.0% from 2019 to 2024. To capture the business opportunities, our Group needs to incur substantial capital expenditure in expanding our dyeing capacity, which includes upgrading and acquiring machinery, equipment and ancillary facilities. Our Directors believe that there is a genuine funding need to support our expansion plans by way of the Listing. For details discussion, please refer to the sections headed “Business – Our Business Strategies” and “Industry Overview – Migration of lace dyeing demand from Shantou City to Fujian” in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

(iv) Provide an equity fund-raising platform for our Group

As at 31 December 2017, 2018 and 2019 and 30 November 2020, our Group's borrowings were RMB42 million, RMB65 million, RMB13 million and RMB13 million, respectively, to finance our business operations and to fulfil working capital requirements.

The listing 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 to do so. Such platform would allow our Company to gain direct access to the capital market for equity and/or debt financing to fund our existing operations and future expansion, which could be instrumental to our business development.

(v) Obtain additional funding for our operations and capital requirements

In order to ensure the smooth running of our daily operations, we adopt a prudent cash management approach to satisfy our average operating cash outflow requirements. If we face net operating cash outflow and do not have sufficient working capital, we may have to fund our operating costs by obtaining bank borrowings, resulting in additional finance costs and interest rate risk exposure. We may not be able to secure sufficient funds alone for our expansion plan as disclosed in the paragraph headed "Use of Proceeds" in this section and to meet our payment obligations including our trade payables in a timely manner. Moreover, one-off listing expenses to be incurred is expected to be higher than interest expenses at the current interest rate level for the same amount of fund raised and if we raise additional funds by debt financing, we may be subject to various covenants under the relevant debt instruments which may restrict our ability to pay dividends or obtain additional financing.

We believe our liquidity management approach had served us well in supporting our business, given our net current assets position as at 31 December 2019. Nevertheless, external funding (including equity and debt financing) is essential in achieving sustainable growth of our business and the implementation of our business strategies and future plans. In particular, the replacement and acquisition of equipment and facilities for production in a cost-effective manner with full compliance with stringent environmental protection requirement requires a relatively large amount of capital expenditure in the near future. In view of the above and to address any uncertainties which may adversely affect our business and operating cash flows, our Directors consider it reasonable and necessary for us to raise funds from the Listing to finance our expansion plan.

Based on the above and taking into consideration our current scale of operations and the costs incurred by us during the Track Record Period as well as the expansion plan, our Directors are of the view that our Group's cash position is not strong enough to support our business development strategies without additional funding.

CORNERSTONE INVESTORS

CORNERSTONE INVESTMENTS

We have entered into cornerstone investment agreements (each a “**Cornerstone Investment Agreement**”, and together the “**Cornerstone Investment Agreements**”) with the cornerstone investors set out below (each a “**Cornerstone Investor**”, and together, the “**Cornerstone Investors**”), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, acquire at the Offer Price a certain number of our Offer Shares which may be purchased with an aggregate amount of approximately HK\$40,000,000 (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$0.40, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be acquired by the Cornerstone Investors would be 100,000,000 Offer Shares, representing approximately 31.7% of the Offer Shares and approximately 7.9% of our total issued share capital immediately upon the completion of the Share Offer (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$0.45, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be acquired by the Cornerstone Investors would be 88,880,000 Offer Shares, representing approximately 28.2% of the Offer Shares and approximately 7.1% of our total issued share capital immediately upon the completion of the Share Offer (assuming the Over-allotment Option is not exercised).

Assuming an Offer Price of HK\$0.50, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Offer Shares to be acquired by the Cornerstone Investors would be 80,000,000 Offer Shares, representing approximately 25.4% of the Offer Shares and approximately 6.3% of our total issued share capital immediately upon the completion of the Share Offer (assuming the Over-allotment Option is not exercised).

The Cornerstone Placing will form part of the Placing, and the Cornerstone Investors will not acquire any Offer Shares under the Share Offer (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be acquired by the Cornerstone Investors will rank *pari passu* in all respects with the fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. Immediately following the completion of the Share Offer, the Cornerstone Investors will not have any Board representation in our Company, nor will they become a substantial shareholder of our Company. To the best knowledge of our Company, (i) each of the Cornerstone Investors, being the ultimate beneficial owner of their respective Offer Shares to be acquired, is independent of our Company, its connected persons and their respective associates and each of the Cornerstone Investors is the

CORNERSTONE INVESTORS

ultimate beneficial owner of their respective Offer Shares to be acquired; (ii) save as how each of the Cornerstone Investors became acquainted with our Company as disclosed in this section below, there is no current and past relationship between the Cornerstone Investors and our Company, our Directors, chief executive, Controlling Shareholders, any of its subsidiaries, their respective associates or our senior management; (iii) there will not be deferred settlement in payment or deferred delivery of Shares to be subscribed by the Cornerstone Investors, and they shall pay in full for the relevant Offer Shares to be subscribed for on or before the Price Determination Date; (iv) there is no side agreement or arrangement between our Company and the Cornerstone Investors other than the Cornerstone Investment Agreements; (v) each of the Cornerstone Investors expects to fund the respective cornerstone investment with his own personal wealth and funding accumulated from his business, and none of the subscription of the Shares by the Cornerstone Investors is financed by our Company, our Directors, chief executive, Controlling Shareholders, substantial Shareholders, existing Shareholders or any of its subsidiaries or their respective associates; and (vi) none of the Cornerstone Investors is accustomed to take instructions from our Company, our Directors, chief executive, Controlling Shareholders, substantial Shareholders, existing Shareholders or any of its subsidiaries or their respective associates.

As confirmed by the Cornerstone Investors, they decided to invest in our Company as they are confident in our Company's industry and business prospects and the leadership of our management team. The Directors believe that the presence of Cornerstone Investors provide an impression of commitment, confidence and interests in the Share Offer and that the investment is worthwhile. In addition, the Directors consider that retail investors would be incentivised to invest in the Company when they see the Offer Shares are in high demand. As such, the Company, the Controlling Shareholders and the Underwriters are of the view that the introduction of cornerstone investors will strengthen the market appetite of the prospective investors in the Offer Shares and enhance the success of the Listing.

The total number of Offer Shares to be acquired by the Cornerstone Investors pursuant to the Cornerstone Placing will not be affected by the reallocation of the Offer Shares between the Placing and the Public Offer as described in the section headed "Structure and Conditions of the Share Offer – Public Offer – Reallocation" in this prospectus. Details of allocation to the Cornerstone Investors will be disclosed in the announcement of allotment results of our Company to be published on or about 12 January 2021.

CORNERSTONE INVESTORS

THE CORNERSTONE INVESTORS

We have entered into the Cornerstone Investment Agreements with the Cornerstone Investors in respect of the Cornerstone Placing, the details of which are set out in the table below:

Cornerstone Investor	Investment amount (HK\$' million)	Number of Offer Shares (rounded down to the nearest whole board lots of 5,000 Shares)	Approximate % of total number of Placing Shares ^(Note)		Approximate % of total number of Offer Shares		Approximate % of total number of Shares in issue immediately following the completion of the Share Offer	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
			(%)	(%)	(%)	(%)	(%)	(%)
<i>Based on the Offer Price of HK\$0.40 (being the low-end of the indicative Offer Price range)</i>								
Ms. Cheng Hung Ping	20.0	50,000,000	17.7%	15.0%	15.9%	13.8%	3.9%	3.8%
Ms. Tam Yuk Ching Jenny	10.0	25,000,000	8.8%	7.6%	7.9%	6.9%	2.0%	1.9%
Mr. Tsai Chuen Sui								
Robert	10.0	25,000,000	8.8%	7.6%	7.9%	6.9%	2.0%	1.9%
Total	40.0	100,000,000	35.3%	30.2%	31.7%	27.6%	7.9%	7.6%
<i>Based on the Offer Price of HK\$0.45 (being the mid-point of the indicative Offer Price range)</i>								
Ms. Cheng Hung Ping	20.0	44,440,000	15.8%	13.5%	14.0%	12.3%	3.5%	3.4%
Ms. Tam Yuk Ching Jenny	10.0	22,220,000	7.8%	6.7%	7.1%	6.1%	1.8%	1.7%
Mr. Tsai Chuen Sui								
Robert	10.0	22,220,000	7.8%	6.7%	7.1%	6.1%	1.8%	1.7%
Total	40.0	88,880,000	31.4%	26.9%	28.2%	24.5%	7.1%	6.8%
<i>Based on the Offer Price of HK\$0.50 (being the high-end of the indicative Offer Price range)</i>								
Ms. Cheng Hung Ping	20.0	40,000,000	14.0%	12.2%	12.8%	11.1%	3.1%	3.1%
Ms. Tam Yuk Ching Jenny	10.0	20,000,000	7.1%	6.0%	6.3%	5.5%	1.6%	1.5%
Mr. Tsai Chuen Sui								
Robert	10.0	20,000,000	7.1%	6.0%	6.3%	5.5%	1.6%	1.5%
Total	40.0	80,000,000	28.2%	24.2%	25.4%	22.1%	6.3%	6.1%

Note: Before any reallocation of the Offer Shares between the Public Offer and the Placing.

The information about our Cornerstone Investors set forth below has been provided by our Cornerstone Investors in connection with the Cornerstone Placing.

1. Ms. Cheng Hung Ping

Ms. Cheng Hung Ping has agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lots) which may be purchased with HK\$20,000,000 at the Offer Price out of her own funds.

Ms. Cheung Hung Ping is an entrepreneur with over 30 years of experience in the chemical industry and property investment industry. She is currently the managing director of Sung Wing Chemicals Limited and Hong Kong Wise Holdings Limited.

Ms. Cheng Hung Ping became acquainted with our Company through our Pre-IPO Investor.

2. Ms. Tam Yuk Ching Jenny

Ms. Tam Yuk Ching Jenny has agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lots) which may be purchased with HK\$10,000,000 at the Offer Price out of her own funds.

Ms. Tam Yuk Ching Jenny is an entrepreneur with over 20 years of experience in the field of finance. In 1999, she co-founded and became the managing director of E2-Capital Limited until 2000. She was also the deputy chief executive officer and managing director of SBI-E2 Capital Securities Limited from April 2000 to May 2002. She has been a director of Po Leung Kuk since 2014 and is currently the honorary vice president of the Hong Kong Girl Guides Association. Furthermore, Ms. Tam Yuk Ching Jenny also holds/invests in shares in companies listed on the Hong Kong Stock Exchange, including a company which holds a portfolio of business interests in the telecommunications and information technology sectors in China, Hong Kong and Singapore (where she is the controlling shareholder), and a company which engages in the supply and sales of jewelry worldwide (where she is a minority shareholder).

Ms. Tam Yuk Ching Jenny became acquainted with our Company through the chairman of the Board, Mr. Lin Minqiang. She became acquainted with Mr. Lin Minqiang through the introduction of a personal friend during her visit to Fuzhou City in April 2019.

3. Mr. Tsai Chuen Sui Robert

Mr. Tsai Chuen Sui Robert has agreed to acquire such number of Offer Shares (rounded down to the nearest whole board lots) which may be purchased with HK\$10,000,000 at the Offer Price out of his own funds.

Mr. Tsai Chuen Sui Robert is an entrepreneur with over 30 years of experience in the food and beverages industry and property investment industry. He is currently the managing director of Wu Kong Shanghai Restaurant Limited, Glory Yield Development Limited and Prosperous World Land Investment Company Limited.

Mr. Tsai Chuen Sui Robert became acquainted with our Company through our Pre-IPO Investor.

CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The obligations of each Cornerstone Investor to acquire the Offer Shares under the respective Cornerstone Investment Agreement is subject to, *inter alia*, the following closing conditions:

- (i) the Public Offer Underwriting Agreement and the Placing Underwriting Agreement being entered into and having been effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such underwriting agreements or such later time and date as may be agreed between the Company and the Joint Bookrunners;
- (ii) the Offer Price having been agreed upon between the Joint Bookrunners (for themselves and on behalf of the underwriters under the Share Offer) and the Company in connection with the Share Offer;
- (iii) the Listing Committee of the Hong Kong Stock Exchange having granted approval for the listing of, and permission to deal in, the Shares (including the Investor Shares) and that such approval or permission having not been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
- (iv) no laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Public Offer, the Placing or the Cornerstone Investment Agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (v) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investors under the Cornerstone Investment Agreements are accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreements on the part of the Cornerstone Investors.

RESTRICTIONS ON THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that he will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**CI Lock-Up Period**”), dispose of any of the Offer Shares they have purchased pursuant to the relevant Cornerstone Investor Agreements (“**Relevant CI Shares**”) or any direct or indirect interest in any company or entity holding any Relevant CI Shares, nor will he agree or contract to, or publicly announce any intention to enter into a transaction in any way with a third party for the disposal of any Relevant CI Shares or any direct or indirect interest in any company or entity holding any of the Relevant CI Shares, save for certain limited circumstances, such as transfers to any company wholly-owned by him which will be bound by the same obligations of such Cornerstone Investor, including the CI Lock-Up Period restriction.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters and Placing Underwriters

Joint Bookrunners and Joint Lead Managers

Dakin Securities

BOCOM International

CCB International

Joint Lead Manager

I Win Securities

Co-Lead Managers

Red Eagle

Yuzhou Financial

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, 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 Listing Committee and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriter(s)) has the right, in their joint discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of any of the following events:

UNDERWRITING

- (a) there has come to the notice of the Joint Bookrunners that:
- (i) any statement contained in this prospectus, the Application Forms or any other relevant documents used in connection with the Share Offer (“**Offer Documents**”) considered by the Joint Bookrunners (for themselves and on behalf of the Underwriters) in their joint and absolute opinion to be material in the context of the Share Offer, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the joint and absolute opinion of the Joint Bookrunners, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Joint Bookrunners (for themselves and on behalf of the Underwriters) in their joint and absolute opinion to be material in the context of the Share Offer; or
 - (iii) any of the representations and warranties given by our Company in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in their joint and absolute opinion to be material in the context of the Public Offer; or
 - (iv) any breach of any of the obligations or undertakings imposed upon any party (other than on the part of the Joint Bookrunners or any of the Underwriters) to any of the Underwriting Agreements; or
 - (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospect of any member of our Group; or
 - (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) the Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Share Offer; or
 - (viii) any matter, event, act or omission which gives rise to any material liability of our Company pursuant to the indemnities given by our Company; or

UNDERWRITING

- (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Member of our Group or anything analogous thereto occurs in respect of any Member of our Group; or
- (xi) an authority or a political body or organization in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of our Directors; or
- (xii) a portion of the orders in the book building process, which is considered by the Joint Bookrunners (for themselves and on behalf of the other Underwriters) in their absolute opinion to be material, at the time the Placing Underwriting Agreement is entered into, have been withdrawn, terminated or cancelled, and the Joint Bookrunners, in their joint and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or

UNDERWRITING

- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting in or representing any change or development in local or national financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting China, Hong Kong, Macau, the Cayman Islands, the British Virgin Islands (each a **“Relevant Jurisdiction”**); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation SARS, COVID-19 and Influenza A (H5N1)) in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, or (B) a general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
 - (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
 - (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or

UNDERWRITING

- (viii) any material adverse change or development or event involving a prospective material adverse change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any of our subsidiaries or anything analogous thereto occurs in respect of the Company or any of our subsidiaries; or
- (xi) any material litigation or claim being threatened or instigated against our Company or any of our subsidiaries or our Directors or our Controlling Shareholders; or
- (xii) a material contravention by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer in any material respects; or
- (xiii) any material change or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (xiv) the chairman or chief executive officer of our Company vacating his office; or
- (xv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or Shares from the exercise of the Over-allotment Option pursuant to the terms of the Share Offer; or
- (xvi) material non-compliance of the Prospectus and the other Offer Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or
- (xvii) other than with the approval of the Joint Bookrunners, the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC,

UNDERWRITING

and which, in any of the above cases individually or in aggregate or in the joint opinion of Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) is or may or will be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or our subsidiaries as a whole; or
- (b) has or may have or will have an adverse effect on the success of the Share Offer and/or make it impracticable or inadvisable for any part of this Agreement, the Public Offer or the Share Offer to be performed or implemented as envisaged; or
- (c) makes or may make or will make it inadvisable or inexpedient to proceed with the Public Offer and/or the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (d) has or will or may have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange under the Listing Rules

By us

We have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) without the prior consent of the Stock Exchange, except in the circumstances prescribed by Rule 10.08 of the Listing Rules.

By Controlling Shareholders

Each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to the Share Offer, the Over-allotment Option and/or if the applicable, the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) at any time within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; or

UNDERWRITING

- (b) at any time during the six-month period commencing on the date on which the period mentioned in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder(s).

Pursuant to Note 3 to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he or it pledges or charges any Shares or other securities of our Company beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he or it receives any indications, either verbal or written, from any pledgee or charge that any of the pledged or charged Shares or securities will be disposed of, immediately inform us of any such indications.

We have agreed and undertaken to the Stock Exchange that, we shall inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

Undertakings pursuant to the Public Offer Underwriting Agreement

By us

We have undertaken to each of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue, the Over-allotment Option and any options which may be granted under the Share Option Scheme, during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure that our subsidiaries will not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or

UNDERWRITING

indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of our Company or any of our subsidiaries or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein);

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction specified in sub-paragraphs (a) or (b) above; or
- (d) offer to or agree to or contract to, or publicly announce any intention to enter into or effect any transaction specified in (a), (b), (c) and (d) above,

in each case, whether any of the transactions specified in (a), (b), (c) and (d) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise, and 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**”), our Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of our Company.

By our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to each of the Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Public Offer Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, it will not, and will procure that none of the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the “**Controlled Entities**”) will, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), at any time during the First Six-month Period:

- (a) 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, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein) whether now

UNDERWRITING

owned or hereinafter acquired, directly or indirectly, by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest;

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein;
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or announce any intention to enter into or effect any transaction described in paragraph (a) or (b) or (c) above, which any such transaction described in paragraph (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period).

In addition, during the Second Six-month Period, each of our Controlling Shareholders will not, and will procure that the relevant registered holder(s) and his/her/its Controlled Entities not to, offer to or agree to or announce any intention to enter into any of the foregoing transactions described in (a), (b), (c) or (d) if, immediately following such transaction, it will cease to be a Controlling Shareholder of our Company or would together with the other Controlling Shareholders cease to be Controlling Shareholders of our Company.

