

GHW GHW International

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9933

GLOBAL OFFERING



Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



IMPORTANT

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



GHW International

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 250,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares : 25,000,000 Shares (subject to reallocation)
Number of Placing Shares : 225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price : Not more than HK\$0.65 per Offer Share and expected to be not less than HK\$0.51 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 : 9933

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



Co-Lead Managers



Chung Sun Securities Limited



利弗莫尔证券
Livermore Holdings Limited

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

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" 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 (WUMP) 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 Offer Price is currently expected to be fixed by an agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is scheduled on or around Friday, 10 January 2020, or such later date as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on Wednesday, 15 January 2020 (or such later time and/or date as agreed by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters)), the Global Offering will not become unconditional and will lapse immediately.

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.

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

Prospective investors of the Global Offering should note that the Joint Global Coordinators are entitled to terminate their obligations under the Public Offer Underwriting Agreement by notice in writing to our Company given by the Joint Global Coordinators upon the occurrence of any of the events set out under the paragraph headed "Underwriting – Public Offer Underwriting Arrangements and Expenses – The Public Offer Underwriting Agreement – Grounds for termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Global Coordinators terminate their obligations under the Public Offer Underwriting Agreement in accordance with the terms of the Public Offer Underwriting Agreement, the Global Offering will not proceed and will lapse.

EXPECTED TIMETABLE⁽¹⁾

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

Latest time for completing electronic applications under **HK eIPO White Form** service through one of the below ways⁽²⁾:

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

- (2) the designated website www.hkeipo.hk 11:30 a.m. on Friday, 10 January 2020

Application lists of the Public Offer open⁽³⁾ 11:45 a.m. on Friday, 10 January 2020

Latest time to lodge **WHITE** and **YELLOW** Application Forms and to give **electronic application instruction** to HKSCC⁽⁴⁾ 12:00 noon on Friday, 10 January 2020

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon on Friday, 10 January 2020

Application lists of the Public Offer close⁽³⁾ 12:00 noon on Friday, 10 January 2020

Expected Price Determination Date⁽⁵⁾ on or around Friday, 10 January 2020

Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer, the basis of allocation of the Public Offer Shares to be published on the website of our Company at www.goldenhighway.com and the website of the Stock Exchange at www.hkexnews.hk on or before Monday, 20 January 2020

Results of allocations in the Public Offer (with successful applicants’ identification document numbers, where applicable) to be available through a variety of channels (see the paragraph headed “How to Apply for Public Offer Shares – 11. Publication of Results” in this prospectus) from Monday, 20 January 2020

Results of allocations in the Public Offer will be available at “Allotment Result” function in the IPO App or at www.tricor.com.hk/ipo/result or www.hkeipo.hk/iporesult with a “search by ID Number/Business Registration Number” function from Monday, 20 January 2020

Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or about⁽⁵⁾⁽⁶⁾⁽⁷⁾ Monday, 20 January 2020

EXPECTED TIMETABLE⁽¹⁾

Despatch/Collection of refund cheques in respect of wholly or partially successful applications 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 about⁽⁵⁾⁽⁷⁾ Monday, 20 January 2020

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions and refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Public Offer on or before⁽⁷⁾⁽⁸⁾ Monday, 20 January 2020

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Tuesday, 21 January 2020

The application for the Public Offer Shares will commence on Tuesday, 31 December 2019 through Friday, 10 January 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trade fee) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Monday, 20 January 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Tuesday, 21 January 2020.

Notes:

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates.
2. You will not be permitted to submit your application through the IPO App or the designated website at www.hkeipo.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 money) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 10 January 2020, the application lists will not open on that day. For further information please refer to the paragraph headed “How to Apply for Public Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to the paragraph headed “How to Apply for Public Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is scheduled on or around Friday, 10 January 2020 (or such later date as agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters)). If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, or such later date or time as may be agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not become unconditional and will lapse.
6. Share certificates for the Offer Shares are expected to be issued on or before Monday, 20 January 2020 but will only become valid certificates of title provided that the Global Offering becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date. Investors who trade the 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.
7. Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques and share certificates (as applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 20 January 2020. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques (where relevant) in person but may not collect their share certificates, which will be deposited into CCASS for credit to 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.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the paragraph headed “How to Apply for Public Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

8. e-Auto refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the 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 for refund purpose. 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 or may invalidate your refund cheque.

Investors may obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving banks and the designated offices of the Sole Sponsor as set out in the section headed “How to Apply for Public Offer Shares”. An electronic version of this prospectus (which is identical to the printed prospectus) can be accessed and downloaded from the websites of our Company at **www.goldenhighway.com** and the Stock Exchange at **www.hkexnews.hk** under the section headed “HKExnews > Listed Company Information > Latest Listed Company Information”.