Until the expiry of the Second Six-month Period, in the event that any of our Controlling Shareholders enters into any of the foregoing transactions described in (a), (b), (c) or (d), it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or other securities of our Company.

Each of our Controlling Shareholders has further undertaken to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that it will, at any time before the expiry of the Second Six-month Period:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any share capital or other securities of our Company or any interests therein in respect of which it is the beneficial owner, immediately inform our Company and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in writing of such pledge or charge together with the number of Shares or other securities so pledged or charged; and

UNDERWRITING

- (b) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged shares or securities or interests in the shares or other securities of our Company will be disposed of, immediately inform our Company, the Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the other Public Offer Underwriters) in writing of such indications.

Our Company will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Each of our Company and our Controlling Shareholders agrees and undertakes that it will not, and each Controlling Shareholder further undertakes to procure that Company will not, effect any transactions of Shares, or agree to do so, which may reduce the holdings of Shares of persons other than the Directors, chief executives, substantial shareholders or their respective associates to below 25% within the First Six Months Period without first having obtained the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters).

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company, will enter into the Placing Underwriting Agreement with, inter alia, the Placing Underwriter(s). Under the Placing Underwriting Agreement, the Placing Underwriter(s) will, subject to certain conditions, 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 the Over-allotment Option, exercisable by the Joint Bookrunners (for themselves and behalf of the Placing Underwriters) at any time from the date of the Placing Underwriting Agreement until 30 days from the date of the last day of lodging applications under the Public Offer to require our Company to allot and issue up to an aggregate of 47,250,000 additional new Shares, representing 15% of the initial Offer Shares in aggregate, at the same price per Share under the Placing to cover, among other things, over-allocations (if any) in the Placing.

Commission and expenses

The Underwriters will receive an gross commission of 7.0% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission will be paid. No incentive fee shall be payable to the Underwriters by our Company.

The underwriting commissions, listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and other expenses relating to the Share Offer which are estimated to be approximately HK\$41.5 million in aggregate (assuming (i) an Offer Price of HK\$0.45 per Offer Share (being the mid-point of the indicative Offer Price

UNDERWRITING

range stated in this prospectus); (ii) the Over-allotment Option is not exercised), are payable and borne by our Company in respect of the new Shares.

Indemnity

Our Company has agreed to indemnify the Public Offer Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement.

Activities by Syndicate Members

Set out below is a variety of activities that the Underwriters of the Public Offer and the Placing, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilising process. It should be noted that when engaging in any these activities the Syndicate Members are subject to restrictions, including the following:

- (a) under the agreement among the Syndicate Members, none of the Underwriters (except for the Joint Bookrunners, their affiliate(s) or any person(s) acting for it for the purpose of taking any stabilising action) will, and each of the Underwriters will procure that none of its respective affiliates and agents will, in connection with the distribution of the Offer Shares, effect, cause or authorise any other person to effect any transactions including, but not limited to issuing options or derivatives on the underlying Shares (whether in the open market or otherwise and whether in Hong Kong or elsewhere) with a view to stabilising or maintaining the market price of any of the Shares at a level higher than that which might otherwise prevail in the open market or any action which is designed to or which constitutes or which might be expected to, cause or result in the stabilisation or manipulation, in violation of applicable laws, of the price of any security of the Company; and
- (b) none of the Underwriters (other than the Joint Bookrunners or their affiliate(s) or any other person(s) acting for it for the purpose of taking any stabilising action), will, during the period which begins on the commencement of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer, issue any warrant, option or derivative on the underlying Shares (whether in the open market or otherwise), except with the prior written consent of the Joint Bookrunners.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares and entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the

UNDERWRITING

Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described under the paragraphs headed “Over-allotment Option” and “Stabilisation actions” under the sub-section headed “Over-allocation and “Stabilisation” under the section headed “Structure and Conditions of the Share Offer” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares, and the volatility of the Shares and their share price, and the extent to which this occurs from day to day cannot be estimated.

Underwriters’ interests in our Company

Save for their obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in our Company nor any interest in the Share Offer.

Sponsor’s Independence

Dakin Capital satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

This prospectus is published in connection with the Public Offer which forms part of the Share Offer. Dakin Capital Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange.

The Share Offer initially consists of (subject to the Over-allotment Option):

- (i) the Public Offer of 31,500,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described in the paragraph headed “Public Offer” in this section below; and
- (ii) the Placing of 283,500,000 Offer Shares (subject to reallocation and the Over-allotment Option as mentioned below) which will conditionally be placed with selected professional, institutional and other investors under the Placing.

Investors may apply for 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. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have applied for Public Offer Shares in the Public Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Underwriters are soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the Placing. Prospective professional, institutional and other 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 and to cease on or around, the last day for lodging applications under the Public Offer.

The number of Offer Shares to be offered under the Public Offer and Placing respectively may be subject to reallocation and, in the case of the Placing only, the Over-allotment Option as set out in the sub-section headed “Placing – Over-allotment Option” in this section of the prospectus.

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to our Company and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) agreeing on the Offer Price. Our Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date. Details of the underwriting arrangements are summarized in the section headed “Underwriting” in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares pursuant to the Share Offer will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and any options which may be granted under Share Option Scheme;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the Underwriting Agreements on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 4 January 2021 and in any event, not later than Wednesday, 6 January 2021.

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 by Wednesday, 6 January 2021, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Public Offer to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ds-lace.com** on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, 12 January 2021 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 13 January 2021 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting – Underwriting arrangements and expenses – Public Offer Underwriting Agreement – Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

Number of Offer Shares initially offered

Our Company is initially offering 31,500,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the Placing; and (ii) the Public Offer as mentioned below, the number of the Public Offer Shares will represent approximately 2.5% of our Company’s issued share capital immediately after completion of the Share Offer assuming that the Over-allotment Option is not exercised.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Share Offer” in this section of the prospectus.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation 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.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The total number of Offer Shares available under the Public Offer (after taking into account of any reallocation of Offer Shares between the Public Offer and the Placing) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools and can only apply for Public Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 15,750,000 Public Offer Shares (being 50% of the initial number of Public Offer Shares) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment reallocation at the discretion of the Joint Bookrunners, subject to the following:

- (a) where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deems appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 31,500,000 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 63,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (iii) If the number of Offer Shares validly applied for under the Public Offer represents (A) 15 times or more but less than 50 times; (B) 50 times or more but less than 100 times; and (C) 100 times or more, of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be increased to 94,500,000 Offer Shares (in the case of (A)), 126,000,000 Offer Shares (in the case of (B)) and 157,500,000 Offer Shares (in the case of (C)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively;
- (b) where the Placing Shares are undersubscribed:
 - (i) if the Public Offer Shares are also undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 31,500,000 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 63,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares from the Placing to the Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e., HK\$0.4 per Offer Share) according to HKEx Guidance Letter HKEx-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the Placing to the Public Offer, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

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 them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) 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 and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$0.50 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the sub-section headed "Price determination of the Share Offer" in this section of the prospectus, is less than the maximum price of HK\$0.50 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Public Offer Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

PLACING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the Placing will be 283,500,000 Shares (representing approximately 90% of the total number of the Offer Shares initially available under the Share Offer (subject to reallocation and the Over-allotment Option). Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the Placing Shares will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Share Offer assuming the Over-allotment Option is not exercised.

The Placing is subject to the same conditions as stated in the sub-section headed "Conditions of the Share Offer in this section of the prospectus.

Allocation

The Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the book-building process described in the sub-section headed “Price determination of the Share Offer” in this section of the prospectus and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

Over-allotment Option

In connection with the Share Offer, our Company is expected to grant an Over-allotment Option to the Joint Bookrunners (for themselves and on behalf of Placing Underwriters) that exercisable at the sole discretion of the Stabilising Manager (for themselves and on behalf of the Placing Underwriters).

Pursuant to the Over-allotment Option, the Joint Bookrunners has the right, exercisable at any time from the date of the Placing Underwriting Agreement until 30 days from the date of the last day of lodging application under the Public Offer, to require our Company to allot and issue up to 47,250,000 additional new Shares, representing 15% of the number of the Offer Shares initially available under the Share Offer, at the same price per Share under the Placing to cover, among other things, over-allocation in the Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our enlarged share capital immediately following the completion of the Share Offer and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Share Offer, the Stabilising Manager may choose to enter into an agreement with Deyong Investment, a controlling shareholder of our Company, to borrow, whether on its own or through any person acting for it, up to 47,250,000 Shares (being the maximum number of Shares which may be issued or sold upon exercise of the Over-allotment Option) and/or acquire Shares from other sources, including the exercise of the Over-allotment Option.

If such stock borrowing arrangement with Deyong Investment is entered into, it will only be effected by the Stabilising Manager or any person acting for it for settlement of over-allocation in the Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Deyong Investment or its nominees, as the case may be, 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 day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

may be agreed in writing between the Stabilising Manager and Deyong Investment. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to our Controlling Shareholders by the Stabilising Manager or any person acting for it in relation to such stock borrowing arrangement.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Monday, 4 January 2021, and in any event on or before Wednesday, 6 January 2021, by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.50 per Share and is expected to be not less than HK\$0.40 per 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 indicative Offer Price range stated in this prospectus.

The Joint Bookrunners for themselves and on behalf of the Underwriters may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ds-lace.com** notices of the reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative offer price range. We will also, as soon as practicable following the decision to make such reduction, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range, extend the period under which the Public Offer was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Public Offer Shares the right to withdraw their applications under the Public Offer. Upon issue of such a notice, the number of Offer Shares offered in the Share Offer and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Such notice and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Joint Bookrunners (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

The final Offer Price, the levels of indication of interest in the Share Offer, the results of applications and the basis of allotment of Offer Shares under the Public Offer, are expected to be announced on Tuesday, 12 January 2021 in the manner set out in the section headed “How to Apply for Public Offer Shares – 11. Publication of Results” in this prospectus.

STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

Dakin Securities has been appointed by us as the stabilising manager (“**Stabilising Manager**”) for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Share Offer, the Stabilising Manager, its affiliates 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 our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on Saturday, 30 January 2021, being the 30th day after the last day for lodging of applications under the Public Offer. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it, to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Stabilising Manager, on behalf of the Underwriters, and may be discontinued at any time. Any such stabilising activity is required to be brought to an

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

end on the 30th day after 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 allotted and issued by our Company under the Over-allotment Option, namely 47,250,000 Shares in aggregate, which is approximately 15% of the Shares initially available under the Share Offer.

Stabilising Manager, its affiliates or any person acting for it, may take all or any of the following stabilising action, on behalf of the Underwriters, in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (ii) in connection with any action described in paragraph (i) above;
 - (a) (1) over-allocation; or
 - (2) 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;
 - (b) exercise the Over-allotment Option and subscribe for or agreeing to subscribe for the Shares pursuant to the Over-allotment Option in order to close out any position established under paragraph (a) above;
 - (c) sell or agree to sell any Shares by it in the course of the stabilising action in order to liquidate any position that has been established by such actions; and
 - (d) offer or attempt to do anything described in (a)(2), (b) and (c) above.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position; Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- stabilising action cannot be used 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 Saturday, 30 January 2021, being the 30th day 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 Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Share Offer, the Stabilising Manager may, on behalf of the Underwriters, over-allocate up to and not more than an aggregate of 47,250,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Stabilising Manager (for themselves and on behalf of the Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, the Stabilising Manager may borrow up to 47,250,000 Shares from Deyong Investment, equivalent to the maximum number of Shares to be issued by our Company on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Listing Rules.

DEALING

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 13 January 2021, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 13 January 2021, and will be traded in board lots of 5,000 Shares. The stock code of the Company is 1440.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** Service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** Service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** Service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a Director or chief executive officer of the our Company and/or any of its subsidiaries;
- are a close associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participated in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between from 9:00 a.m. on Monday, 28 December 2020 until 12:00 noon on Thursday, 31 December 2020 from:

- (i) any of the following offices of the Public Offer Underwriters

Dakin Securities Limited	Suite 3509 35/F Tower Two Lippo Centre No 89 Queensway, Hong Kong
BOCOM International	15/F Man Yee Building 68 Des Voeux Road Central, Hong Kong
CCB International	12/F CCB Tower 3 Connaught Road Central Central, Hong Kong
I Win Securities	Room 1916 Hong Kong Plaza 188 Connaught Road West Sai Wan, Hong Kong
Red Eagle	Unit 1107, 11/F., Cosco Tower Grand Millennium Plaza 183 Queen's Road Central, Hong Kong
Yuzhou Financial	Unit 5805, 58/F, The Center 99 Queen's Road Central Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch	Address
Hong Kong Island	Quarry Bay Branch	Parkvale, 1060 King's Road Quarry Bay Hong Kong
Kowloon	Tsim Sha Tsui East Branch	Shop 3, LG/F, Hilton Towers 96 Granville Road Tsim Sha Tsui East Kowloon
New Territories	Citywalk Branch	Shop 65 & 67–69 G/F Citywalk, 1 Yeung Uk Road Tsuen Wan New Territories

You can collect a **YELLOW** Application Form and a copy of the prospectus during normal business hours from 9:00 a.m. on Monday, 28 December 2020 until 12:00 noon on Thursday, 31 December 2020, from the **Depository Counter of HKSCC** at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – DEYUN HOLDING PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, 28 December 2020 – 9:00 a.m. to 4:00 p.m.
Tuesday, 29 December 2020 – 9:00 a.m. to 4:00 p.m.
Wednesday, 30 December 2020 – 9:00 a.m. to 4:00 p.m.
Thursday, 31 December 2020 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 31 December 2020, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

HOW TO APPLY FOR PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** Service, among other things, you:

- (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 (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (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 Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the 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 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 e-Refund payment instructions and/ or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you 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 on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** Service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** Service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 28 December 2020 until 11:30 a.m. on Thursday, 31 December 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 31 December 2020 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** Service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different

HOW TO APPLY FOR PUBLIC OFFER SHARES

application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** Service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated **White Form eIPO** Service Provider will contribute HK\$2 for each “Deyun Holding Ltd.” **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- confirm that you understand that our Company, the Directors 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 a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, 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 referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a

HOW TO APPLY FOR PUBLIC OFFER SHARES

person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the 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 Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/ or if the Offer Price is less than the maximum

HOW TO APPLY FOR PUBLIC OFFER SHARES

Offer Price per Offer Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/ Custodian Participants can input electronic application instructions at the following times on the following dates^{Note}:

Monday, 28 December 2020	– 9:00 a.m. to 8:30 p.m.
Tuesday, 29 December 2020	– 8:00 a.m. to 8:30 p.m.
Wednesday, 30 December 2020	– 8:00 a.m. to 8:30 p.m.
Thursday, 31 December 2020	– 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 28 December 2020 until 12:00 noon on Thursday, 31 December 2020 (24 hours daily, except on Thursday, 31 December 2020, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon, Thursday, 31 December 2020, the last application day or such later time as described in “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

Note: These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/ or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the

HOW TO APPLY FOR PUBLIC OFFER SHARES

Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **White Form eIPO** Service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** Service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 31 December 2020.

HOW TO APPLY FOR PUBLIC OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** Service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of our company;
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** Service in respect of a minimum of 5,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Share Offer” of 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/are:

- a tropical cyclone warning signal number 8 or above; or
- “extreme conditions” caused by a super typhoon; and/or
- a “black” rainstorm warning,

is/are in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 December 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 31 December 2020 or if a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Tuesday, 12 January 2021 on our Company's website at **www.ds-lace.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 date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.ds-lace.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m., Tuesday, 12 January 2021;
- from the designated results of allocations website at **www.iporesutls.com.hk** (alternatively: English **<https://www.eipo.com.hk/en/Allotment>**; Chinese **<https://www.eipo.com.hk/zh-hk/Allotment>**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 12 January 2021 to 12:00 midnight on Monday, 18 January 2021;
- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Tuesday, 12 January 2021, Wednesday, 13 January 2021, Thursday, 14 January 2021 and Friday, 15 January 2021;
- in the special allocation results booklets which will be available for inspection during opening hours on Tuesday, 12 January 2021, Wednesday, 13 January 2021 and Thursday, 14 January 2021 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/ or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** Service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the section headed "Structure and Conditions of the Share Offer – Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 12 January 2021.

HOW TO APPLY FOR PUBLIC OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Tuesday, 12 January 2021. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 13 January 2021 provided that the Share Offer has become unconditional and the right of termination described in the “Underwriting” section 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. and 1:00 p.m. on Tuesday, 12 January 2021 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 January 2021, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 January 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 12 January 2021, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Tuesday, 12 January 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 January 2021, 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 Tuesday, 12 January 2021 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 12 January 2021, 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 Tuesday, 12 January 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., Tuesday, 12 January 2021 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 Tuesday, 12 January 2021. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/ or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 12 January 2021.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report 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 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.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF DEYUN HOLDING LTD. AND DAKIN CAPITAL LIMITED

Introduction

We report on the historical financial information of Deyun Holding Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-60, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 30 June 2020, the Company statements of financial position as at 31 December 2019 and 30 June 2020, the consolidated income statements, 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 2017, 2018 and 2019 and the six months ended 30 June 2020 (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-60 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 December 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

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.

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.

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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 2019 and 30 June 2020 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 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.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of 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 28 to the Historical Financial Information which states that no dividends have been paid by Deyun Holding Ltd. 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, 28 December 2020

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.

CONSOLIDATED INCOME STATEMENTS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2019 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i>
Revenue	5	145,981	172,480	203,443	108,224	95,087
Cost of sales	6	(118,826)	(127,107)	(136,539)	(70,876)	(63,341)
Gross profit		27,155	45,373	66,904	37,348	31,746
Other income	7	1,544	296	744	607	3,570
Other (losses)/gains, net	8	(64)	244	(6)	40	558
Selling and distribution expenses	6	(2,025)	(1,893)	(2,324)	(1,182)	(1,074)
Administrative expenses	6	(4,557)	(4,959)	(14,335)	(3,506)	(8,877)
Provision for impairment of trade receivables	6,19	(98)	(213)	–	–	(200)
Operating profit		21,955	38,848	50,983	33,307	25,723
Finance income	10	47	102	131	72	30
Finance costs	10	(2,979)	(2,860)	(2,039)	(1,616)	(302)
Finance costs, net		(2,932)	(2,758)	(1,908)	(1,544)	(272)
Profit before income tax		19,023	36,090	49,075	31,763	25,451
Income tax expense	11	(2,225)	(4,540)	(7,224)	(4,248)	(4,206)
Profit for the year/period attributable to owners of the Company		<u>16,798</u>	<u>31,550</u>	<u>41,851</u>	<u>27,515</u>	<u>21,245</u>
Earnings per share attributable to owners of the Company						
Basic and diluted (<i>RMB'000</i>)	12	<u>0.93</u>	<u>1.75</u>	<u>2.29</u>	<u>1.53</u>	<u>1.06</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit for the year/period	16,798	31,550	41,851	27,515	21,245
Other comprehensive income:					
<i>Item that will not be reclassified to profit or loss</i>					
Currency translation differences	—	—	2	3	(1)
Total comprehensive income for the year/period attributable to owners of the Company	<u>16,798</u>	<u>31,550</u>	<u>41,853</u>	<u>27,518</u>	<u>21,244</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		As at 30 June	
		2017	2018	2019	2020
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Properties, plant and equipment	13	165,779	153,183	146,833	139,819
Right-of-use asset	13	2,968	2,886	2,804	2,763
Investment property	14	464	423	382	362
Intangible assets	15	151	818	833	779
Prepayments	17	603	2,644	223	2,786
		<u>169,965</u>	<u>159,954</u>	<u>151,075</u>	<u>146,509</u>
Current assets					
Inventories	18	10,160	8,170	9,922	6,031
Contract assets	19	3,613	14,159	16,585	24,280
Trade and bills receivables	19	10,842	14,869	15,694	23,208
Prepayments and other receivables	17	934	860	2,527	4,557
Amounts due from shareholders	27(a)	—	—	140	—
Pledged bank deposits	20	1,750	1,800	—	—
Cash and cash equivalents	20	10,687	33,327	38,480	47,287
		<u>37,986</u>	<u>73,185</u>	<u>83,348</u>	<u>105,363</u>
Total assets		<u>207,951</u>	<u>233,139</u>	<u>234,423</u>	<u>251,872</u>

		As at 31 December			As at 30 June
		2017	2018	2019	2020
	Note	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Equity attributable to owners of the Company					
Share capital	31(b)	–	–	138	–*
Reserves		127,491	127,961	179,130	200,374
Total equity		127,491	127,961	179,268	200,374
LIABILITIES					
Non-current liabilities					
Other payables	21	1,705	1,646	1,592	1,561
Deferred tax liabilities	22	319	224	433	121
		2,024	1,870	2,025	1,682
Current liabilities					
Trade and bills payables	23	15,607	26,656	14,058	14,623
Other payables and accruals	21	6,186	6,801	12,914	15,976
Amounts due to shareholders	27(a)	3,906	–	5,000	–
Amount due to a related party	27(a)	9,000	–	–	–
Contract liabilities	21	624	518	1,307	296
Current income tax liabilities		1,113	4,333	6,851	5,921
Bank borrowings	24	42,000	65,000	13,000	13,000
		78,436	103,308	53,130	49,816
Total liabilities		80,460	105,178	55,155	51,498
Total equity and liabilities		207,951	233,139	234,423	251,872

* The balance was rounded to the nearest thousand.

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December 2019 <i>RMB'000</i>	As at 30 June 2020 <i>RMB'000</i>
	<i>Note</i>		
ASSETS			
Non-current asset			
Interests in subsidiaries	31(e)	186,371	186,371
Current assets			
Prepayments	17	2,349	4,045
Amounts due from shareholders	31(a)	140	—
		2,489	4,045
Total assets		188,860	190,416
EQUITY			
Equity attributable to owners of the Company			
Share capital	31(b)	138	—*
Reserves	31(d)	186,373	186,372
Accumulated losses	31(d)	(7,243)	(12,751)
Total equity		179,268	173,621
LIABILITIES			
Current liabilities			
Accruals	21	38	3,252
Amounts due to subsidiaries	31(c)	9,554	13,543
Total liabilities		9,592	16,795
Total equity and liabilities		188,860	190,416

* The balance was rounded to the nearest thousand.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Other reserves	Statutory reserve	Exchange reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note a)				
Balance at 1 January 2017	–	95,150	1,700	–	13,843	110,693
Profit for the year	–	–	–	–	16,798	16,798
Total comprehensive income	–	–	–	–	16,798	16,798
Transaction with owners						
Appropriation (Note b)	–	–	1,680	–	(1,680)	–
Total transaction with owners	–	–	1,680	–	(1,680)	–
Balance at 31 December 2017	–	95,150	3,380	–	28,961	127,491
Balance at 1 January 2018	–	95,150	3,380	–	28,961	127,491
Profit for the year	–	–	–	–	31,550	31,550
Total comprehensive income	–	–	–	–	31,550	31,550
Transactions with owners						
Dividend paid (Note 28)	–	–	–	–	(31,080)	(31,080)
Appropriation (Note b)	–	–	3,155	–	(3,155)	–
Total transactions with owners	–	–	3,155	–	(34,235)	(31,080)
Balance at 31 December 2018	–	95,150	6,535	–	26,276	127,961

	Attributable to owners of the Company					
	Share capital RMB'000	Other reserves RMB'000 (Note a)	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019	–	95,150	6,535	–	26,276	127,961
Profit for the year	–	–	–	–	41,851	41,851
Other comprehensive income	–	–	–	2	–	2
Total comprehensive income	–	–	–	2	41,851	41,853
Transactions with owners						
Capital injection from an investment holding vehicle of the Pre-IPO Investor (Note 1.2(d))	–	14,316	–	–	–	14,316
Effect of reorganisation in respect of the acquisition of a company comprising the Group (Note 1.2(f))	–	(5,000)	–	–	–	(5,000)
Issuance of ordinary shares of the Company (Note 1.2(a) & (g))	138	–	–	–	–	138
Appropriation (Note b)	–	–	4,185	–	(4,185)	–
Total transactions with owners	138	9,316	4,185	–	(4,185)	9,454
Balance at 31 December 2019	138	104,466	10,720	2	63,942	179,268
Balance at 1 January 2020	138	104,466	10,720	2	63,942	179,268
Profit for the period	–	–	–	–	21,245	21,245
Other comprehensive income	–	–	–	(1)	–	(1)
Total comprehensive income	–	–	–	(1)	21,245	21,244
Transactions with owners						
Cancellation of ordinary shares of the Company (Note 31(b))	(138)	–	–	–	–	(138)
Issuance of ordinary shares of the Company (Note 31(b))	–*	–	–	–	–	–*
Appropriation (Note b)	–	–	2,124	–	(2,124)	–
Total transactions with owners	(138)	–	2,124	–	(2,124)	(138)
Balance at 30 June 2020	–	104,466	12,844	1	83,063	200,374

* The amount was rounded to the nearest thousand.

	Attributable to owners of the Company					
	Share capital RMB'000	Other reserves RMB'000 (Note a)	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019 (unaudited)	–	95,150	6,535	–	26,276	127,961
Profit for the period	–	–	–	–	27,515	27,515
Other comprehensive income	–	–	–	3	–	3
Total comprehensive income	–	–	–	3	27,515	27,518
Transactions with owners						
Issuance of ordinary shares of the Company (Note 1.2(a))	68	–	–	–	–	68
Appropriation (Note b)	–	–	2,752	–	(2,752)	–
Total transactions with owners	68	–	2,752	–	(2,752)	68
Balance at 30 June 2019	68	95,150	9,287	3	51,039	155,547

Notes:

- (a) Other reserves represent the combined capital and capital reserve of the companies comprising the Group after elimination of inter-company transactions and balances as at 1 January 2017.
- (b) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the profit after income tax (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. A PRC company is required to appropriate an amount of 10% of statutory profits after income tax to statutory surplus reserves, prior to distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the company, to expand the company's operations, or to increase the capital of the company. In addition, a company may make further contribution to the discretionary surplus reserve using its post-tax profits in accordance with resolutions of shareholders.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Cash flows from operating activities						
Cash generated from operations	25(a)	48,438	55,694	59,652	39,754	24,665
Income tax paid		(2,679)	(1,415)	(4,497)	(4,387)	(5,448)
Interest received		47	102	131	72	30
		<u>45,806</u>	<u>54,381</u>	<u>55,286</u>	<u>35,439</u>	<u>19,247</u>
Cash flows from investing activities						
Purchase of properties, plant and equipment		(14,686)	(7,532)	(9,812)	(195)	(3,380)
Proceeds from disposal of properties, plant and equipment	25(b)	26	–	162	15	–
Purchase of intangible assets		(55)	(772)	(261)	(261)	(70)
Increase in pledged bank deposits		(1,750)	(4,800)	(4,054)	(4,054)	–
Decrease in pledged bank deposits		900	4,750	5,854	5,854	–
		<u>(15,565)</u>	<u>(8,354)</u>	<u>(8,111)</u>	<u>1,359</u>	<u>(3,450)</u>
Net cash (used in)/ generated from investing activities		(15,565)	(8,354)	(8,111)	1,359	(3,450)

		Year ended 31 December			Six months ended 30 June	
		2017	2018	2019	2019	2020
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from financing activities						
Proceeds from bank borrowings	25(c)	42,000	65,000	27,000	–	–
Repayments of bank borrowings	25(c)	(70,000)	(42,000)	(79,000)	(30,000)	–
Interest paid		(3,074)	(2,868)	(2,105)	(1,652)	(333)
Dividend paid	28	–	(31,080)	–	–	–
Advances from/(repayment to) a shareholder	25(c)	10	(3,906)	–	–	–
Repayment to a related party	25(c)	–	(9,000)	–	–	–
Capital injection from an investment holding vehicle of the Pre-IPO Investor	1.2(d)	–	–	14,316	–	–
Consideration paid for the acquisition of a subsidiary in respect to reorganisation	25(c)	–	–	–	–	(5,000)
Payment of IPO listing expenses		–	–	(2,349)	–	(1,696)
Net cash used in financing activities		(31,064)	(23,854)	(42,138)	(31,652)	(7,029)
Net (decrease)/increase in cash and cash equivalents		(823)	22,173	5,037	5,146	8,768
Cash and cash equivalents at beginning of the year/period		11,841	10,687	33,327	33,327	38,480
Currency translation differences		(331)	467	116	56	39
Cash and cash equivalents at end of the year/period	20	10,687	33,327	38,480	38,529	47,287

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION****1.1 General information**

Deyun Holding Ltd. (the “Company”) was incorporated in the Cayman Islands on 4 January 2019 as an exempted company with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of the Company’s registered office is 71 Fort Street, P.O. Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing of lace and provision of dyeing services (the “Listing Business”).

The ultimate holding company of the Company is Deyong Investment Co., Ltd (“Deyong Investment”), a company incorporated in the British Virgin Islands (“BVI”). The ultimate controlling shareholders are Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen acting in concert (together, the “Controlling Shareholders”) throughout the Track Record Period.

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Listing Business was carried out by Fujian Deyun Technology Co., Ltd.* (福建德運科技有限公司) (“Deyun”), a company incorporated in the People’s Republic of China (the “PRC”) which was controlled by the Controlling Shareholders throughout the Track Record Period.

In preparing for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation which mainly involved the following major steps:

- (a) On 4 January 2019, the Company was incorporated in the Cayman Islands. 10,000 shares of the Company were allotted and issued at par on 7 January 2019 to Deyong Investment which is held by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen.
- (b) On 29 January 2019, Deyun Investment Limited (“Deyun Investment (BVI)”) was incorporated in the BVI and held by the Company.
- (c) On 13 March 2019, Deyun Holding (HK) Limited (“Deyun Holding (HK)”) was incorporated in Hong Kong and held by Deyun Investment (BVI).
- (d) On 23 September 2019, Regal Star Holdings Limited (“Regal Star”), an investment holding vehicle of the Pre-IPO Investor, Mr. Tsoi Wing Sing (“Mr. Tsoi”), subscribed for 10% of equity interest of Deyun at 16,000,000 Hong Kong dollar (“HKD”) (approximately RMB14,316,000). The amount was paid subsequently on 6 November 2019.
- (e) On 18 December 2019, Fujian Deyun Consulting Services Co., Ltd.* (福建德運諮詢服務有限公司) (“Deyun Consulting”) was incorporated in the PRC and held by Deyun Holding (HK).
- (f) On 19 December 2019, Deyun Consulting acquired the entire equity interests in Deyun from the Controlling Shareholders and Regal Star, at a total cash consideration of RMB5,000,000. The consideration was fully settled on 13 March 2020.
- (g) On 20 December 2019, the Company allotted and issued 8,000 and 2,000 new shares for cash consideration of 8,000 United States dollar (“USD”) and USD2,000 respectively to Deyong Investment and Glorious Way Investments Limited (“Glorious Way”), which is controlled by Mr. Tsoi.

* For identification purposes only

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Principal activities and place of operation	Issued and paid up capital/ registered capital	Effective interest held by the Group					Name of statutory auditors		
							As at				
				31 December	June	30	of this	2017	2018	2019	
				2017	2018	2019	2020	report			
Direct Interests:											
Deyun Investment Limited	BVI: 29 January 2019	Investment holding in BVI	USD1	N/A	N/A	100%	100%	100%	N/A	N/A	(a)
Indirect Interests:											
Deyun Holding (HK) Limited	Hong Kong: 13 March 2019	Investment holding in Hong Kong	HKD1	N/A	N/A	100%	100%	100%	N/A	N/A	(b)
Fujian Deyun Consulting Services Co., Ltd.*	The PRC: 18 December 2019	Investment holding in the PRC	RMB10,000,000	N/A	N/A	100%	100%	100%	N/A	N/A	(c)
Fujian Deyun Technology Co., Ltd.*	The PRC: 11 December 2002	Manufacturing of lace and provision of dyeing services in the PRC	RMB98,670,000	100%	100%	100%	100%	100%	(d)	(d)	(d)

- (a) No audited statutory financial statements have been issued for the subsidiary as it is not required to issue audited financial statements under the statutory requirement of its place of incorporation.
- (b) No audited statutory financial statements for the period ended 31 December 2019 were prepared as it was incorporated on 13 March 2019.
- (c) No statutory financial statements for the period ended 31 December 2019 were required as it was incorporated on 18 December 2019.
- (d) The statutory auditor for the year ended 31 December 2017 was Da Hua Certified Public Accountants (Special General Partnership)* (大華會計師事務所(特殊普通合伙)). The statutory auditor for the years ended 31 December 2018 and 2019 was Fuzhou Minhang Certified Public Accountants Co., Ltd.* (福州閩航會計師事務所有限公司).

All companies now comprising the Group have adopted 31 December as their financial year end date.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business has been conducted through Deyun. Pursuant to the Reorganisation, the Listing Business and Deyun are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate controlling parties of the Listing Business remains the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation Deyun, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business under the financial statements of Deyun for all periods presented.

* For identification purpose only

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 Historical Financial Information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors of the Group to exercise 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.

The relevant accounting policies have been consistently applied to the Group's consolidated financial statements throughout the Track Record Period.

New standards and amendments to existing standards not yet adopted

		Effective for accounting periods beginning on or after
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions	1 June 2020
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Annual Improvements Projects	Annual Improvements 2018–2020 Cycle	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	Effective date to be determined

The Group will adopt the above new or revised standards and amendments to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments and interpretations to existing HKFRS.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) 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.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 "Financial Instruments" ("HKFRS 9") in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries now comprising the Group have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for by the Company at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Historical Financial Information of the investee's net assets including goodwill.

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 directors who make strategic decisions.

2.4 Foreign currency translation

2.4.1 *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 is presented in RMB, which is the Group's presentation currency. The Company's functional currency is HKD.

2.4.2 *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss.

All other foreign exchange gains and losses are presented in the consolidated income statements on a net basis within "Other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognised in other comprehensive income.

2.4.3 Group companies

The results and financial positions of all the group entities (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 income statement and statement of comprehensive income are translated at average exchange rates (unless this average 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 rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations are taken to 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Properties, plant and equipment

Properties, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of properties, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual value, over their estimated useful lives, as follows:

Buildings	10 to 30 years
Plant and machinery	5 to 15 years
Office equipment	5 years
Motor vehicles	10 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.

Gains or losses on disposal are determined by comparing proceeds with carrying amount and are recognised in "Other (losses)/gains, net" in consolidated income statements.

Construction-in-progress (the "CIP") represents properties and plant under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to relevant categories of properties, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Investment property

Investment property is stated at historical cost less accumulated depreciation. Investment property, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Depreciation is recognised so as to write-off the cost of investment property over its estimated useful life of within 30 years or the leasing period and after taking into account of its estimated residual value, using the straight-line method.

The asset's residual value and useful life is 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.

Gains or losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within "Other (losses)/gains, net" in consolidated income statements.

2.7 Intangible assets

Software

Computer software licenses for own use are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. (Computer software is carried at cost less accumulated amortisation and impairment, if any. These costs are amortised over their estimated useful lives of 5 years.)

2.8 Impairment of non-financial assets

Assets 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 to sell 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 (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets as assets 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.

2.9.2 Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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. The Group classifies its debt instruments to be measured at 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. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in other income using the effective interest rate method.

2.9.3 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and reward of ownership.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Impairment of financial assets

The Group's financial assets measured at amortised cost are subject to HKFRS 9's expected credit loss model. The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1.3 sets out the details on how the Group determines whether there has been a significant increase in credit risk.

For contract assets, 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. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets, trade and bills receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

For other receivables, the Group measures the impairment as either 12-month expected credit losses or life-time 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 the other receivables has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.12 Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade, bills and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Inventories

The Group's inventories comprise solely raw materials which stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. 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.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less.

2.15 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.

2.16 Trade, bills and other payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade, bills and other payables 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, bills and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 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 interest expense over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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.

2.18 Provisions

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 provision due to passage of time is recognised as finance costs.

2.19 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.

2.19.1 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's subsidiaries and associates 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.

2.19.2 Deferred income tax

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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 Group 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 income tax balances relate to the same taxation authority. Current tax assets and 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.

2.20 Employee benefits**2.20.1 Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within twelve 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 obligations in the consolidated statements of financial position.