Distribution of this prospectus into any jurisdiction other than Hong Kong may be restricted by law. Persons into whose possession this prospectus come (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

For details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Public Offer Shares, you should read the sections headed “Structure and Conditions of the Global Offering” and “How to Apply for Public Offer Shares” in this prospectus, respectively.

If the Public Offer does not become unconditional or is terminated in accordance with its terms, the Public Offer will not proceed. In such case, our Company will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO INVESTORS

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

Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the Global Offering.

The contents of our Company's website at www.goldenhighway.com do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the Appendices hereto, which constitute an integral part of this prospectus, 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.

OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services ^(Note) market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States. With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales of our self-manufactured chemicals accounted for approximately 32.9%, 38.3%, 53.0% and 56.5% of our total revenue, respectively, while sales of chemicals produced by third party manufacturers accounted for approximately 66.5%, 61.2%, 46.4% and 43.0% of our total revenue, respectively.

We have an operating history of over 20 years when the founder of our Group, Mr. Yin, established GHW Chemicals in the PRC in 1995, with a business focus of selling applied chemical intermediates produced by third party manufacturers. In 1998, we expanded into the pharmaceutical industry by establishing Xinnuo Pharmaceutical in the PRC and we also established our first logistics company, Tianyu Transportation in the PRC in 1999. We began to manufacture our own branded products of animal nutrition chemicals such as choline chloride, pharmaceutical intermediates such as iodine derivatives and polyurethane materials such as polymer polyether since 2004, 2008 and 2012, respectively. As at the Latest Practicable Date, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province and one production plant in Binh Duong Province, Vietnam.

According to Frost & Sullivan, we ranked the first and the second largest seller in choline chloride in terms of sales revenue in the PRC and in the global market in 2018, accounting for approximately 30.3% and 16.8% of the market share in the PRC and the global market, respectively. We were also the fourth largest seller of polyurethane materials in terms of sales revenue in the PRC in 2018. In addition, our Group ranked 46th globally in terms of revenue in the global chemical sales market in 2018, with a recorded total revenue of approximately RMB2,152.9 million.

Note: Integrated chemical services refer to a complete supply chain to provide customers with full spectrum of services from pre-sales consulting services, sales of chemical products to after-sales technical support.

SUMMARY

Our business operation consists of four principal business segments which include (i) polyurethane materials, (ii) animal nutrition chemicals, (iii) fine chemicals and (iv) pharmaceutical products and intermediates. Polyurethane materials are widely used in cushion foams, interior components and other lightweight automotive parts to foster fuel and energy savings. The high demand for lightweight, durable and thermal insulation materials from end-use industries such as furniture, construction, electronics and appliances, automotive, footwear and packaging, has driven the significant growth of the polyurethane industry in the PRC in recent years and the trend is likely to continue according to Frost & Sullivan. The two major products under our animal nutrition chemicals segment are additives commonly used in feeds for poultry and livestock, which are crucial to the downstream animal husbandry industries. Choline chloride is a complex vitamin which is added as an important nutrient in animal feeds for the acceleration of animal growth as well as a clay stabiliser used in oil and gas drilling and hydraulic fracturing while betaine can be used as dietary feeding attractants which have important physiological functions within the animal bodies and improves the growth and survival rate of fish, poultry, swine and other animals. According to Frost & Sullivan, pharmaceuticals and agrochemicals industries are the major consumers of the fine chemicals products in the PRC. Under our fine chemicals segment, we mainly procure our products such as carboxylic acids, solvents, resins, and oleochemicals from third party manufacturers for onward selling to our customers. Carboxylic acids are widely used in the synthesis of dyes, production of lubricants, flavours and fragrances while solvents are used in the production of cosmetics, feed additives, paint and synthesis of dyes. The major use of resins and oleochemicals involve the production of cosmetics, emulsifiers and lubricants. We produce our own products of isooctanoic acid and diethyl sulfate at our Tai'an Production Plant, which are mainly used for paint drier, fungicide, preservative and pharmaceutical raw materials, and synthesis of dyes, pesticides and pharmaceutical intermediates, respectively. We also produce and sell our own pharmaceutical intermediates which are chemical compounds used in the production of active pharmaceutical ingredients, such as iodine and iodine derivatives as well as selling pharmaceutical products sourced from third party manufacturers such as cefpodoxime dispersible tablets.

COMPETITIVE STRENGTHS

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

- we are an applied chemical intermediates provider in the integrated service market, with headquarters in the PRC, offering a comprehensive product portfolio with a wide range of applications and a full spectrum of solutions across various stages of our supply chain through our extensive global operation and sales network;
- we have an established reputation, and a long operating history in the PRC applied chemical intermediates industry;
- we have established long standing relationships with our suppliers which allow for production and procurement at lower costs and a strong and diversified customer base;
- we have a well-positioned production centre, strong logistics system and sales network with international presence to ensure delivery of our products in a timely and cost-efficient manner which facilitate sales to customers of all scales globally;
- we emphasise on the importance of environmental protection by developing environmentally friendly production processes and strictly complying with environmental standards;
- we have strong research and products development capabilities with a track record of developing new production methods or equipment to enhance our product quality, optimise our production efficiency and cater our customers' needs;
- we have an integrated data operation platform for our operational efficiency and effective inventory control; and
- we have a strong and experienced team of management and staff with in-depth knowledge of applied chemical intermediates industry.