2.20.2 Other long-term employee benefit obligations

The obligations are presented as current liabilities in the consolidated statements of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

2.20.3 Defined contribution plans

The Group pays contributions to state-managed pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.20.4 Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount for the goods sold or service rendered in the ordinary course of the Group's activity.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

When either party to a contract has performed, the Group presents the contract in the consolidated statements of financial position as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as assets and subsequently amortised when the related revenue is recognised.

A contract liability is the Group's obligation to transfer the promised goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

Manufacturing of lace and provision of dyeing services

Rendering of manufacturing of lace and provision of dyeing services is recognised when the control of the goods or services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or services may transfer over time or at a point in time. Control of the goods or services is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Revenue is recognised over time using the input method with reference to the costs incurred for the goods or services.

Circumstances to recognise the revenue over time

Pursuant to HKFRS 15, the Company recognises its revenue over time for contracts of both the manufacturing of lace and the provision of dyeing services as the Group's manufacturing and dyeing services create an asset with no alternative use to the Group; and the Group has an enforceable right to payment for performance completed to date if these contracts were to be terminated before completion for reasons other than the Group's failure to perform as promised.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Leases

The Group leases land for the manufacturing of lace and provision of dyeing services. The consideration paid for the lease is treated as a right-of-use asset, which is stated at cost less accumulative amortisation and accumulated impairment losses, if any. Lease land is amortised over the remaining lease term using straight-line method.

Leases are recognised as right-of-use assets and the corresponding liabilities at the date of which the respective leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the entity's incremental borrowing rate.

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 less than 12 months. Low-value assets comprise assets with value below RMB5,000.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

2.24 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the periods in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.25 Government grants

Government grants 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.

Grants that compensate the Group for expenses incurred are recognised in the consolidated income statements within "Other income" on a systematic basis in the same periods in which the expenses are recognised.

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3 FINANCIAL RISK MANAGEMENT

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.

3.1 Market risk

3.1.1 Foreign exchange risk

The majority of assets and liabilities are denominated in RMB, USD and HKD, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB, which is the functional currency of the major operating companies within the Group. The Group currently does not hedge its foreign currency exposure.

The Group's foreign currency transactions are mainly denominated in USD. At 31 December 2017, 2018 and 2019 and 30 June 2020, if USD had weakened/strengthened by 5% against the RMB with all other variables held constant, profit before income tax for the years/period then ended would have been approximately RMB137,000 lower/higher, approximately RMB287,000 lower/higher, approximately RMB427,000 lower/higher and approximately RMB448,000 lower/higher, mainly as a result of the foreign exchange difference on the translation of USD denominated contract assets, trade and bills receivables and cash and cash equivalents.

At 31 December 2019 and 30 June 2020, if HKD had weakened/strengthened by 5% against the RMB with all other variables held constant, profit before income tax for the year/period then ended would have been approximately RMB717,000 lower/higher and approximately RMB543,000 lower/higher, mainly as a result of the foreign exchange difference on the translation of HKD denominated cash and cash equivalents.

3.1.2 Interest rate risk

The Group's interest rate risk is mainly attributable to its pledged bank deposits, cash at banks and bank borrowings with floating interest rates. Details of the Group's pledged bank deposits, cash at banks and bank borrowings have been disclosed in Notes 20 and 24 to the Historical Financial Information respectively.

Other than pledged bank deposits, cash at banks and bank borrowings, the Group does not have significant interest-bearing assets or liabilities.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, if interest rates on pledged bank deposits, cash at banks and bank borrowings had been 100 basis points higher/lower with all variables held constant, profit before income tax for the years/period then ended would have been approximately RMB296,000 lower/higher, approximately RMB299,000 lower/higher, approximately RMB255,000 higher/lower and approximately RMB343,000 higher/lower respectively, mainly as a result of higher/lower of interest income on the pledged bank deposits and cash at banks netted with higher/lower interest expenses on the bank borrowings respectively.

3.1.3 Credit risk

The credit risk of the Group mainly arises from pledged bank deposits, cash and cash equivalents, contract assets, trade and bills receivables, other receivables and deposits. The carrying amounts of each financial asset represent the Group's maximum exposure to credit risk in relation to financial assets.

Risk management

The Group has policies in place to ensure that credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The credit risk on pledged bank deposits and cash and cash equivalents are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by these counterparties.

(a) Impairment of financial assets

The Group has two types of financial asset that is subject to the expected credit loss models:

- Contract assets, trade and bills receivables
- Other financial assets carried at amortised cost

Contract assets, trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all contract assets, trade and bills receivables.

To measure the expected credit losses, contract assets, trade and bills receivables have grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled services and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Measurement of expected credit loss on individual basis

Contract assets, trade and bills receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the balance of loss allowance in respect of these individually assessed receivables was approximately RMB399,000, RMB612,000, RMB612,000 and RMB444,000 respectively.

Measurement of expected credit loss on collective basis

The expected loss rates are based on the historical payment profiles of revenue from the contracts and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables without known insolvencies are assessed on a collective basis based on shared credit risk characteristic. Based on the Group's assessment, expected credit loss rate of these trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivable balances was not material and no provision was recognised.

Impairment losses on contract assets, trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets carried at amortised cost

The Group's other financial assets carried at amortised cost include other receivables in the consolidated statements of financial position. The impairment loss of other financial assets carried at amortised cost is measured based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

3.1.4 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the shorter and longer term.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group held cash and cash equivalents amounting to approximately RMB10,687,000, RMB33,327,000, RMB38,480,000 and RMB47,287,000 respectively, that are expected to be readily available to generate cash inflows for managing liquidity risk.

The Group maintains liquidity by a number of sources including orderly realisation of receivables that the Group considers appropriate and adequate amount of available financing including short-term borrowings are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	On demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	Between 1 to 2 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2017				
Trade and bills payables	–	15,607	–	15,607
Other payables and accruals (excluding accrued employee benefits, deposits received from customers and other taxes)	–	778	1,705	2,483
Amounts due to shareholders	3,906	–	–	3,906
Amount due to a related party	9,000	–	–	9,000
Bank borrowings – principal portion	–	42,000	–	42,000
Bank borrowings – interest portion	–	1,446	–	1,446
	<u>12,906</u>	<u>59,831</u>	<u>1,705</u>	<u>74,442</u>
At 31 December 2018				
Trade and bills payables	–	26,656	–	26,656
Other payables and accruals (excluding accrued employee benefits, deposits received from customers and other taxes)	–	1,575	1,646	3,221
Bank borrowings – principal portion	–	65,000	–	65,000
Bank borrowings – interest portion	–	1,928	–	1,928
	<u>–</u>	<u>95,159</u>	<u>1,646</u>	<u>96,805</u>
At 31 December 2019				
Trade and bills payables	–	14,058	–	14,058
Other payables and accruals (excluding accrued employee benefits, deposits received from customers and other taxes)	–	3,141	1,592	4,733
Amounts due to shareholders	5,000	–	–	5,000
Bank borrowings – principal portion	–	13,000	–	13,000
Bank borrowings – interest portion	–	481	–	481
	<u>5,000</u>	<u>30,680</u>	<u>1,592</u>	<u>37,272</u>

	On demand RMB'000	Less than 1 year RMB'000	Between 1 to 2 years RMB'000	Total RMB'000
At 30 June 2020				
Trade and bills payables	–	14,623	–	14,623
Other payables and accruals (excluding accrued employee benefits, deposits received from customers and other taxes)	–	5,802	1,561	7,363
Bank borrowings – principal portion	–	13,000	–	13,000
Bank borrowings – interest portion	–	231	–	231
	–	33,656	1,561	35,217

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 dividend paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The Group monitors capital on the basis of total debt to total capital ratio. Total debt and total capital represent total borrowings and total equity, as shown in the consolidated statements of financial position. The total debt to total capital ratios at 31 December 2017, 2018 and 2019 and 30 June 2020 were as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings	42,000	65,000	13,000	13,000
Total equity	127,491	127,961	179,268	200,374
Total debt to total capital ratio	32.9%	50.8%	7.3%	6.5%

The increase in total debt to total capital ratio from 32.9% as at 31 December 2017 to 50.8% as at 31 December 2018 was mainly due to additional drawdown of bank borrowings for the year ended 31 December 2018. The decrease in total debt to total capital ratio from 50.8% as at 31 December 2018 to 7.3% as at 31 December 2019 was mainly due to repayments of bank borrowings for the year ended 31 December 2019. The decrease in total debt to total capital ratio from 7.3% as at 31 December 2019 to 6.5% as at 30 June 2020 was mainly due to the increase in total equity from profit for the six months ended 30 June 2020.

3.3 Fair value estimation

The Group did not have any financial assets or financial liabilities at the consolidated statement of financial position which is measured at fair value.

The carrying amounts of the Group's financial assets, including trade and bills receivables, other receivables, pledged bank deposits, and cash and cash equivalents; and the Group's financial liabilities including trade and bills payables, other payables and accruals, amounts due to a related party and shareholders and bank borrowings, approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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.

4.1 Impairment of receivables and contract assets

The Group makes provision for impairment of receivables and contract assets based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical default rates, existing market conditions as well as forward-looking estimates at the end of each reporting period. The identification of impairment of receivables and contract assets requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and contract assets and loss for the impairment of receivables and contract assets recognised in the periods in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

The Company is an investment holding company and its subsidiaries now comprising the Group are principally engaged in the manufacturing of lace and provision of dyeing services.

The CODM has been identified as the directors of the Company. The directors review the Group's internal reporting in order to assess performance and allocate resources. The directors have determined the operating segment based on these reports.

The directors consider the Group's operation from a business perspective and determine that the Group has two reportable operating segments being manufacturing of lace and provision of dyeing services:

Manufacturing of lace – principally engaged in the manufacturing of lace for customers to produce branded lingerie and other products on order-by-order basis;

Provision of dyeing services – principally engaged in the provision of dyeing services of lace and swim wear fabrics to customers.

The directors assess the performance of the operating segments based on a measure of revenue and gross profit.

During the Track Record Period, all of the Group's revenues are from contracts with customers and are recognised over time. Please refer to Note 2.21 for details of the accounting policies on revenue recognition.

(a) Segment revenue by operating segments

The segment information provided to the directors for the reportable segments for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 is as follows:

	Manufacturing of lace					Provision of dyeing services					Total				
	Year ended 31 December			Six months ended		Year ended 31 December			Six months ended		Year ended 31 December			Six months ended	
	2017	2018	2019	2019	2020	2017	2018	2019	2019	2020	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)					(unaudited)					(unaudited)				
Segment revenue	73,270	84,555	85,506	47,186	37,631	72,711	87,925	117,937	61,038	57,456	145,981	172,480	203,443	108,224	95,087
Segment results	17,676	26,443	32,897	18,357	14,174	9,479	18,930	34,007	18,991	17,572	27,155	45,373	66,904	37,348	31,746
Other income											1,544	296	744	607	3,570
Other (losses)/gains, net											(64)	244	(6)	40	558
Unallocated operating costs											(6,680)	(7,065)	(16,659)	(4,688)	(10,151)
Finance costs, net											(2,932)	(2,758)	(1,908)	(1,544)	(272)
Profit before income tax											19,023	36,090	49,075	31,763	25,451

(b) Segment revenue by customers' geographical location

The Group is domiciled in the PRC. The Group's revenue by geographical location, which is determined by the location of customers, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
The PRC	144,548	169,192	200,943	107,025	94,326
Hong Kong	849	1,992	1,368	476	342
Others	584	1,296	1,132	723	419
	145,981	172,480	203,443	108,224	95,087

(c) Information about major customers

All the revenue derived from single external customers were less than 10% of the Group's total revenue during the Track Record Period.

(d) Details of contract liabilities

	As at 31 December		As at 30 June	
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities (Note 21)	624	518	1,307	296

Notes:

- (i) Contract liabilities represent advanced payments received from the customers for services that have not yet been transferred to the customers. The contract liabilities fluctuated during the Track Record Period due to fluctuation in sales orders with advanced payments.
- (ii) During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, all brought-forward contract liabilities at the beginning of the financial years were fully recognised as revenue.

(e) Unsatisfied performance obligations

As at 31 December 2017, 2018 and 2019 and 30 June 2020, all performance obligations not yet satisfied by the Group were from contracts with original expected duration of less than one year. Therefore, as permitted by the relevant practical expedient under HKFRS 15 “Revenue from Contracts with Customers”, the transaction price allocated to these unsatisfied performance obligations was not disclosed.

(f) Non-current assets by geographical location

All of the Group's non-current assets other than deferred tax assets were located in the PRC.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, administrative expenses and provision for impairment of trade receivables are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Raw materials and consumables used	60,134	68,293	67,639	37,754	29,213
Employee benefit expenses, including directors' emoluments (Note 9)	27,906	27,159	36,842	16,915	18,908
Manpower service expenses (Note 9)	–	339	1,643	741	877
Amortisation of intangible assets (Note 15)	70	105	246	123	124
Utilities	10,361	9,863	10,305	4,678	4,089
Depreciation of properties, plant and equipment and right-of-use asset (Note 13)	15,900	16,775	16,047	8,289	7,765
Depreciation of investment property (Note 14)	41	41	41	20	20
Auditor's remuneration	175	49	49	–	–
Listing expenses	–	–	7,190	–	5,686
Professional fees	661	1,008	1,718	759	869
Other tax and surcharges	1,262	2,185	1,844	983	812
Packaging expenses	1,569	1,402	1,522	800	683
Waste handling charges	4,367	3,642	4,089	2,121	1,902
Provision for impairment of trade receivables (Note 19)	98	213	–	–	200
Others	2,962	3,098	4,023	2,381	2,344
Total cost of sales, selling and distribution expenses, administrative expenses and provision for impairment of trade receivables	125,506	134,172	153,198	75,564	73,492

7 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Government grants (Note)	1,470	180	580	513	3,383
Rental income (Note 14)	29	29	34	17	17
Others	45	87	130	77	170
	<u>1,544</u>	<u>296</u>	<u>744</u>	<u>607</u>	<u>3,570</u>

Note: Government grants are all income related and there exists no unfulfilled conditions or other contingencies attaching to these government grants.

8 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gains/(losses) on disposal of properties, plant and equipment	7	–	(101)	1	–
Exchange differences	(71)	244	95	39	558
	<u>(64)</u>	<u>244</u>	<u>(6)</u>	<u>40</u>	<u>558</u>

9 EMPLOYEE BENEFIT EXPENSES AND MANPOWER SERVICE EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Wages and salaries	27,199	26,253	35,072	16,370	17,450
Pension costs – defined contribution plans (Note a)	686	848	1,494	410	1,407
Other staff welfares	21	58	276	135	51
Total employee benefit expenses (including directors' emoluments)	27,906	27,159	36,842	16,915	18,908
Manpower service expenses (Note b)	–	339	1,643	741	877
	<u>27,906</u>	<u>27,498</u>	<u>38,485</u>	<u>17,656</u>	<u>19,785</u>

Notes:

(a) Pension costs – defined contribution plans

The PRC

As stipulated under the relevant rules and regulations in the PRC, the subsidiary operating in the PRC contributes to state-sponsored retirement plans for its employees. For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, depending on the provinces of the employees' registered residences and their current region of work, the subsidiary contributed certain percentages of the salaries of its employees and had no further obligations for the actual payment of pensions or postretirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees.

(b) Manpower service expenses

During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Group entered into certain manpower service arrangements with an external manpower service organisation in the PRC. Under these arrangements, certain of the Group's manpower requirements were fulfilled by this organisation at agreed service fees whereas the human resources provided were directly employed by the service organisation. The individuals providing services to the Group did not have any employment relationship with the Group.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two, three, one, two and one directors for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 respectively, whose emoluments are reflected in the analysis presented in Note 29. The emoluments payable to the remaining three, two, four, three and four individuals for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Wages and salaries	321	190	848	331	595
Pension costs – defined contribution plans	19	21	35	10	17
	<u>340</u>	<u>211</u>	<u>883</u>	<u>341</u>	<u>612</u>

The emoluments fell within the following band:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Emolument band					
Not more than					
HKD1,000,000	<u>3</u>	<u>2</u>	<u>4</u>	<u>3</u>	<u>4</u>

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

10 FINANCE COSTS, NET

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Finance income					
Interest income on cash at banks	47	102	131	72	30
Finance costs					
Unwinding of discount on other payables	(6)	(6)	(8)	(3)	(4)
Interest expenses on bank borrowings	(3,025)	(2,897)	(2,097)	(1,648)	(329)
Less: capitalised on qualifying assets	52	43	66	35	31
	(2,979)	(2,860)	(2,039)	(1,616)	(302)
Finance costs, net	(2,932)	(2,758)	(1,908)	(1,544)	(272)

Borrowing costs have been capitalised at rates of 5.24%, 5.29%, 5.19%, 5.22% and 5.00% per annum on qualifying assets for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 respectively.

11 INCOME TAX EXPENSE

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, Deyun, the Group's subsidiary in the PRC, has qualified for high and new technology enterprises status and is therefore subject to a preferential income tax rate of 15%.

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, no provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group had no assessable profit in Hong Kong.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current income tax	1,786	4,635	7,015	4,387	4,518
Deferred income tax (Note 22)	439	(95)	209	(139)	(312)
Income tax expense	2,225	4,540	7,224	4,248	4,206

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	19,023	36,090	49,075	31,763	25,451
Tax calculated at tax rates applicable to profits of the respective subsidiaries	2,853	5,413	7,253	4,764	3,735
Tax effect of:					
Expenses not deductible for tax purpose	25	33	1,194	–	939
Super deductions from research and development expenditure (<i>Note</i>)	(653)	(906)	(1,223)	(516)	(468)
Income tax expense	2,225	4,540	7,224	4,248	4,206

Note: According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, enterprises engaging in research and development activities are entitled to claim 150% to 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year.

12 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

In determining the weighted average number of ordinary shares deemed to be in issue during the Track Record Period, 18,000 shares, being the number of ordinary shares issued by the Company on 4 January 2019 (date of incorporation) to Deyun Investment, were deemed to have been issued and allocated on 1 January 2017 as if the Company has been incorporated by then, when computing the basic and diluted earnings per share for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019.