Please refer to the paragraph headed "Business – Competitive Strengths" in this prospectus for more information.

SUMMARY

BUSINESS STRATEGIES

We intend to continue to strengthen and grow our current market and industry position while maximising shareholder value by pursuing the following principal strategies:

- enrich our product portfolio and expand our supply chain vertically in order to capture new market opportunities;
- continue to invest in research and development to optimise our production processes and develop new products;
- increase our production capacity by upgrading our production facilities in the PRC;
- upgrade and optimise our integrated data operation platform for better service quality and operational efficiency and increase our online sales capability;
- continue to invest in our facilities for environmentally friendly production and implement measures to further reduce emissions to achieve long-term sustainable development; and
- expanding through targeted acquisitions, joint ventures and partnerships with an aim to supplement our product areas or markets.

Please refer to the paragraph headed “Business – Business Strategies” in this prospectus for more information.

BUSINESS MODEL

We are primarily engaged in the production and sales of our chemicals as well as sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region such as Japan, Korea and Taiwan, Europe and the United States. We have four principal business segments, namely polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. The chart below shows the key phases of our business operations which include: (i) customers development and negotiation with customers, (ii) production or procurement of products from third party manufacturers, and (iii) sales and delivery.

The key phases of our business operations are as follows:



Productions and customers

We principally produce and sell the following products for each of our business segments, including (i) polymeric MDI, TDI, polymer polyether, isocyanate mixture, polyurethane foam and modified MDI under the segment of polyurethane materials, (ii) choline chloride and betaine under the segment of animal nutrition chemicals, (iii) carboxylic acids, solvents, resins and oleochemicals under the segment of fine chemicals, and (iv) iodine and iodine derivatives and pharmaceutical products under the segment of pharmaceutical products and intermediates.

During the Track Record Period, we mainly sold our products in the PRC and have also exported our products to more than 50 overseas markets such as Vietnam, Russia, Ukraine, India, the United States and other European countries. We generally sell our products to customers whom we believe are manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry in the PRC and other overseas countries. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we generated approximately 74.3%, 79.2%, 74.2% and 80.4% of our revenue from sales to these customers, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales to our largest customer were approximately RMB32.2 million, RMB42.9 million, RMB41.8 million and RMB23.7 million, respectively, which accounted for approximately 2.0%, 2.0%, 1.9% and 2.5%, respectively, of our total revenue. For the same periods, sales to our five largest customers were approximately RMB86.8 million, RMB119.1 million, RMB140.6 million and RMB86.3 million, respectively, which accounted for approximately 5.4%, 5.5%, 6.5% and 9.3%, respectively, of our total revenue. While we value our relationship with each of our customers, we believe that the loss of any individual customer would not materially impact our business in the long-term.

SUMMARY

Raw materials and suppliers

We purchase a wide range of raw materials and chemicals produced by third parties from suppliers for our production and sales of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates including but not limited to: (i) polymeric MDI and TDI (chemicals produced by third party manufacturers), polyether, polymeric MDI and pure MDI (raw materials for production) under the polyurethane materials segment, (ii) ethylene oxide and trimethylamine (raw materials for production) under the animal nutrition chemicals segment, (iii) fine chemicals products (chemicals produced by third party manufacturers), cashew nut shell oil and absolute ethanol (raw materials for production) under the fine chemicals segment, and (iv) iodine and selenium dioxide (raw materials for production) and cefpodoxime dispersible tablets (chemicals produced by third party manufacturers) under the pharmaceutical products and intermediates segment.

During the Track Record Period, we mainly source our raw materials and chemicals produced by third party manufacturers from suppliers based in the PRC and other overseas countries such as Japan, South Korea, Taiwan, Chile, Europe and the United States and the type of suppliers primarily include chemical manufacturers. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our largest supplier were approximately RMB261.6 million, RMB458.9 million, RMB353.2 million and RMB109.1 million, respectively, which accounted for approximately 18.2%, 24.7%, 19.2% and 13.4% of our total cost of sales, respectively. For the same periods, purchases from our five largest suppliers were approximately RMB601.3 million, RMB1,008.0 million, RMB810.6 million and RMB320.8 million, respectively, which accounted for approximately 41.7%, 54.2%, 44.0% and 39.4% of our cost of sales, respectively.

Production

As at the Latest Practicable Date, we had three production plants, located in Tai'an of Shandong Province, Xuzhou of Jiangsu Province, the PRC and Binh Duong Province, Vietnam, respectively. Please refer to the paragraph headed "Business – Production" in this prospectus for more information.

OUR FINANCIAL PERFORMANCE FOR THE SIX MONTHS ENDED 30 JUNE 2019 HAS DECLINED AND IS EXPECTED TO DECLINE FOR THE YEAR ENDING 31 DECEMBER 2019

Financial performance of the Group for the six months ended 30 June 2019

Slight decrease in revenue

For the six months ended 30 June 2019, our Group's revenue for the period recorded a slight decrease of approximately 13.0% as compared to the same period of the preceding year. Our revenue decreased from approximately RMB1,074.9 million for the six months ended 30 June 2018 to approximately RMB935.3 million for the six months ended 30 June 2019, which is mainly attributable to the decrease in revenue generated from animal nutrition chemicals and polyurethane materials. The outbreak of African Swine Fever in the PRC since the second half of 2018 had led to a weakened demand of swine's feed additives in the PRC due to the massive deaths of pigs and the subsequent slaughter of infected pigs and prohibition on export of pork from certain provinces. As the choline chloride market is highly dependent on the demand of downstream swine industry, after the outbreak of African Swine Fever, the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at low level in 2019. In view of the market conditions, we had adjusted the pricing of choline chloride which aims to increase our market share of choline chloride in terms of quantity, as reflected by our increase in sales volume of choline chloride for the six months ended 30 June 2019, as compared to the same period of the preceding year. The temporary decrease in demand in choline chloride thus caused a decrease in our revenue derived from the animal nutrition chemicals segment. Meanwhile, the decrease in revenue generated from polyurethane materials was mainly associated with the short-term pricing pressure as a result of the increase in market supply of polyurethane products. Nonetheless, the Group managed to keep similar amount of profit as our Group typically prices the products manufactured by third party manufacturers on a markup pricing basis, which is consistent with the industry norm as confirmed by Frost & Sullivan. For details, please refer to the paragraph headed "Financial Information – Description of selected items in the consolidated statements of profit or loss and other comprehensive income" in this prospectus.

SUMMARY

Significant decrease in net profit

For the six months ended 30 June 2019, our Group's net profit substantially declined by approximately 72.4% as compared to the same period of the preceding year. The outbreak of African Swine Fever since the second half of 2018 and the pricing adjustment abovementioned had lowered the average selling price of choline chloride. As a result of the decrease in gross profit derived from the animal nutrition chemicals segment attributable to these reasons, there is a significant reduction in our net profit from approximately RMB60.8 million for the six months ended 30 June 2018 to approximately RMB16.8 million for the six months ended 30 June 2019.

Cash position of the Group for the six months ended 30 June 2019

For the years ended 31 December 2016, 2017 and 2018, our net cash flow from operating activities amounts to approximately RMB69.0 million, RMB54.4 million, and RMB19.8 million, respectively. We have otherwise recorded a net cash outflow from operating activities in the amount of approximately RMB51.0 million for the six months ended 30 June 2019, which is primarily due to an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million. Such increase was mainly because of the increased use of issued bills by our customers for settlement of payment to the Group, attributable to (i) the increase in sales of iodine to certain large customers, and (ii) the increasing popularity of electronic commercial bills in business dealings in the PRC after issue of certain notices by the People's Bank of China which aimed at enhancing the administration of electronic commercial bills system and encouraging the safe and stable operation of such bills system.

Market conditions and business prospects of our animal nutrition chemicals segment

While the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at low level in 2019 after the outbreak of African Swine Fever, our Directors are of the view that the resulted negative impact is only temporary in nature as the domestic epidemic had been basically controlled after implementation of the national policies and measures to support the swine industry. According to the public information from the Ministry of Agriculture and Rural Affairs of the PRC, the number of breeding sows livestock began to show improvement in October 2019 while the number of live pigs in stock in 12 provinces nationwide rebounded in the same month after nine months of decline. According to Frost and Sullivan, the production volume of feeds had also increased by 2.1% during the three quarters of 2019, as compared to the same period in 2018.

Based on the aforesaid latest market conditions, in particular the recovery of the swine industry and the positive market outlook of choline chloride market, and as advised by Frost & Sullivan, it is anticipated that the demand of choline chloride will be higher after the gradual resumption of stable swine production and thus it is reasonable to expect that the average selling price of choline chloride will reach an approximate 10% rebound in the coming year. Given our advantageous position as one of the top market players of choline chloride in 2018, we believe that our expansion plan to produce trimethylamine at the New Production Plant will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorbing the market share from other competitors. Coupled with our successful business strategies, we also believe that the Listing will enable our Group to raise our corporate profile, enhance our capital base for facilitating the planned expansion in order to maintain our Group's business sustainability in the long run.