In addition, the 2,000 ordinary shares, which were issued by the Company to the investment holding vehicle of the Pre-IPO Investor on 20 December 2019 as stated in Note 1.2(g), were taken into consideration since the date of capital injection by the investment holding vehicle of the Pre-IPO Investor to Deyun on 6 November 2019 when computing the basic and diluted earnings per share for the year ended 31 December 2019.

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
				(unaudited)	
Profit for the year/period attributable to owners of the Company (<i>RMB'000</i>)	16,798	31,550	41,851	27,515	21,245
Weighted average number of ordinary shares in issue	18,000	18,000	18,307	18,000	20,000
Basic and diluted earnings per share (<i>RMB'000</i>)	0.93	1.75	2.29	1.53	1.06

There were no differences between the basic and diluted earnings per share as there were no potential dilutive ordinary shares outstanding during the Track Record Period.

The earnings per share has not taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 16 December 2020 because the proposed capitalisation issue has not been effected as at the date of this report.

13 PROPERTIES, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSET

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Right-of-use asset <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2017								
Cost	33,873	231,718	2,293	934	10,320	279,138	4,121	283,259
Accumulated depreciation	(5,618)	(104,044)	(1,643)	(531)	–	(111,836)	(1,071)	(112,907)
Net book amount	<u>28,255</u>	<u>127,674</u>	<u>650</u>	<u>403</u>	<u>10,320</u>	<u>167,302</u>	<u>3,050</u>	<u>170,352</u>
Year ended 31 December 2017								
Opening net book amount	28,255	127,674	650	403	10,320	167,302	3,050	170,352
Additions	497	12,093	1,047	309	368	14,314	–	14,314
Transfers	2,077	8,465	–	–	(10,542)	–	–	–
Depreciation	(1,346)	(14,112)	(256)	(104)	–	(15,818)	(82)	(15,900)
Disposals	–	(8)	–	(11)	–	(19)	–	(19)
Closing net book amount	<u>29,483</u>	<u>134,112</u>	<u>1,441</u>	<u>597</u>	<u>146</u>	<u>165,779</u>	<u>2,968</u>	<u>168,747</u>
At 31 December 2017								
Cost	36,447	252,121	3,340	1,090	146	293,144	4,121	297,265
Accumulated depreciation	(6,964)	(118,009)	(1,899)	(493)	–	(127,365)	(1,153)	(128,518)
Net book amount	<u>29,483</u>	<u>134,112</u>	<u>1,441</u>	<u>597</u>	<u>146</u>	<u>165,779</u>	<u>2,968</u>	<u>168,747</u>
Year ended 31 December 2018								
Opening net book amount	29,483	134,112	1,441	597	146	165,779	2,968	168,747
Additions	1,304	690	130	–	1,973	4,097	–	4,097
Transfers	–	320	–	–	(320)	–	–	–
Depreciation	(1,388)	(14,824)	(377)	(104)	–	(16,693)	(82)	(16,775)
Closing net book amount	<u>29,399</u>	<u>120,298</u>	<u>1,194</u>	<u>493</u>	<u>1,799</u>	<u>153,183</u>	<u>2,886</u>	<u>156,069</u>
At 31 December 2018								
Cost	37,751	253,131	3,470	1,090	1,799	297,241	4,121	301,362
Accumulated depreciation	(8,352)	(132,833)	(2,276)	(597)	–	(144,058)	(1,235)	(145,293)
Net book amount	<u>29,399</u>	<u>120,298</u>	<u>1,194</u>	<u>493</u>	<u>1,799</u>	<u>153,183</u>	<u>2,886</u>	<u>156,069</u>

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Right-of-use asset <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2019								
Opening net book amount	29,399	120,298	1,194	493	1,799	153,183	2,886	156,069
Additions	1,631	6,390	338	–	1,519	9,878	–	9,878
Transfers	1,805	–	–	–	(1,805)	–	–	–
Depreciation	(1,982)	(13,565)	(315)	(103)	–	(15,965)	(82)	(16,047)
Disposals	(118)	(145)	–	–	–	(263)	–	(263)
Closing net book amount	<u>30,735</u>	<u>112,978</u>	<u>1,217</u>	<u>390</u>	<u>1,513</u>	<u>146,833</u>	<u>2,804</u>	<u>149,637</u>
At 31 December 2019								
Cost	40,997	258,809	3,808	1,090	1,513	306,217	4,121	310,338
Accumulated depreciation	(10,262)	(145,831)	(2,591)	(700)	–	(159,384)	(1,317)	(160,701)
Net book amount	<u>30,735</u>	<u>112,978</u>	<u>1,217</u>	<u>390</u>	<u>1,513</u>	<u>146,833</u>	<u>2,804</u>	<u>149,637</u>
Six months ended 30 June 2020								
Opening net book amount	30,735	112,978	1,217	390	1,513	146,833	2,804	149,637
Additions	96	67	443	73	31	710	–	710
Depreciation	(1,036)	(6,464)	(171)	(53)	–	(7,724)	(41)	(7,765)
Closing net book amount	<u>29,795</u>	<u>106,581</u>	<u>1,489</u>	<u>410</u>	<u>1,544</u>	<u>139,819</u>	<u>2,763</u>	<u>142,582</u>
At 30 June 2020								
Cost	41,093	258,876	4,251	1,163	1,544	306,927	4,121	311,048
Accumulated depreciation	(11,298)	(152,295)	(2,762)	(753)	–	(167,108)	(1,358)	(168,466)
Net book amount	<u>29,795</u>	<u>106,581</u>	<u>1,489</u>	<u>410</u>	<u>1,544</u>	<u>139,819</u>	<u>2,763</u>	<u>142,582</u>

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, depreciation expenses have been charged in cost of sales, selling and distribution expenses and administrative expenses as below:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Cost of sales	15,252	16,146	15,431	7,977	7,449
Selling and distribution expenses	–	–	5	1	3
Administrative expenses	<u>648</u>	<u>629</u>	<u>611</u>	<u>311</u>	<u>313</u>
	<u>15,900</u>	<u>16,775</u>	<u>16,047</u>	<u>8,289</u>	<u>7,765</u>

14 INVESTMENT PROPERTY

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	505	464	423	382
Depreciation (Note 6)	(41)	(41)	(41)	(20)
At end of year/period	464	423	382	362

The Group leased out an investment property through operating lease. The lease typically runs for an initial period of 5 years. The lease does not include variable lease payments.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the fair value of the Group's investment property was approximately RMB1,120,000, RMB1,150,000, RMB1,210,000 and RMB1,220,000. These fair values are determined by the directors of the Company mainly with reference to the valuation, which is performed by an independent qualified professional valuer, using the income capitalisation approach.

The following amounts have been recognised in the consolidated income statements:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Rental income from investment property (Note 7)	29	29	34	17	17
Direct operating expenses attributable to investment property that generate rental income	(15)	(16)	(11)	(5)	(2)
	14	13	23	12	15

15 INTANGIBLE ASSETS

	Software
	RMB'000
At 1 January 2017	
Cost	194
Accumulated amortisation	(148)
Net book amount	46
Year ended 31 December 2017	
Opening net book amount	46
Additions	175
Amortisation (Note 6)	(70)
Closing net book amount	151

	Software <i>RMB'000</i>
At 31 December 2017	
Cost	369
Accumulated amortisation	(218)
	<hr/>
Net book amount	151
	<hr/>
Year ended 31 December 2018	
Opening net book amount	151
Additions	772
Amortisation (<i>Note 6</i>)	(105)
	<hr/>
Closing net book amount	818
	<hr/>
At 31 December 2018	
Cost	1,141
Accumulated amortisation	(323)
	<hr/>
Net book amount	818
	<hr/>
Year ended 31 December 2019	
Opening net book amount	818
Additions	261
Amortisation (<i>Note 6</i>)	(246)
	<hr/>
Closing net book amount	833
	<hr/>
At 31 December 2019	
Cost	1,402
Accumulated amortisation	(569)
	<hr/>
Net book amount	833
	<hr/>
Six months ended 30 June 2020	
Opening net book amount	833
Additions	70
Amortisation (<i>Note 6</i>)	(124)
	<hr/>
Closing net book amount	779
	<hr/>
At 30 June 2020	
Cost	1,472
Accumulated amortisation and impairment	(693)
	<hr/>
Net book amount	779
	<hr/>

During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, amortisation of approximately RMB3,000, RMB9,000 and RMB39,000 and RMB20,000 and RMB21,000 have been charged in administrative expenses and approximately RMB67,000, RMB96,000, RMB207,000, RMB103,000 and RMB103,000 have been charged in cost of sales respectively.

16 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
<i>Financial assets at amortised cost</i>				
Trade and bills receivables (Note 19)	10,842	14,869	15,694	23,208
Other receivables (Note 17)	179	278	66	19
Amounts due from shareholders				
(Note 27(a))	–	–	140	–
Pledged bank deposits (Note 20)	1,750	1,800	–	–
Cash and cash equivalents (Note 20)	10,687	33,327	38,480	47,287
	<u>23,458</u>	<u>50,274</u>	<u>54,380</u>	<u>70,514</u>
Financial liabilities				
<i>Financial liabilities at amortised cost</i>				
Trade and bills payables (Note 23)	15,607	26,656	14,058	14,623
Other payables and accruals (Note 21)	2,483	3,221	4,733	7,363
Amounts due to shareholders				
(Note 27(a))	3,906	–	5,000	–
Amount due to a related party				
(Note 27(a))	9,000	–	–	–
Bank borrowings (Note 24)	42,000	65,000	13,000	13,000
	<u>72,996</u>	<u>94,877</u>	<u>36,791</u>	<u>34,986</u>

17 PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
Prepayments to suppliers	714	159	107	448
Other prepayments	41	160	5	45
Other receivables (Note a)	179	278	66	19
Prepaid listing expenses (Note b)	–	263	2,349	4,045
	<u>934</u>	<u>860</u>	<u>2,527</u>	<u>4,557</u>
Non-current portion				
Prepayments of acquisition of properties, plant and equipment	603	2,644	223	2,786

The Company

	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000
Current portion		
Prepaid listing expenses (<i>Note b</i>)	2,349	4,045

Notes:

- (a) As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of other receivables approximated their fair values.
- (b) The prepaid listing expenses as at 31 December 2019 and 30 June 2020 were incurred in connection with the listing of the Group and will be deducted from equity upon listing.

The carrying amounts of the Group's prepayments and other receivables were denominated in RMB and HKD and approximated their fair values.

The carrying amount of the Company's prepayments was denominated in RMB and HKD and approximated its fair value.

18 INVENTORIES

	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	As as 30 June 2020 RMB'000
Raw materials	10,160	8,170	9,922	6,031

The cost of inventories recognised as expense and included in cost of sales during the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 amounted to approximately RMB60,134,000, RMB68,293,000, RMB67,639,000, RMB37,754,000 and RMB29,213,000 respectively.

19 CONTRACT ASSETS, TRADE AND BILLS RECEIVABLES

	As at 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at 30 June 2020 RMB'000
Contract assets	3,613	14,159	16,585	24,280
Trade receivables	10,792	14,291	12,549	23,208
Bills receivables	50	578	3,145	–
Trade and bills receivables	10,842	14,869	15,694	23,208
	14,455	29,028	32,279	47,488

Contract assets represent the Group's rights to consideration for work completed but unbilled for its business. The contract assets are transferred to trade receivables when the rights become unconditional which generally take one to three months. The balances of contract assets fluctuated from year-to-year during the Track Record Period as the Group provided varying amount of goods or services that were unbilled before the year-ends.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of contract assets, trade and bills receivables approximated their fair values.

The Group's sales were generally on credit terms primarily from 30 to 60 days.

Details of the trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	11,191	14,903	13,161	23,652
Less: Provision for impairment of trade receivables	(399)	(612)	(612)	(444)
	<u>10,792</u>	<u>14,291</u>	<u>12,549</u>	<u>23,208</u>

Movement on the Group's provision for impairment of trade receivables are as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	301	399	612	612
Provision for impairment (<i>Note 6</i>)	98	213	–	200
Written-off	–	–	–	(368)
At end of year/period	<u>399</u>	<u>612</u>	<u>612</u>	<u>444</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the aging analysis of trade and bills receivables, based on invoice date, was as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
1 to 3 months	7,937	11,244	11,238	20,633
Over 3 months	2,905	3,625	4,456	2,575
	<u>10,842</u>	<u>14,869</u>	<u>15,694</u>	<u>23,208</u>

For any past due trade receivables, the Group has assessed the expected credit losses by considering historical default rates, existing market conditions and forward-looking information. Based on the assessment, expected credit loss rate of trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivables balances was not material.

The carrying amounts of the Group's contract assets, trade and bills receivables were denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	14,388	28,530	31,784	47,174
USD	67	498	495	314
	<u>14,455</u>	<u>29,028</u>	<u>32,279</u>	<u>47,488</u>

The maximum exposure to credit risk as at 31 December 2017, 2018 and 2019 and 30 June 2020 was the carrying value of the receivables and contract assets mentioned above. The Group did not hold any collateral as security.

20 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	7	10	10	4
Cash at banks	12,430	35,117	38,470	47,283
Less: pledged bank deposits	<u>(1,750)</u>	<u>(1,800)</u>	<u>–</u>	<u>–</u>
Cash and cash equivalents	<u>10,687</u>	<u>33,327</u>	<u>38,480</u>	<u>47,287</u>
Maximum exposure to credit risk	<u>12,430</u>	<u>35,117</u>	<u>38,470</u>	<u>47,283</u>

As at 31 December 2017 and 2018, deposits amounted to approximately RMB1,750,000 and RMB1,800,000 were pledged for the settlement of bills payables respectively, details of which are set out in Note 23.

Cash and cash equivalents include the following for the purposes of the consolidated statements of cash flows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	<u>10,687</u>	<u>33,327</u>	<u>38,480</u>	<u>47,287</u>

The carrying amounts of the Group's cash and cash equivalents and pledged bank deposits were denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	9,756	29,881	16,102	27,782
USD	2,681	5,246	8,047	8,649
HKD	—	—	14,331	10,856
	<u>12,437</u>	<u>35,127</u>	<u>38,480</u>	<u>47,287</u>

Cash at banks earned interest at floating rates based on daily bank deposit rate. As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of cash and cash equivalents and pledged bank deposits approximated their fair values.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, cash and cash equivalents and pledged bank deposits of the Group amounting to approximately RMB12,430,000, RMB35,117,000, RMB38,470,000 and RMB47,283,000, respectively, were deposited with the banks in the PRC where the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

21 CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
Payables for acquisition of properties,				
plant and equipment	546	1,281	1,809	1,671
Other tax payables	1,312	576	1,505	3,956
Other payables	163	79	149	221
Accruals for employee benefits	2,156	2,240	5,022	4,116
Accruals for professional fee	—	—	960	480
Other accruals	69	215	185	178
Accrued listing expenses	—	—	38	3,252
Deposits from customers	1,940	2,410	3,246	2,102
Contract liabilities (<i>Note 5(d)</i>)	624	518	1,307	296
	<u>6,810</u>	<u>7,319</u>	<u>14,221</u>	<u>16,272</u>
Non-current portion				
Other payables	1,705	1,646	1,592	1,561

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of the Group's other payables, accruals and contract liabilities approximated their fair values.

The carrying amounts of the Group's contract liabilities, other payables and accruals were denominated in the following currencies:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	7,689	8,709	15,305	14,131
HKD	—	—	—	3,167
USD	826	256	508	535
	<u>8,515</u>	<u>8,965</u>	<u>15,813</u>	<u>17,833</u>

The Company

	As at 31 December 2019 RMB'000	As at 30 June 2020 RMB'000
Accrued listing expenses	<u>38</u>	<u>3,252</u>

As at 31 December 2019 and 30 June 2020, the carrying amount of the Company's accruals approximated its fair value.

The carrying amount of the Company's accruals was denominated in RMB, HKD and USD.

22 DEFERRED TAX LIABILITIES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities, net	<u>(319)</u>	<u>(224)</u>	<u>(433)</u>	<u>(121)</u>

The movement in deferred tax assets/(liabilities) during the Track Record Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax	Contract assets RMB'000	Decelerated/ (accelerated) tax depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	(50)	(29)	199	120
Charged to the consolidated income statements	(30)	(114)	(295)	(439)
At 31 December 2017	(80)	(143)	(96)	(319)
(Charged)/credited to the consolidated income statements	(18)	10	103	95
At 31 December 2018	(98)	(133)	7	(224)
Charged to the consolidated income statements	(131)	(42)	(36)	(209)
At 31 December 2019	(229)	(175)	(29)	(433)
Credited to the consolidated income statements	67	7	238	312
At 30 June 2020	(162)	(168)	209	(121)

The Group had undistributed earnings of RMB28,961,000, RMB26,276,000, RMB63,942,000 and RMB83,063,000 as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which, if paid out as dividends, would be subject to tax in the hands of the receipts. An assessable temporary difference exists, but no deferred liability has been recognised as the parent entity is able to control the timing of distributions of dividends from the PRC subsidiary and is not expected to distribute these profits in the foreseeable future.

23 TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	12,107	23,056	14,058	14,623
Bills payables	3,500	3,600	–	–
Trade and bills payables	15,607	26,656	14,058	14,623

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the aging analysis of trade payables, based on invoice date, was as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
1 to 3 months	11,891	20,458	12,623	13,584
Over 3 months	3,716	6,198	1,435	1,039
	<u>15,607</u>	<u>26,656</u>	<u>14,058</u>	<u>14,623</u>

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of the Group's trade and bills payables were denominated in RMB and approximated their fair values.

24 BANK BORROWINGS

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
Bank borrowings – secured	<u>42,000</u>	<u>65,000</u>	<u>13,000</u>	<u>13,000</u>

As at 31 December 2017, the Group's bank borrowings were carried at floating rates ranged from 5.2% to 5.4% per annum. As at 31 December 2018, the Group's bank borrowings were carried at floating rates ranged from 5.2% to 5.4% per annum. As at 31 December 2019, the Group's bank borrowings were carried at a floating rate of 5.0% per annum. As at 30 June 2020, the Group's bank borrowings were carried at a floating rate of 5.0% per annum.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the carrying amounts of the bank borrowings were denominated in RMB and approximated their fair values.