SUMMARY

Latest operational and financial performance of the Group for the four months ended 31 October 2019

Our Group recorded a decline in revenue generated from sales of animal nutrition chemicals and polyurethane materials for the four months ended 31 October 2019 as compared with the corresponding period in 2018, which is in similar extent to the decline in revenue from these two segments for the six months ended 30 June 2019 when compared to 30 June 2018. The decline is mainly due to the similar reasons for the decrease of the revenue from sales of animal nutrition chemicals and polyurethane materials for the six months ended 30 June 2019 when compared to the six months ended 30 June 2018. For details, please refer to the paragraph headed “Financial Information – Description of Selected Items in the Consolidated Statements of Profit or Loss or other Comprehensive Income” in this prospectus.

The average selling price of choline chloride, polymeric MDI and TDI remained relatively stable for the four months ended 31 October 2019 when compared to the six months ended 30 June 2019, and our sales volume of choline chloride also remained relatively stable. There was a significant improvement on our sales performance of iodine and iodine derivatives under the pharmaceutical products and intermediates segment for the four months ended 31 October 2019. This was mainly contributed by the increase of average selling price of iodine and iodine derivatives for the four months ended 31 October 2019, as well as the substantial growth in their respective sales volume, as compared with the same period in 2018.

The Group’s overall gross profit margin for the four months ended 31 October 2019 slightly increased as compared with the corresponding period in 2018. For our polyurethane materials segment, as we typically charge a similar amount of profit regardless of the level of our purchase cost, the relatively stable low average selling prices of polymeric MDI and TDI during the four months ended 31 October 2019 allowed us to derive an increase in gross profit margin of the polyurethane materials segment, as compared with the same period in 2018, during which the average selling prices were at a relatively higher level and thus our gross profit was relatively smaller as compared to our purchase costs which resulted in a lower gross profit margin. Such increase was partially offset by the decrease in gross profit margin of the animal nutrition chemicals segment, primarily due to the decreasing trend of average selling price of choline chloride.

Shareholders and prospective investors are specifically warned that our financial performance for the financial year ending 31 December 2019 may show a substantial decline as compared to that of the previous financial year. It is advised to exercise caution when considering to subscribe the Offer Shares under the Global Offering or, upon Listing, dealing in the Shares.

Please refer to the paragraphs headed “Our financial conditions and results of operations may be negatively affected by outbreak of African Swine Fever or food-borne diseases and illnesses and other health epidemic” and “Our financial conditions and results of operations may be negatively affected by the fluctuations in average selling price of our products” in the section headed “Risk Factors” in this prospectus for further details.

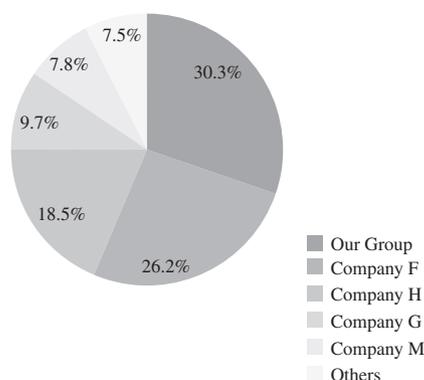
INDUSTRY LANDSCAPE

Leading integrated chemical services providers in the world are characterised with a long history of development, rich industry experience and extensive sales network across the world. Despite the fierce competition in the global market, our Group recorded a total revenue of approximately RMB2,152.9 million in 2018 and managed to rank 46th globally in terms of revenue in the global chemical sales market. The integrated chemical services market is fragmented and competitive in the PRC, with the top five players generating an aggregate revenue of approximately RMB269.1 billion in 2018, taking up the market share of approximately 2.4%.

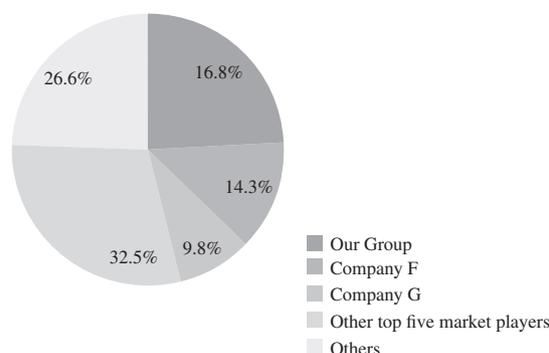
SUMMARY

Under the animal nutrition chemicals segment, the choline chloride market in the PRC is concentrated with a few players of large scale and a large number of local small-to-medium sized companies. In 2018, our Group was the largest seller in choline chloride in the PRC. The market share of the Group in terms of domestic sales revenue in choline chloride in the PRC remained relatively stable at approximately 30.1% and 30.3% in 2017 and 2018, respectively. The market share of the second to the fifth largest players, namely Company F, Company G, Company H and Company I (a company based in Hebei Province which mainly focuses its business on manufacturing of choline chloride) accounted for approximately 49.1% in 2017 when compared to the market share of approximately 62.2% by the second to the fifth largest players, namely Company F, Company G, Company H and Company M in 2018. The concentrated global market of choline chloride has a market size of approximately U.S.\$569.7 million in 2018, of which our Group ranked the second among all the sellers of choline chloride globally in 2018, accounting for approximately 16.8% of the market share. The following charts set forth the market share in the PRC choline chloride market (in terms of domestic sales revenue) and global choline chloride market (in terms of global sales revenue) in 2018:

Market share in PRC choline chloride market in 2018
(by domestic sales revenue of choline chloride)



Market share in global choline chloride market in 2018
(by global sales revenue of choline chloride)



In the global market of polyurethane materials, there are a few sellers with extensive industry experience and reputation while the PRC market of polyurethane materials are quite fragmented. The largest seller in the market of polyurethane materials in the PRC in 2018 recorded a total revenue of approximately RMB30,951.0 million, which accounted for approximately 20.9% of the market share while our Group was the fourth largest seller in terms of domestic revenue, which took up a market share of approximately 0.6%, with a total revenue of RMB881.6 million.

For the pharmaceutical products and intermediates segment, our group has recorded sales revenue of approximately RMB183.3 million from pharmaceutical intermediates which primarily include iodine derivatives in 2018, constituting approximately 0.1% of the total market size in the PRC. In respect of the fine chemicals segment, our Group has recorded sales revenue of RMB286.8 million in 2018, which constitutes approximately 0.1% of the total market size in the PRC.

For more details, please refer to the section headed “Industry Overview” and the paragraph headed “Business – Competition” in the prospectus.

SUMMARY

Our principal products are polymeric MDI under the polyurethane materials segment and choline chloride under the animal nutrition chemicals segment, which, in aggregate, accounted for approximately 49.2%, 55.3%, 52.9% and 45.0% of our revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Any change in market price of polymeric MDI and choline chloride will affect our revenue.

The average selling price of our polymeric MDI increased from approximately RMB11,389.8 per tonne for the year ended 31 December 2016 to approximately RMB22,059.1 per tonne for the year ended 31 December 2017, primarily due to an increase in the procurement price of polymeric MDI from our major suppliers which we believe are resulted from the temporary suspension of production facilities in the PRC of leading polymeric MDI suppliers in 2017. The decrease in average selling price of polymeric MDI to approximately RMB15,665.0 per tonne for the year ended 31 December 2018 was mainly attributable to a decrease in the average cost of purchase which resulted from a more stable supply of polymeric MDI in the market. As the market price of polymeric MDI continued to drop until its lowest level in December 2018 and maintained at comparatively low level for the six months ended 30 June 2019, the average selling price of polymeric MDI decreased from approximately RMB18,270.8 per tonne for the six months ended 30 June 2018 to approximately RMB12,111.1 per tonne for the six months ended 30 June 2019. The average selling price of our choline chloride increased from approximately RMB3,760.5 per tonne for the year ended 31 December 2016 to approximately RMB5,860.0 per tonne for the year ended 31 December 2017, and further increased to approximately RMB6,125.3 per tonne for the year ended 31 December 2018. This is mainly attributable to the slower growth in supply of choline chloride in the PRC from other industry players, which enabled us to negotiate for a higher selling price with our customers. The average selling price of choline chloride decreased from approximately RMB7,300.4 per tonne for the six months ended 30 June 2018 to RMB4,560.2 per tonne for the six months ended 30 June 2019, which was resulted from the outbreak of African Swine Fever and our adjustment of price aiming to increase our market share in terms of quantity. According to Frost & Sullivan, our Group's average selling price for the six months ended 30 June 2019 was slightly lower as compared to the key competitors, namely Company F, Company G and Company H of approximately 2.6%, 0.7% and 3.1%, respectively. For details of the fluctuation of the average selling price under our business segments, please refer to the paragraph headed "Financial Information – Description of Selected Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income – Revenue" in this prospectus.

For further information in relation to our production capacity and the utilisation rate of our major production lines at our Tai'an Production Plant, Xuzhou Production Plant and Vietnam Production Plant, please refer to the paragraph headed "Business – Production" in this prospectus.

SUMMARY

KEY FINANCIAL DATA

The table below sets forth a summary of our Group's key financial results during the Track Record Period:

Summary of consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December			For the six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Revenue	1,606,829	2,179,049	2,152,946	1,074,927	935,273
Cost of sales	(1,441,863)	(1,861,438)	(1,843,384)	(894,400)	(813,309)
Gross profit	164,966	317,611	309,562	180,527	121,964
Other income	8,552	7,921	3,731	1,496	1,719
Other gains and losses	320	(10,656)	(1,350)	(1,142)	2,826
Impairment losses on trade receivables, net of reversal	(870)	(2,991)	(773)	(1,466)	(428)
Expenses					
– Selling and distribution expenses	(67,661)	(79,196)	(83,502)	(41,129)	(46,065)
– Administrative expenses	(52,227)	(84,232)	(77,690)	(35,485)	(36,920)
– Research and development expenses	(22,709)	(32,788)	(40,437)	(21,598)	(14,130)
– Listing expenses	–	(10,922)	(7,458)	(3,705)	(3,500)
– Finance costs	(9,160)	(10,685)	(10,831)	(4,762)	(7,396)
Profit before taxation	21,211	94,062	91,252	72,736	18,070
Taxation	(454)	(14,631)	(16,995)	(11,925)	(1,263)
Profit for the year	<u>20,757</u>	<u>79,431</u>	<u>74,257</u>	<u>60,811</u>	<u>16,807</u>

Non-IFRS measures

In addition to the IFRS measures in our consolidated financial statements, we also use the non-IFRS financial measure of adjusted profit for the year (excluding Listing expense and the rental income from Organic Chemicals Co.) to evaluate our operating performance. We believe that this non-IFRS measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. Since Organic Chemicals Co. was disposed by the Group in 2017 and the management has no intention to acquire or engage in any business with similar business focus to that of Organic Chemicals Co. in the future, the rental income derived from Organic Chemicals Co. in 2016 and 2017, which we do not consider indicative of the operating performance of our business, was carved out to ensure the results of operations for each of the three years ended 31 December 2019 and the six months ended 30 June 2019 are compared in the same manner, given that no revenue was derived from Organic Chemicals Co. in 2018 and 2019 after the disposal in 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Non-IFRS measures					
Profit for the year	20,757	79,431	74,257	60,811	16,807
Adjustments:					
– Listing expenses	–	10,922	7,458	3,705	3,500
– Rental income from Organic Chemicals Co.	(5,817)	(5,060)	–	–	–
Adjusted profit for the year	<u>14,940</u>	<u>85,293</u>	<u>81,715</u>	<u>64,516</u>	<u>20,307</u>

SUMMARY

Our revenue increased by approximately 35.6% from RMB1,606.8 million for the year ended 31 December 2016 to RMB2,179.0 million for the year ended 31 December 2017, mainly attributable to the increase in aggregate revenue from polyurethane materials and animal nutrition chemicals of approximately RMB570.1 million in 2017. Our revenue decreased by approximately 1.2% to RMB2,152.9 million for the year ended 31 December 2018, mainly due to the decrease in revenue generated from polyurethane materials of approximately RMB208.0 million, offset by the increase in revenue generated from animal nutrition chemicals of approximately RMB166.8 million. Our revenue decreased by approximately 13.0% from RMB1,074.9 million for the six months ended 30 June 2018 to approximately RMB935.3 million for the six months ended 30 June 2019, which was mainly due to the decrease in revenue generated from polyurethane materials and animal nutrition chemicals of approximately RMB119.3 million and RMB61.4 million, respectively, offset by the increase in revenue generated from pharmaceutical products and intermediates of approximately RMB70.4 million. For details of the change in revenue of our business segments, please refer to the paragraph headed “Financial Information – Description of Selected Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income – Revenue” in this prospectus.

Our profit for the year increased from approximately RMB20.8 million for the year ended 31 December 2016 to approximately RMB79.4 million for the year ended 31 December 2017, mainly attributable to the increase in gross profit generated from the animal nutrition segment from approximately RMB56.6 million to approximately RMB177.7 million during the corresponding years. Such increase was primarily because we were able to negotiate for a higher selling price and increase our sales in 2017 as a result of the production suspension of our competitors for failing to comply with the increasingly strict environmental requirements. Our profit for the year slightly decreased from approximately RMB79.4 million for the year ended 31 December 2017 to approximately RMB74.3 million for the year ended 31 December 2018, primarily because of the decrease in gross profit generated from the polyurethane materials segment, offset by the increase in gross profit generated from the animal nutrition chemicals segment during the corresponding years. The decrease in gross profit from polyurethane materials was primarily due to the decrease in average selling price of polymeric MDI, which constituted more than 50% of our segment revenue for the year ended 31 December 2018, as a result of more stable supply of polymeric MDI. The increase in gross profit from animal nutrition chemicals in 2018 was primarily due to the increase in our average selling price of choline chloride as we received more sales order and higher sales volume in the first quarter of 2018 when the market price reached the highest point after the temporary suspension of our major competitors in 2017, and increase in our sales volume of choline chloride as a result of our increasing utilisation rates for the production facilities and the increasing market size of choline chloride in the PRC. Our profit for the period decreased from approximately RMB60.8 million for the six months ended 30 June 2018 to approximately RMB16.8 million for the six months ended 30 June 2019, mainly attributable to the decrease in gross profit derived from the animal nutrition chemicals segment. Such decrease was resulted from the decreasing average selling price of choline chloride and betaine due to the outbreak of African Swine Fever and our adjustment of price aiming to capture more market share in terms of quantity. For details of the fluctuations of the items in the consolidated statement of profit or loss and other comprehensive income, please refer to the paragraph headed “Financial Information – Description of Selected Items in the Consolidated Statement of Profit or Loss or Other Comprehensive Income” in this prospectus.