As at 31 December 2017, the above bank borrowings were secured by the Group's properties, plant and equipment with carrying amounts of RMB92,635,000 and personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Minqiang, Mr. Wei Cunzhuo, Mr. Lin Chaowen and Ms. Lin Yueyun.

As at 31 December 2018, the above bank borrowings were secured by the Group's properties, plant and equipment with carrying amounts of RMB79,990,000 and personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Minqiang, Mr. Wei Cunzhuo, Mr. Lin Chaowen and Ms. Lin Yueyun.

As at 31 December 2019, the above bank borrowings were secured by the Group's properties, plant and equipment with carrying amounts of RMB20,159,000.

As at 30 June 2020, the above bank borrowings were secured by the Group's properties, plant and equipment with carrying amounts of RMB19,760,000.

At 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's bank borrowings were repayable within one year.

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group's total undrawn banking facilities amounted to approximately RMB79,500,000, Nil, RMB40,000,000 and Nil respectively.

25 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax for the Track Record Period to net cash generated from operations

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before income tax	19,023	36,090	49,075	31,763	25,451
Adjustments for:					
Interest income	(47)	(102)	(131)	(72)	(30)
Interest expenses	2,979	2,860	2,039	1,616	302
Depreciation of properties, plant and equipment	15,818	16,693	15,965	8,248	7,724
Depreciation of right-of-use asset	82	82	82	41	41
Amortisation of intangible assets	70	105	246	123	124
(Gains)/losses on disposal of properties, plant and equipment	(7)	–	101	(1)	–
Depreciation of investment property	41	41	41	20	20
Provision for impairment of trade receivables	98	213	–	–	200
	38,057	55,982	67,418	41,738	33,832
Changes in working capital:					
– Trade and bills receivables	15,785	(4,707)	(941)	(1,221)	(7,752)
– Contract assets	(2,172)	(10,546)	(2,426)	(1,335)	(7,695)
– Prepayments and other receivables	(509)	1,084	3,103	(4,501)	(334)
– Inventories	(6,775)	1,990	(1,752)	(482)	3,891
– Trade and bills payables	3,118	11,049	(12,598)	(1,418)	565
– Other payables and accruals	584	948	6,059	6,166	3,169
– Contract liabilities	350	(106)	789	807	(1,011)
Net cash generated from operations	48,438	55,694	59,652	39,754	24,665

(b) In the consolidated statements of cash flows, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net book amount disposed	19	–	263	14	–
Gains/(losses) on disposal of properties, plant and equipment	7	–	(101)	1	–
Proceeds from disposal of properties, plant and equipment	26	–	162	15	–

(c) The reconciliations of liabilities arising from financing activities are as follows:

	Amounts due to shareholders <i>RMB'000</i>	Amount due to a related party <i>RMB'000</i>	Bank borrowings <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2017	3,896	9,000	70,000	82,896
Cash flows				
– Proceeds from bank borrowings	–	–	42,000	42,000
– Repayments of bank borrowings	–	–	(70,000)	(70,000)
– Advances from a shareholder	10	–	–	10
As at 31 December 2017	3,906	9,000	42,000	54,906
Cash flows				
– Proceeds from bank borrowings	–	–	65,000	65,000
– Repayments of bank borrowings	–	–	(42,000)	(42,000)
– Repayment to a shareholder	(3,906)	–	–	(3,906)
– Repayment to a related party	–	(9,000)	–	(9,000)
As at 31 December 2018	–	–	65,000	65,000
Cash flows				
– Proceeds from bank borrowings	–	–	27,000	27,000
– Repayments of bank borrowings	–	–	(79,000)	(79,000)
Other non-cash movement	5,000	–	–	5,000
As at 31 December 2019	5,000	–	13,000	18,000
Cash flows				
– Consideration paid for the acquisition of a subsidiary in respect to reorganisation	(5,000)	–	–	(5,000)
As at 30 June 2020	–	–	13,000	13,000

26 CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the years/period but not yet incurred is as follows:

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for	306	3,873	614	5,480

27 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control, jointly control or exert significant influence over the other party in holding power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Parties are also considered to be related if they are subject to common control or joint control. Related parties may be individuals or other entities.

The ultimate holding company and controlling shareholders are disclosed in Note 1.1.

Major related parties that had transactions with the Group during the Track Record Period were as follows:

Related parties	Relationship with the Company
Lin Chaowei 林朝偉	Director and shareholder
Lin Minqiang 林民強	Director and shareholder
Lin Yueyun 林月雲	Spouse of Lin Minqiang
Lin Bingzhong 林秉忠	Director and shareholder
Lin Chaoji 林朝基	Shareholder
Lin Chaowen 林朝文	Director and shareholder
Wei Cunzhou 魏存灼	Director
Chen Aijin 陳愛金	Spouse of Wei Cunzhou
Lin Lili 林莉莉	Director

(a) Transactions with related parties

Save as disclosed elsewhere in the Historical Financial Information, during the Track Record Period, the following transactions were carried out with related parties at terms mutually agreed by both parties:

(i) *Personal guarantees provided by directors, a shareholder and a related party*

During the years ended 31 December 2017 and 2018, the Group's bank loans were secured by personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Wei Cunzhou, Mr. Lin Minqiang, Mr. Lin Chaowen and Ms. Lin Yueyun as set out in Note 24.

The personal guarantees from Mr. Lin Chaowei, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Wei Cunzhou, Mr. Lin Minqiang, Mr. Lin Chaowen and Ms. Lin Yueyun were released during the year ended 31 December 2019.

(ii) *Transactions with a shareholder*

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Advances from/(repayment to) a shareholder					
– Mr. Lin Minqiang	10	(3,906)	–	–	–

(iii) *Transaction with a related party*

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Repayment to a related party					
– Ms. Chen Aijin	–	(9,000)	–	–	–

(iv) *Outstanding balances with shareholders:*

	As at 31 December			As at 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from shareholders					
– A company held by a Pre-IPO Investor (Note 1.2(g))	–	–	14	–	–
– Controlling shareholders	–	–	126	–	–
	–	–	140	–	–
Amounts due to shareholders					
– Mr. Lin Minqiang	(3,906)	–	–	–	–
– A company held by a Pre-IPO Investor (Note 1.2(f))	–	–	(500)	–	–
– Controlling shareholders (Note 1.2(f))	–	–	(4,500)	–	–
	(3,906)	–	(5,000)	–	–

The balances with shareholders are derived from mutually agreed transactions, and were unsecured, interest-free, repayable on demand and of non-trade in nature.

(v) *Outstanding balance with a related party*

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Payable to a related party				
– Ms. Chen Aijin	(9,000)	–	–	–

The balance with a related party is derived from mutually agreed transactions, and was unsecured, interest-free, repayable on demand and of non-trade in nature.

(b) **Key management compensation**

Compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Wages and salaries	506	515	1,191	652	568
Pension costs – defined contribution plan	41	43	46	22	12
	547	558	1,237	674	580

28 DIVIDEND

Dividend during the year ended 31 December 2018 represented dividend declared and paid by Deyun to its then equity holders. No dividend has been paid by the Company during the Track Record Period.

29 BENEFITS AND INTERESTS OF DIRECTORS(a) **Directors' emoluments**

The remuneration of each director is set out below:

Name of Director	Fees	Salary	Discretionary bonus	Allowances benefits in kind	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2017						
Executive directors:						
– Lin Bingzhong	–	95	–	–	9	104
– Lin Minqiang	–	37	–	–	3	40
– Lin Chaowei	–	95	–	–	9	104
– Lin Chaowen	–	95	–	–	9	104
– Wei Cunzhuo	–	95	–	–	–	95
– Lin Lili	–	56	–	–	8	64
	–	473	–	–	38	511

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonus RMB'000	Allowances benefits in kind RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
For the year ended 31 December 2018						
Executive directors:						
– Lin Bingzhong	–	97	–	–	11	108
– Lin Minqiang	–	37	–	–	–	37
– Lin Chaowei	–	97	–	–	11	108
– Lin Chaowen	–	97	–	–	11	108
– Wei Cunzhuo	–	97	–	–	–	97
– Lin Lili	–	60	–	–	6	66
	–	485	–	–	39	524
For the year ended 31 December 2019						
Executive directors:						
– Lin Bingzhong	–	97	100	–	12	209
– Lin Minqiang	–	37	150	–	–	187
– Lin Chaowei	–	97	100	–	12	209
– Lin Chaowen	–	97	100	–	12	209
– Wei Cunzhuo	–	97	100	–	–	197
– Lin Lili	–	60	–	–	6	66
	–	485	550	–	42	1,077
For the six months ended 30 June 2020						
Executive directors:						
– Lin Bingzhong	–	48	65	–	3	116
– Lin Minqiang	–	19	80	–	–	99
– Lin Chaowei	–	48	60	–	3	111
– Lin Chaowen	–	48	60	–	3	111
– Wei Cunzhuo	–	48	60	–	–	108
– Lin Lili	–	32	–	–	3	35
	–	243	325	–	12	580
For the six months ended 30 June 2019 (unaudited)						
Executive directors:						
– Lin Bingzhong	–	48	53	–	6	107
– Lin Minqiang	–	18	80	–	–	98
– Lin Chaowei	–	48	53	–	6	107
– Lin Chaowen	–	48	53	–	6	107
– Wei Cunzhuo	–	48	53	–	–	101
– Lin Lili	–	30	6	–	2	38
	–	240	298	–	20	558

Lin Minqiang, Lin Bingzhong, Lin Chaowei, Lin Chaowen, Wei Cunzhuo and Lin Lili were appointed as executive directors of the Company on 20 March 2020. The directors' emoluments are presented as if the executive directors had been appointed throughout the Track Record Period.

Sheng Zijiu, Chow Kit Ting, Yip Koon Shing and Wong Chun Sek Edmund were appointed as independent non-executive directors of the Company on 16 December 2020. During the Track Record Period, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of directors.

During the Track Record Period, none of the directors of the Company (i) received or paid any remuneration in respect of accepting office; (ii) received or paid emoluments in respect of services in connection with the management of the affairs of the Company or its subsidiaries undertaking; or (iii) waived or has agreed to waive any emolument.

(b) Directors' retirement benefits and termination benefits

During the Track Record Period, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(c) Consideration provided to third parties for making available directors' services

During the Track Record Period, no consideration was provided to third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2017, 2018 and 2019 and 30 June 2020, there were no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed elsewhere in the Historical Financial Information, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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 Track Record Period or at any time during the Track Record Period.

30 ASSETS PLEDGED AS SECURITIES

The carrying amounts of assets pledged as securities for current bank borrowings and bills payables are:

	As at 31 December		As at 30 June	
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
<i>Charge at floating rate</i>				
Pledged bank deposits (Note 20)	1,750	1,800	–	–
Total current assets pledged as securities for bills payables	1,750	1,800	–	–
Non-current portion				
<i>Charge at floating rate</i>				
Properties, plant and equipment (Note 24)	92,635	79,990	20,159	19,760
Total non-current assets pledged as securities for bank borrowings	92,635	79,990	20,159	19,760
Total assets pledged as securities	94,385	81,790	20,159	19,760

31 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(a) Amounts due from shareholders

Amounts due from shareholders were unsecured, interest free and repayable on demand. Their carrying amounts approximated their fair values and were denominated in USD.

(b) Share capital

	Number of shares	Nominal value HKD'000	Nominal value RMB'000
Share capital			
Authorised:			
Ordinary shares of USD1.00 each as at 4 January 2019 (date of incorporation)	50,000	390	345
As at 31 December 2019	50,000	390	345
Decrease in authorised ordinary shares of USD1.00 each on 16 January 2020 (Note b)	(50,000)	(390)	(345)
Increase in authorised ordinary share of HKD0.01 each on 16 January 2020 (Note b)	38,000,000	380	337
	38,000,000	380	337

	Number of shares	Nominal value HKD'000	Nominal value RMB'000
Issued:			
Issuance of ordinary shares of USD1.00 each on 4 January 2019 (date of incorporation) (Note a)	10,000	78	69
Issuance of ordinary shares of USD1.00 each on 20 December 2019 (Note a)	10,000	78	69
As at 31 December 2019	20,000	156	138
Cancellation of ordinary shares of USD1.00 each on 16 January 2020 (Note c)	(20,000)	(156)	(138)
Issuance of ordinary shares of HKD0.01 each on 16 January 2020 (Note c)	20,000	—*	—*
As at 30 June 2020	20,000	—*	—*

* The amount was rounded to the nearest thousand.

Notes:

- (a) On 4 January 2019, 10,000 ordinary shares were issued at USD10,000. During the year ended 31 December 2019, 10,000 additional ordinary shares were issued at USD10,000 pursuant to the Group's Reorganisation as detailed in Note 1.2. As at 31 December 2019, total issued number and nominal value of ordinary shares of the Company amounted to 20,000 shares and USD20,000 respectively.
- (b) On 16 January 2020, the authorised share capital of the Company was increased from US\$50,000 divided into 50,000 USD Shares to the aggregate of (i) US\$50,000 divided into 50,000 USD Shares and (ii) HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each by the creation of 38,000,000 new shares with a par value of HK\$0.01 each.
- (c) On 16 January 2020, the Company allotted and issued 18,000 and 2,000 shares of par value of HK\$0.01 each to Deyong Investment and Glorious Way respectively and repurchased and cancelled the 20,000 issued shares of par value of US\$1.00 each.
- (d) Upon completion of the repurchase, 50,000 unissued USD shares of the Company were cancelled and the authorised share capital of the Company was reduced to HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. The Company was still directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10% respectively.

(c) Amounts due to subsidiaries

Amounts due to subsidiaries were unsecured, interest free and repayable on demand.

Their carrying amounts approximated their fair values and were denominated in RMB.

(d) Reserves movement of the Company

	Capital reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total reserves <i>RMB'000</i>
At 4 January 2019 (date of incorporation)				
Comprehensive income	–	–	–	–
Loss and total comprehensive loss for the period	–	–	(7,243)	(7,243)
Currency translation differences	–	2	–	2
	–	2	(7,243)	(7,241)
Transaction with owner				
Contribution surplus	186,371	–	–	186,371
At 31 December 2019	186,371	2	(7,243)	179,130
Comprehensive income				
Loss and comprehensive loss for the period	–	–	(5,508)	(5,508)
Currency translation differences	–	(1)	–	(1)
	–	(1)	(5,508)	(5,509)
At 30 June 2020	186,371	1	(12,751)	173,621

(e) Interests in subsidiaries

	As at 31 December 2019 <i>RMB'000</i>	As at 30 June 2020 <i>RMB'000</i>
Interests in subsidiaries (<i>Note</i>)	186,371	186,371

Note: The interests in subsidiaries was made on 20 December 2019, which was based on the net asset value of the subsidiaries.

32 CONTINGENT LIABILITIES

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the Group did not have any material contingent liabilities.

33 SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant subsequent event took place subsequent to 30 June 2020:

While the impact of the outbreak of novel coronavirus ("COVID-19") on China's economy is still uncertain, it may unfavourably affect China's economy at least in the short term. The COVID-19 has caused an unfavourable impact on China's retail consumption market, which leads to a decrease in demand for the Group's manufacturing of lace and provision of dyeing services. Accordingly, the Group had recorded decrease in its business volume for the six months ended 30 June 2020, as compared to that for the same period in 2019. In addition, there might also be impact on the recoverable amounts of current and long term assets of the Group if the outbreak continues to sustain for a long period.

The Group will pay close attention to the development of the outbreak and react actively to its impact on operations and financial position of the Group.

On 16 December 2020, the Company increased its authorised share capital from HKD380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each through the creation of 9,962,000,000 additional Shares.

Pursuant to the written resolutions passed by the shareholders on 16 December 2020, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the share offer, the directors were authorised to capitalise an amount of HKD9,449,800 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 944,980,000 shares, such shares to be allotted and issued to the shareholders whose names appear on the register of numbers of the Company at the close of business on 31 December 2020 (or as they may direct) in proportion to their then existing shareholdings in the Company, each ranking equally in all respects with the then existing issued shares.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of subsidiaries now comprising the Group in respect of any period subsequent to 30 June 2020.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix II does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "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 is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Share Offer on the net tangible assets of the Group attributable to the owners of the Company as of 30 June 2020 as if the Share Offer had taken place on 30 June 2020.

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 consolidated net tangible assets of the Group as at 30 June 2020 or at any future dates following the Share Offer. The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 as set out in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 ⁽¹⁾ RMB'000	Estimated net proceeds from the Share Offer ⁽²⁾ RMB'000	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as at 30 June 2020 RMB'000	Unaudited pro forma adjusted net tangible assets per Share ^{(3), (5)} RMB HKD	
Based on an Offer Price of HKD0.4 per Share	199,595	90,138	289,733	0.23	0.26
Based on an Offer Price of HKD0.5 per Share	199,595	116,292	315,887	0.25	0.28

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2020 is extracted from the Accountant's Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2020 of approximately RMB200,374,000 less the intangible assets of approximately RMB779,000.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Price of HKD0.4 per Share and HKD0.5 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB12,876,000 which have been accounted for in the Group's consolidated income statements prior to 30 June 2020) payable by the Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase 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 Note 2 above and on the basis that 1,260,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue had been completed on 30 June 2020 but takes no account of any Shares which may be 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 allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2020.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated Renminbi are converted to Hong Kong dollars at a rate of RMB0.89 to HKD1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at the rate.

B. ACCOUNTANT'S REPORT ON THE 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.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Deyun Holding Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Deyun Holding Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2020, 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 28 December 2020, in connection with the proposed initial public offer of the shares of the Company. 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.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offer on the Group's financial position as at 30 June 2020 as if the proposed initial public offer had taken place at 30 June 2020. 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 six months ended 30 June 2020, 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").

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

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 offer at 30 June 2020 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the 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.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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, 28 December 2020

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of 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 4 January 2019 under the Cayman Companies Law. Our Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("Memorandum") and its Amended and Restated Articles of Association ("Articles").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of 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 16 December 2020. 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 Cayman Companies Law, 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 its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

Our Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of our Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which 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.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to 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 the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of our Company to purchase its own shares

Our Company may purchase its own shares subject to certain restrictions and the 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.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of 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

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to 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 the Board shall in its discretion so require)

interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in a general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first 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 the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of our Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in 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 the Board.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the

Company) and our Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital

or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of our Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and our Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of 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 Cayman Companies Law, 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 of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or 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 the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of 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 its subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in a 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) Disclosure of interest in contracts with our Company or any of its 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 the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to our Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which our 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 our 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 its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which our Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide

in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and 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 Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of 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 its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of 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 its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in 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 its nominee(s) be a member of our Company, such person or persons may be authorised as it thinks fit to act as its 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 its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

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 year other than the year of our Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of our Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of our Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by 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 Cayman Companies Law 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 the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in 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 its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of 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 on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and of the assets and liabilities of our Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of our Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in a general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), our Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of 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 a general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in a general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by 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 the Board or our Company in a general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of 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 the 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 Cayman Companies Law, 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 Cayman Companies Law, 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 4 January 2019 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as our Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return

each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company’s or a subsidiary’s shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial

assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based

upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (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 appreciation shall apply to our Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by 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 Law (2018 Revision).

The undertaking for the Company is for a period of 30 years from 4 May 2020.

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 Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, our Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 a 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 a general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e., the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP AND OUR SUBSIDIARY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 4 January 2019. Accordingly, we operate subject to Cayman laws and our constitutional document comprises our Memorandum and Articles of Association. A summary of various provisions of our Articles and relevant aspects of the Companies Law are set out in Appendix III to this prospectus.

Our registered address is 71 Fort Street, P.O. Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands and we have established a place of business in Hong Kong at Unit 1705, 17/F, Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong. Our company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance with the Registrar of Companies in Hong Kong on 20 March 2020. The address for service of process on our Company in Hong Kong is the same as our registered place of business in Hong Kong (as set out above). Ms. Xu Jing has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

2. Changes in the share capital of our Company

On 4 January 2019, our Company was incorporated with an initial authorised share capital of US\$50,000 divided into 50,000 ordinary shares of par value of US\$1.00 each (“US\$ Shares”). The following sets out the changes in our Company’s shares since the date of its incorporation:

- (a) On 7 January 2019, one US\$ Share was allotted, issued and credited as fully paid to an initial subscriber, an independent third party, at par and cancelled on the same date.
- (b) On 7 January 2019, 10,000 US\$ Shares were allotted, issued and credited as fully paid to Deyong Investment.
- (c) On 20 December 2019, our Company allotted and issued 8,000 US\$ Shares and 2,000 US\$ Shares to Deyong Investment and Glorious Way respectively, credited as fully paid at par value. Immediately following the allotment and issue of the said Shares, our Company was directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10% respectively.
- (d) On 16 January 2020, pursuant to the written resolutions of the Shareholders of our Company, the authorised share capital of our Company was increased from US\$50,000 divided into 50,000 US\$ Shares to the aggregate of (i) US\$50,000 divided into 50,000 US\$ Shares and (ii) HK\$380,000 divided into 38,000,000

Shares with par value of HK\$0.01 each by the creation of 38,000,000 new Shares with par value of HK\$0.01 each, ranking *pari passu* with our Shares then in issue in all respects.

- (e) On 16 January 2020, 18,000 Shares were allotted and issued at the consideration of HK\$0.01 per share to Deyong Investment, and 2,000 Shares were allotted and issued at the consideration of HK\$0.01 per share to Glorious Way (“**New Shares Issuance**”).

Upon completion of the New Shares Issuance, the allotted and issued 20,000 US\$ Shares were repurchased by the Company from Deyong Investment and Glorious Way at the consideration of US\$1 per share and were cancelled immediately upon repurchase.

Upon completion of the repurchase, 50,000 unissued US\$ Shares of our Company were cancelled and the authorised share capital of our Company was reduced to HK\$380,000 divided into 38,000,000 Shares with par value of HK\$0.01 each. Our Company was directly and wholly owned by Deyong Investment and Glorious Way as to 90% and 10% respectively.

- (f) On 16 December 2020, pursuant to the written resolutions of the Shareholders of our Company, the maximum number of Shares that our Company was authorised to issue was increased to 10,000,000,000 Shares with par value of HK\$0.01 each.
- (g) Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), 1,260,000,000 Shares will be issued and credited as fully paid and 8,740,000,000 Shares will remain unissued.
- (h) Save as disclosed in the section headed “Share Capital” in this prospectus, there has been no alteration in our Company’s share capital since the date of its incorporation.
- (i) Our Company does not have any founder share, management shares or deferred shares.

For details regarding the changes in our share capital, please refer to the section headed “History, Development and Reorganisation” in this prospectus.

3. Corporate reorganisation

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. For details regarding the Reorganisation, please refer to the section headed “History, Development and Reorganisation” in this prospectus.

4. Changes in share capital of our subsidiary

The subsidiary of our Company is 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 “A. Further Information about Our Group and Our Subsidiary – 3. Corporate reorganisation” in this appendix and the section headed “History, Development and Reorganisation” in this prospectus, there has been no alternation in the share capital of the subsidiary of our Company within the two years immediately preceding the date of this prospectus.

5. Resolutions in writing of our Shareholders dated 16 December 2020

On 16 December 2020, resolutions in writing were passed by our Shareholders pursuant to which, amongst others:

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association with effect from the Listing Date;
- (b) the authorised share capital of our Company be increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each through creation of 9,962,000,000 additional Shares;
- (c) conditional on both (i) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with its terms or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer to rank pari passu with the then existing Shares in all respects;

- (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “F. Share Option Scheme” below in this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion but subject to the terms and conditions of the Share Option Scheme, to 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 options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (iii) conditional further on the share premium account of our Company being credited as a result of the Share Offer, the Capitalisation Issue was approved, and our Directors were authorised to capitalise an amount of HK\$9,449,800 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 944,980,000 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on 31 December 2020 in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the Shares then in issue, and our Directors were authorised to give effect to such capitalisation and distributions;
- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles of Association or pursuant to a specific authority granted by our Shareholders in a general meeting or pursuant to the Share Offer, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities, and to make or grant offers, agreements or options which might require the exercise of such power, with such number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, such mandate to remain in effect until the earliest of:
 - (i) the conclusion of the next annual general meeting of our Company;

- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by a resolution of our Shareholders in a general meeting;
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Share Offer but excluding any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, such mandate to remain in effect until the earliest of:
 - (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by a resolution of our Shareholders in a general meeting;
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to such number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in subparagraph (e) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and Share Offer but excluding any Shares to be issued upon exercise of any option which may be granted under the Share Option Scheme.

B. REPURCHASE OF OUR SHARES

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our own securities by our Company.

1. Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(a) Shareholder's Approval

All proposed repurchase of securities (which, under the Listing Rules and Companies (Winding Up and Miscellaneous Provisions) Ordinance, must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by our Shareholders on 16 December 2020, a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(b) Source of Funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the constitutional documents and the Listing Rules and all applicable laws of Hong Kong or elsewhere. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Subject to the foregoing, any repurchases by us may be made out of profits, out of the share premium account or out of the proceeds of a new issue of shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be provided for out of either or both of the profits or out of the sums standing to the credit of our share premium account.

(c) Core Connected Persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a “*core connected person*”, that is, a director, chief executive or substantial shareholder of our company or its subsidiary or their close associates and a connected person is prohibited from knowingly selling his Shares to our company.

2. Exercise of the Repurchase Mandate

On the basis of 1,260,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer, our Directors would be authorised under the Repurchase Mandate to repurchase up to 126,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

3. Reasons for repurchase

The Directors believe that it is in the best interest of our Company and our Shareholders for the Directors to have general authority from the Shareholders to enable us 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 where our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

4. Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles, the Listing Rules and the applicable laws of Hong Kong and the Cayman Islands. On the basis of our current financial position as disclosed in the section headed “Financial Information” in this prospectus and taking into account our 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 our working capital and/or our gearing position as compared with the position disclosed in the section headed “Share Capital” in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

5. General

None of our Directors, to the best of their knowledge having made all reasonable enquiries, or any of their close associates currently intends to sell any Shares to us or our subsidiary if the Repurchase Mandate is exercised. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the

Repurchase Mandate in accordance with the Listing Rules, our Articles, the Companies Law or any other applicable laws of Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of us is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the capital increase agreement dated 19 September 2019 entered into among Deyun, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei, Mr. Lin Chaowen and Regal Star pursuant to which the parties agreed to increase the registered capital of Deyun from RMB88,800,000 to RMB98,670,000, whereby Regal Star (as directed by the Pre-IPO Investor) agreed to subscribe and pay up 100% of the increased capital, which represents 10% of the increased registered capital of Deyun, at the consideration of HK\$16,000,000;
- (b) the equity transfer agreement dated 19 December 2019 entered into between Mr. Lin Minqiang and Deyun Consulting pursuant to which Mr. Lin Minqiang agreed to transfer his equity interests of RMB53,280,000 in Deyun, which represents 54% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB2,700,000;

- (c) the equity transfer agreement dated 19 December 2019 entered into between Mr. Lin Bingzhong and Deyun Consulting pursuant to which Mr. Lin Bingzhong agreed to transfer his equity interests of RMB10,300,000 in Deyun, which represents 10.44% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB522,000;
- (d) the equity transfer agreement dated 19 December 2019 entered into between Mr. Lin Chaoji and Deyun Consulting pursuant to which Mr. Lin Chaoji agreed to transfer his equity interests of RMB9,360,000 in Deyun, which represents 9.49% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB474,500;
- (e) the equity transfer agreement dated 19 December 2019 entered into between Mr. Lin Chaowen and Deyun Consulting pursuant to which Mr. Lin Chaowen agreed to transfer his equity interests of RMB7,670,000 in Deyun, which represents 7.77% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB388,500;
- (f) the equity transfer agreement dated 19 December 2019 entered into between Mr. Lin Chaowei and Deyun Consulting pursuant to which Mr. Lin Chaowei agreed to transfer his equity interests of RMB8,190,000 in Deyun, which represents 8.3% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB415,000;
- (g) the equity transfer agreement dated 19 December 2019 entered into between Regal Star and Deyun Consulting pursuant to which Regal Star agreed to transfer its equity interests of RMB9,870,000 in Deyun, which represents 10% of the total equity interests of Deyun, to Deyun Consulting at the consideration of RMB500,000;
- (h) the Deed of Indemnity;
- (i) the Public Offer Underwriting Agreement;
- (j) the cornerstone investment agreement dated 22 December 2020 entered into between our Company, the Joint Bookrunners and Cheng Hung Ping pursuant to which Cheng Hung Ping agreed to acquire such number of Offer Shares which may be purchased with HK\$20 million at the Offer Price;
- (k) the cornerstone investment agreement dated 22 December 2020 entered into between our Company, the Joint Bookrunners and Tam Yuk Ching Jenny pursuant to which Tam Yuk Ching Jenny agreed to acquire such number of Offer Shares which may be purchased with HK\$10 million at the Offer Price; and

- (1) the cornerstone investment agreement dated 22 December 2020 entered into between our Company, the Joint Bookrunners and Tsai Chuen Sui Robert pursuant to which Tsai Chuen Sui Robert agreed to acquire such number of Offer Shares which may be purchased with HK\$10 million at the Offer Price.

2. Material intellectual property rights of our Group

As of the Latest Practicable Date, our Group has registered or had applied for the registration of the following intellectual property rights which are considered material in relation to our business:

(a) Patent

As at the Latest Practicable Date, our Group has registered the following patents with the State Intellectual Property Bureau in the PRC which we believe are material to our business:

Patent	Registered Owner	Type	Patent Number	Place of Registration	Date of Application	Expiry date
Printing and dyeing production line (一種印染生產線)	Deyun	Invention	ZL201610893433.3	PRC	13 October 2016	12 October 2036
Printing and dyeing production line and pretreatment equipment for printing and dyeing production (一種印染生產線與印染生產用前處理設備)	Deyun	Invention	ZL201610893535.5	PRC	13 October 2016	12 October 2036
Printing and dyeing production process (一種印染生產工藝)	Deyun	Invention	ZL201610893352.3	PRC	13 October 2016	12 October 2036
Elastic body shaping cloth (一種彈性塑身布料)	Deyun	Utility Model	ZL201520778364.2	PRC	9 October 2015	8 October 2025
Embroidered moisture wicking fabric (一種刺繡吸濕排汗布料)	Deyun	Utility Model	ZL201520778443.3	PRC	9 October 2015	8 October 2025
High performance antistatic fabric (一種高性能抗靜電面料)	Deyun	Utility Model	ZL201520778967.2	PRC	9 October 2015	8 October 2025
Moisture wicking fabric (一種吸濕排汗布料)	Deyun	Utility Model	ZL201520778954.5	PRC	9 October 2015	8 October 2025

Patent	Registered Owner	Type	Patent Number	Place of Registration	Date of Application	Expiry date
Jacquard elastic breathable fabric (一種提花彈性透氣面料)	Deyun	Utility Model	ZL201520778342.6	PRC	9 October 2015	8 October 2025
Jacquard gauze lace warm fabric (一種買卡壓紗蕾絲保暖布料)	Deyun	Utility Model	ZL201520778378.4	PRC	9 October 2015	8 October 2025
High performance conductive fabric (一種高性能導電面料)	Deyun	Utility Model	ZL201620197973.3	PRC	15 March 2016	14 March 2026
Jacquard flower elastic cloth (一種買卡提花彈性布料)	Deyun	Utility Model	ZL201620197848.2	PRC	15 March 2016	14 March 2026
3D three-dimensional color changing cloth (一種3D立體變色布料)	Deyun	Utility Model	ZL201721825365.3	PRC	22 December 2017	21 December 2027
Dyeing cloth fixing and fixing equipment (一種染布固色定型設備)	Deyun	Utility Model	ZL201821362664.2	PRC	23 August 2018	22 August 2028
Dyeing cloth shaping device (一種染布定型裝置)	Deyun	Utility Model	ZL201821361117.2	PRC	23 August 2018	22 August 2028
Windproof antistatic knitted fabric (一種防風抗靜電針織布)	Deyun	Utility Model	ZL201721814485.3	PRC	22 December 2017	21 December 2027
Anti-UV composite lace (一種防紫外線複合蕾絲)	Deyun	Utility Model	ZL201721817350.2	PRC	22 December 2017	21 December 2027
Moisture wicking sunscreen fabric (吸濕排汗防曬面料)	Deyun	Utility Model	ZL201821346697.8	PRC	21 August 2018	20 August 2028
Moisture wicking sunscreen radiation protection fabric (吸濕排汗防曬防輻射面料)	Deyun	Utility Model	ZL201821346478.X	PRC	21 August 2018	20 August 2028
Breathable lace (一種透氣型蕾絲面料)	Deyun	Utility Model	ZL201921179519.5	PRC	25 July 2019	24 July 2029
Fabric dyeing equipment (一種布料染色設備)	Deyun	Utility Model	ZL201921179154.6	PRC	25 July 2019	24 July 2029
Fluff-filtering fabric dyeing equipment (一種可過濾毛絮的布料染色設備)	Deyun	Utility Model	ZL201921179144.2	PRC	25 July 2019	24 July 2029


Patent	Registered Owner	Type	Patent Number	Place of Registration	Date of Application	Expiry date
Treatment equipment for printing and dyeing wastewater (一種印染污水處理裝置)	Deyun	Utility Model	ZL201921179071.7	PRC	25 July 2019	24 July 2029
Aerator for printing and dyeing wastewater (印染污水曝氣裝置)	Deyun	Utility Model	ZL201921233639.9	PRC	1 August 2019	31 July 2029
Sludge drying system (污泥乾化系統)	Deyun	Utility Model	ZL201921342346.4	PRC	19 August 2019	18 August 2029
Antibacterial, anti-mites lace fabric (一種抗菌防蟎蕾絲花邊面料)	Deyun	Utility Model	ZL201921468781.1	PRC	5 September 2019	4 September 2029
Antibacterial double layer net lace structure (一種抑菌雙層網狀蕾絲結構)	Deyun	Utility model	ZL201921470288.3	PRC	5 September 2019	4 September 2029

As at the Latest Practicable Date, our Group had applied for registration of the following patents which we consider are material to our business, the registration of which have not yet been approved:

Patent	Applicant	Type	Application number	Place of application	Date of application
Flu gas purification system of Shaping device (定型機煙氣淨化系統)	Deyun	Invention	201910705578.X	PRC	1 August 2019
Breathable moisture making lace (一種透氣排汗蕾絲面料)	Deyun	Utility Model	201921468879.7	PRC	5 September 2019

(b) Trademark

As at the Latest Practicable Date, we were the registered owner of the following trademarks which we believe are material to our business:

Trademark	Registration number	Class (Note 1)	Registered owner	Place of registration	Date of registration	Expiry date
 XINGSHENG	3448339	26	Deyun	PRC	14 December 2004	13 December 2024

(c) Domain name

As at the Latest Practicable Date, we were the registered owner of the following domain names which we believe are material to our business:

Domain name	Registered Owner	Valid period
www.ds-lace.com	Deyun	22 August 2011 – 22 August 2021

(d) Copyright

Title of Copyright	Registered Owner	Copyright Type	Registration No.	Place of Registration	First Publication Date	Expiry date for protection
Cloth jacquard machine intelligent control system (布匹提花機智控系統 V1.0)	Deyun	Computer software	2019SR0755947	PRC	30 October 2016	31 December 2066
Composite fabric precision dyeing intelligent control software (複合面料精密染色智控軟件 V1.0)	Deyun	Computer software	2019SR0755303	PRC	20 June 2018	31 December 2068
Fabric jacquard pattern online design system (面料提花圖案在線設計系統 V1.0)	Deyun	Computer software	2016SR217387	PRC	Unpublished	30 May 2064
Intelligent lace knitting machine numerical control system software (智能蕾絲編織機數控系統軟件 V1.0)	Deyun	Computer software	2019SR0755486	PRC	20 October 2016	31 December 2066
Lace loom control system (蕾絲織布機控制系統 V1.0)	Deyun	Computer software	2019SR0755323	PRC	10 November 2016	31 December 2066
Lace Pattern Design Tool Software (蕾絲圖案設計工具軟件 V1.0)	Deyun	Computer software	2019SR0755313	PRC	30 December 2016	31 December 2066
Multi-layer elastic mesh cloth knitting machine control software (多層彈力網布編織機控制軟件 V1.0)	Deyun	Computer software	2016SR217374	PRC	Unpublished	30 May 2064

Save as aforesaid, there are no other trademarks, patents or other intellectual or industrial property rights which are material in relation to our Group's business.

D. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Interests of Directors and chief executives in the share capital of our Company and its associated corporations following the Listing*

The following table sets out the interests of our Directors immediately upon completion of the Capitalisation Issue and Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange, will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, once the Shares are listed:

(i) *Long Position in the Shares*

Name	Capacity/Nature of Interest	Number of Shares held/interested immediately after completion of the Capitalisation Issue and the Share Offer (Note 1)	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Mr. Lin Minqiang (林民強)	Interest in a controlled corporation (Note 2)	850,500,000 (L)	67.5%
	Interest held jointly with other persons (Note 3)		
Mr. Lin Bingzhong (林秉忠)	Interest held jointly with other persons (Note 3)	850,500,000 (L)	67.5%
Mr. Lin Chaowei (林朝偉)	Interest held jointly with other persons (Note 3)	850,500,000 (L)	67.5%

Name	Capacity/Nature of Interest	Number of Shares held/interested immediately after completion of the Capitalisation Issue and the Share Offer (Note 1)	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Mr. Lin Chaowen (林朝文)	Interest held jointly with other persons (Note 3)	850,500,000 (L)	67.5%

Notes:

1. The Letter (L) denotes the person's long position in the Shares.
2. Mr. Lin Minqiang beneficially owns 60% of the issued shares of Deyong Investment, which in turn holds 67.5% of the Shares. Therefore, Mr. Lin Minqiang is deemed, or taken, to be interested in the Shares held by Deyong Investment for the purposes of the SFO. Mr. Lin Minqiang is a director of Deyong Investment.
3. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen entered into the Acting in Concert Agreement to acknowledge and confirm (among other things) that they are parties acting in concert during the Track Record Period and that to continue to act in the same manner in our Group upon Listing. As such, by virtue of the SFO, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen are deemed to be interested in all the Shares held by Deyong Investment.

(ii) Long position in the shares of associated corporation

Name	Name of associated corporation	Capacity/nature of interest	Number of shares held/interested	Percentage of shareholding in the associated corporation
Mr. Lin Minqiang (林民強)	Deyong Investment	Beneficial owner	6,000	60%
Mr. Lin Bingzhong (林秉忠)	Deyong Investment	Beneficial owner	1,160	11.6%
Mr. Lin Chaowei (林朝偉)	Deyong Investment	Beneficial owner	922	9.22%
Mr. Lin Chaowen (林朝文)	Deyong Investment	Beneficial owner	864	8.64%

(b) Interests of the substantial shareholders in the Shares which are disclosable under Division 2 and 3 of Part XV of the SFO

Immediately upon completion of the Capitalisation Issue and Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), so far as the Directors are aware, the following persons (not being a Director or a chief executive of our Company) will have an interests or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long Position in the Shares

Name of Substantial Shareholder	Capacity/Nature of Interest	Number of Shares held/interested immediately after completion of the Capitalisation Issue and the Share Offer (Note 1)	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Deyong Investment	Beneficial owner (Note 2)	850,500,000 (L)	67.5%
Mr. Lin Chaoji (林朝基)	Interest held jointly with other persons (Note 3)	850,500,000 (L)	67.5%
Ms. Lin Yueyun (林月雲)	Interest of spouse (Note 4)	850,500,000 (L)	67.5%
Ms. Jiang Yanyun (蔣艷雲)	Interest of spouse (Note 5)	850,500,000 (L)	67.5%
Ms. Zheng Xiuqin (鄭秀欽)	Interest of spouse (Note 6)	850,500,000 (L)	67.5%
Ms. Lin Yunzhen (林雲珍)	Interest of spouse (Note 7)	850,500,000 (L)	67.5%

Name of Substantial Shareholder	Capacity/Nature of Interest	Number of Shares held/interested immediately after completion of the Capitalisation Issue and the Share Offer (Note 1)	Percentage of shareholding immediately after completion of the Capitalisation Issue and the Share Offer
Ms. Lin Aimei (林愛美)	Interest of spouse (Note 8)	850,500,000 (L)	67.5%
Glorious Way	Beneficial Owner (Note 9)	94,500,000 (L)	7.5%
Mr. Tsoi Wing Sing (蔡榮星)	Interest in a controlled corporation (Note 10)	94,500,000 (L)	7.5%

Notes:

1. The Letter (L) denotes the person's long position in the Shares.
2. Deyong Investment is an investment holding company incorporated in the BVI and is owned by Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen as to 60%, 11.6%, 10.54%, 9.22% and 8.64%, respectively.
3. On 31 December 2019, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen entered into the Acting in Concert Agreement to acknowledge and confirm (among other things) that they are parties acting in concert during the Track Record Period and that to continue to act in the same manner in our Group upon Listing. As such, by virtue of the SFO, Mr. Lin Minqiang, Mr. Lin Bingzhong, Mr. Lin Chaoji, Mr. Lin Chaowei and Mr. Lin Chaowen are deemed to be interested in all the Shares held by Deyong Investment.
4. Ms. Lin Yueyun is the spouse of Mr. Lin Minqiang. Therefore, Ms. Lin Yueyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Minqiang is interested in for the purposes of the SFO.
5. Ms. Jiang Yanyun is the spouse of Mr. Lin Bingzhong. Therefore, Ms. Jiang Yanyun is deemed to be, or taken to be, interested in the Shares which Mr. Lin Bingzhong is interested in for the purposes of the SFO.
6. Ms. Zheng Xiuqin is the spouse of Mr. Lin Chaoji. Therefore, Ms. Zheng Xiuqin is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaoji is interested in for the purposes of the SFO.
7. Ms. Lin Yunzhen is the spouse of Mr. Lin Chaowei. Therefore, Ms. Lin Yunzhen is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowei is interested in for the purposes of the SFO.

8. Ms. Lin Aimei is the spouse of Mr. Lin Chaowen. Therefore, Ms. Lin Aimei is deemed to be, or taken to be, interested in the Shares which Mr. Lin Chaowen is interested in for the purposes of the SFO.
9. Glorious Way is an investment holding company incorporated in the BVI and is wholly owned by Mr. Tsoi Wing Sing.
10. Mr. Tsoi Wing Sing beneficially owns 100% of the issued shares of Glorious Way, which in turn holds 7.5% of the Shares. Therefore, Mr. Tsoi Wing Sing is deemed, or taken to be, interested in the Shares held by Glorious Way for the purpose of the SFO. Mr. Tsoi Wing Sing is a director of Glorious Way.

Save as disclosed in this paragraph, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately upon completion of the Capitalisation Issue and Listing (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or a short position in the 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, would be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

2. Particulars of Directors' letter of appointment

- (a) Each of the Executive Directors has signed a letter of appointment with our Company up to a term of three years commencing from 16 December 2020, which may be terminated in accordance with the terms of the letter of appointment.
- (b) Each of the Independent Non-executive Directors has signed a letter of appointment with our Company up to a term of three years commencing from 16 December 2020, which may be terminated in accordance with the terms of the letter of appointment.

3. Directors' remuneration

- (a) The aggregate amount of remuneration (including salaries, directors' fees, other benefits and contributions to the employees' provident fund) accrued to our Directors for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 was approximately RMB0.51 million, RMB0.52 million, RMB1.08 million and RMB0.58 million, respectively.
- (b) The aggregate remuneration payable by our Group to our Directors for the year ending 31 December 2020 is expected to be approximately RMB1.08 million.

- (c) None of our Directors or any past Directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 for (i) the loss of office as Director of any member of our Group or of any other office in connection with the management affairs of any member of our Group (ii) as an inducement to join or upon joining any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments in each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.
- (e) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

RMB'000

Executive Directors

Mr. Lin Minqiang	240
Mr. Wei Cunzhuo	192
Mr. Lin Chaowei	192
Mr. Lin Chaowen	192
Mr. Lin Bingzhong	192
Ms. Lin Lili	192

Independent Non-executive Directors

Mr. Sheng Zijiu	120
Mr. Yip Koon Shing	120
Mr. Chow Kit Ting	120
Mr. Wong Chun Sek Edmund	120

4. Agency fees or commissions received

Save as disclosed in the section headed “Underwriting” in this prospectus, and in the paragraph headed “G. Other Information – 3. Sole Sponsor” in this appendix, none of our Directors or the experts named in the paragraph headed “G. Other Information – 8. Consents of experts” in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

For details regarding the related party transactions, please refer to the section headed “Appendix I – note 27” in this prospectus. Our Directors confirm that all related party transactions are conducted on normal commercial terms, and that their terms are fair and reasonable.

E. DISCLAIMERS

Except as disclosed in this Appendix:

- (a) none of our Directors or our chief executives has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporation (within the meaning of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO of which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of our Directors or experts referred to in the section headed “G. Other Information – 7. Qualification of experts” in this appendix below has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors or experts referred to in the section headed “G. Other Information – 7. Qualification 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 the business of our Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Capitalisation Issue and the Listing or upon the exercise of the Over-allotment Option and any options and any Shares to be issued, none of the Directors knows of any person (not being a Director or chief executive of us) who will, immediately following completion of the Capitalisation Issue and the Listing, have an interest or short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;

- (f) taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, none of our Directors or chief executive of our Company has any interest or short position in shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;
- (g) no part of the equity or debt securities of our company is presently listed or dealt in or on which listing or permission to deal is being or is proposed to be sought;
- (h) none of the experts referred to under the section headed “G. Other Information – 7. Qualification 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;
- (i) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the share capital of our Company have any interests in the five largest customers or the five largest suppliers of our Group; and
- (j) no remuneration or other benefits-in-kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits-in-kind payable by any members of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

F. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme. Conditionally approved and adopted by a written shareholder’s resolution of our Company dated 16 December 2020, it does not form part of, nor was it intended to be part of the Share Option Scheme, nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholder passed on 16 December 2020 (the “**Adoption Date**”):

(i) Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his/her contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date of grant of the option, which must be a Business Day; (ii) the average closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.00.

(v) Maximum number of Shares

- (aa) the aggregate 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 schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.
- (bb) subject to sub-paragraphs (ii) and (iii) above, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the Shares in issue as at the Adoption Date. Therefore, it is expected that our Company may grant options in respect of up to 126,000,000 Shares (or such numbers of Shares as shall result from a subdivision or a consolidation of such 126,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (cc) the 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the Listing Rules in this regard.

- (dd) subject to sub-paragraph (aa) above, our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the Listing Rules.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in a general meeting with such grantee and his/her close associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

- (aa) Any grant of an option to a Director, chief executive or Substantial Shareholder (or any of their respective close associates) must be approved by the independent non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a substantial Shareholder or an Independent Non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

- a. representing in aggregate over 0.1% of the Shares in issue; and

- b. having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000, such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the Listing Rules in this regard. All core connected persons of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an Independent Non-executive Director or any of their respective close associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

- (aa) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no option may be granted during the period commencing one month immediately before the earlier of:
 - a. the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approving our Company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the Listing Rules); and
 - b. the deadline for our Company to announce its results for any year, half-year or quarter-year period under the Listing Rules, or any other interim period (whether or not required under the Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, where an option is granted to a Director, no option may be granted on any day on which financial results of the Company are published and:
 - a. during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - b. during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be assignable and shall be personal to the grantee of the option.

(xiii) Rights of cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his/her death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his/her death or within such period of 12 months following his/her death, then his/her personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights of cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he/she subsequently ceases to be an employee of our Group on any one or more of the grounds that he/she has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his/her option shall lapse automatically (to the extent not already exercised) on the date of cessation of his/her employment with our Group.

(xv) Rights of cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he/she subsequently ceases to be an employee of our Group for any reason other than his/her death or the termination of his/her employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to shares

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the authorised and issued Shares (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices of any unexercised option, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee as near as possible the same proportion of the issued shares of our Company as that to which he/she was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights of general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his/her legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it has despatched such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his/her legal personal representative(s)) shall be entitled to exercise all or any of his/her options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Business Companies Act, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension

Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavor to procure that the Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued Shares on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period;
- (bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his/her creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his/her integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group;

- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective; or
- (hh) in the event that the grantee is an employee of our Group when an offer is made to him and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, the date of cessation of his employment with our Group.

(xxi) Cancellation of options granted but not exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of our Shareholders in general meeting.

- (bb) Any alteration to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders at a general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the Listing Rules or any guidelines issued by the Stock Exchange from time to time.

(xxiv) Termination of Share Option Scheme

Our Company by resolution in a general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and commencement of dealings in the Shares on the Stock Exchange.

G. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders have, entered into the Deed of Indemnity in favour of our Company (for ourselves and as trustee for our subsidiary) referred to in paragraph 1(f) of the section headed “Summary of material contracts” in this Appendix, pursuant to which the Controlling Shareholders have given indemnities in favour of our Group from and against, among other things, (a) any tax liability which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received up to the Listing Date; or (ii) in respect of or resulting from any act, omission or event occurring up to the Listing Date; and (b) any action, claims, losses, charges, penalties which any member of the Group may incur or suffer as a result of or in connection with any failure to comply with relevant laws and regulations up to the Listing Date, and the reasonable costs and expenses incurred in connection with the actions, claims, legal or arbitration proceedings related thereto.

The Controlling Shareholders will, however, not be liable under the Deed of Indemnity for taxation to the extent that, among others:

- (a) to the extent that provision, reserve or allowance has been made for such taxation liability in the audited accounts of any member of our Group for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020;
- (b) 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 Listing Date;
- (c) to the extent any provisions or reserve made for taxation in the audited accounts of our Group or any member of our Group up to 30 June 2020 which is finally established to be an over-provision or an excessive reserve then the amount of any such provision or reserve shall be applied to reduce the Controlling Shareholders' liability by an amount not exceeding such over-provision or excess reserve; or
- (d) the taxation liability arises in the ordinary course of business of our Group after 30 June 2020 up to and including the Listing Date.

In the event that the Controlling Shareholders have indemnified our Group of any tax liability and payment arising from any additional assessment by any tax authority pursuant to the Deed of Indemnity referred to above, our Company shall disclose such fact and relevant details by way of an announcement immediate after the payment of indemnification by the Controlling Shareholders.

The Controlling Shareholders have also undertaken to indemnify our Group against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from or in connection with the non-compliance as referred to in the section headed "Business – Regulatory Compliance" in this prospectus.

The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

Except as disclosed in the section headed "Legal Non-compliance – Business" in this prospectus, 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 results of operations or financial condition.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for the listing of, and permission to deal in, the Shares to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option or and any Share which be issued pursuant to the exercise of any options granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The fee payable by our Company to the Sole Sponsor to act as sponsor in relation to the Listing is HK\$6.0 million, and the Sole Sponsor will be reimbursed for their expenses properly incurred in connection with the Share Offer.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company were approximately HK\$88,000 and were paid by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Listing and the related transactions described in this prospectus.

6. Compliance Adviser

Our Company has appointed Dakin Capital Limited as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

7. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice in this prospectus are as follows:

Name	Qualifications
Dakin Capital Limited	A licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO

Name	Qualifications
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Beijing DHH (Shanghai) Law Firm	Legal advisers as to PRC laws
Appleby	Legal advisers as to Cayman Islands laws
China Insights Industry Consultancy Limited	Industry consultant

8. Consents of experts

Each of the parties listed in the preceding paragraph has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or opinion, and/or summary thereof (as the case may be) and/or references to their names included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Appleby Global Services (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited, our Hong Kong Branch Share Registrar. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Hong Kong Branch Share Registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

11. No material adverse change

Save as disclosed in the section headed “Financial Information – Recent Developments and No Material Adverse Change” in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group or our subsidiary since 30 June 2020 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this prospectus.

12. Taxation of holders of Shares***(a) Hong Kong***

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred. Profits from dealings in the Shares derived by persons carrying on a business of trading or dealing in securities in Hong Kong arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under the present laws of the Cayman Islands, there is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with Professional Advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

13. Miscellaneous

Except as otherwise disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or of any of our principal operating subsidiary has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or our subsidiary and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiary; and
 - (iii) no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company or any of our subsidiary;
- (b) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued;
- (c) no share or loan capital of our Company or any of our consolidated subsidiary is under option or is agreed conditionally or unconditionally to be put under option;
- (d) 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;
- (e) none of the parties (except in connection with the Underwriting Agreements) listed in the subparagraph headed “Consents” under the paragraph headed “G. Other information – 8. Consents of experts” in this appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

- (f) our Company and our subsidiary do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (g) no company within our Group is presently listed on any stock exchange or traded or any trading system;
- (h) our Group has no outstanding convertible debt securities;
- (i) the English text of this prospectus shall prevail over the Chinese text; and
- (j) There are no arrangements under which future dividend are waived or agreed to be waived.

14. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the Application Forms; (ii) copies of each of the material contracts referred to in the section headed “Statutory and General Information – C. Further Information about Our Business – 1. Summary of material contracts” of Appendix IV to this prospectus; and (iii) the written consents referred to in the section headed “Statutory and General Information – G. Other Information – 8. Consents of experts” of Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Seyfarth Shaw at Suite 3701, 37th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles;
- (b) the Accountant’s Report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the financial years ended 31 December 2017, 2018, and 2019 and the six months ended 30 June 2020;
- (e) the letter of advice prepared by Appleby, our legal advisers as to Cayman Islands laws, summarizing certain aspects of the Companies Law referred to in Appendix III to this prospectus;
- (f) the legal opinion as to PRC laws prepared by Beijing DHH (Shanghai) Law Firm, in respect of our Group;
- (g) the Industry Report issued by China Insights Industry Consultancy Limited, our industrial consultant;
- (h) the Companies Law;
- (i) the material contracts referred to in the section headed “Statutory and General Information – C. Further Information about Our Business – 1. Summary of material contracts” of Appendix IV to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (j) the written consents referred to in the section headed “Statutory and General Information – G. Other Information – 8. Consents of experts” of Appendix IV to this prospectus;
- (k) the letters of appointment referred to in the section headed “Statutory and General Information – D. Further Information about our Directors, Chief Executive and Substantial Shareholders – 2. Particulars of Directors’ letter of appointment” of Appendix IV to this prospectus;
- (l) the rules of the Share Option Scheme; and
- (m) this prospectus.



Deyun Holding Ltd.
德運控股有限公司 *