The table below sets forth the breakdown of cost of sales by nature during the Track Record Period:

	For the year ended 31 December		2017		2018		For the six months ended 30 June		2019	
	2016	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	2018	% of total cost of sales	RMB'000	% of total cost of sales
	RMB'000		RMB'000		RMB'000		RMB'000 (unaudited)		RMB'000	
Cost of raw materials and inventories	1,396,860	96.9	1,800,774	96.7	1,758,656	95.4	853,116	95.4	771,358	94.8
Manufacturing overheads	14,941	1.0	20,276	1.1	25,419	1.4	11,599	1.3	14,211	1.7
Staff costs	11,346	0.8	16,084	0.9	35,418	1.9	16,978	1.9	17,572	2.2
Depreciation	8,449	0.6	11,843	0.6	12,553	0.7	6,701	0.7	6,485	0.8
Others ^(Note)	10,267	0.7	12,461	0.7	11,338	0.6	6,006	0.7	3,683	0.5
Total	1,441,863	100.0	1,861,438	100.0	1,843,384	100.0	894,400	100.0	813,309	100.0

Note: Other cost of sales primarily includes transportation costs for raw materials and inventories.

SUMMARY

The table below sets forth the breakdown of gross profit and gross profit margin by business segment during the Track Record Period:

	2016		For the year ended 31 December 2017		2018		For the six months ended 30 June 2018		For the six months ended 30 June 2019	
	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %	Gross profit (RMB'000) (unaudited)	Gross profit margin %	Gross profit (RMB'000)	Gross profit margin %
Polyurethane materials	49,133	6.7	74,435	6.8	52,323	5.9	36,299	8.0	42,277	12.7
Animal nutrition chemicals	56,610	17.3	177,749	33.2	204,182	29.1	120,833	35.5	41,217	14.8
Fine chemicals	42,081	13.2	36,624	11.1	18,433	6.4	10,909	7.0	13,672	10.8
Pharmaceutical products and intermediates	16,333	7.3	26,401	12.4	32,822	12.1	11,887	9.7	24,090	12.5
Others ^(Note)	809	9.2	2,402	23.6	1,802	16.0	599	11.0	708	15.0
Total	164,966	10.3	317,611	14.6	309,562	14.4	180,527	16.8	121,964	13.0

Note: Others mainly include gross profit and gross profit margin for our transportation of hazardous chemicals for third parties in Nanjing.

Our gross profit increased by approximately 92.5% from RMB165.0 million for the year ended 31 December 2016 to RMB317.6 million for the year ended 31 December 2017, and slightly decreased by approximately 2.5% to RMB309.6 million for the year ended 31 December 2018. The gross profit margin increased from approximately 10.3% for the year ended 31 December 2016 to approximately 14.6% for the year ended 31 December 2017, mainly due to the higher revenue contribution and higher profit margin from the animal nutrition chemicals segment in 2017. The overall gross profit margin remained relatively stable for the years ended 31 December 2017 and 2018. Our gross profit decreased by approximately 32.4% from approximately RMB180.5 million for the six months ended 30 June 2018 to RMB122.0 million for the six months ended 30 June 2019 and our gross profit margin decreased from approximately 16.8% for the six months ended 30 June 2018 to approximately 13.0% for the six months ended 30 June 2019. These were mainly attributable to the lower revenue contribution and lower profit margin from the animal nutrition chemicals segment for the six months ended 30 June 2019. For details of the fluctuations in the gross profit and gross profit margin, please refer to the paragraph headed “Financial Information – Description of Selected Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income – Gross Profit and Gross Profit Margin” in this prospectus.

Summary of consolidated statements of financial position

The table below sets forth our financial position during the Track Record Period:

	As at 31 December			As at
	2016 RMB'000	2017 RMB'000	2018 RMB'000	30 June 2019 RMB'000
Non-current assets	175,321	178,994	206,327	243,404
Current assets	341,245	413,843	442,431	545,037
Non-current liabilities	30,484	6,554	5,467	63,150
Current liabilities	421,525	493,818	554,297	621,260
Net current liabilities	(80,280)	(79,975)	(111,866)	(76,223)
Total equity	64,557	92,465	88,994	104,031

We had net cash flow from operating activities in the amount of approximately RMB69.0 million, RMB54.4 million and RMB19.8 million for the year ended 31 December 2016, 2017 and 2018 and net cash used in operating activities of RMB51.0 million for the six months ended 30 June 2019, respectively. Our Group has recorded net current liabilities of approximately RMB80.3 million, RMB80.0 million, RMB111.9 million and RMB76.2 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

SUMMARY

Our Group's net current liabilities of approximately RMB80.3 million as at 31 December 2016 primarily included the Group's borrowings in the amount of approximately RMB151.0 million classified as current liabilities. Among the borrowings classified as current liabilities, approximately RMB117.0 million were recurring term loans with repayment period within one year. Apart from the maintenance of sufficient working capital for operation, our Group also utilised bank balance and cash to invest in non-current assets, which mainly represented the property, plant and equipment at our Tai'an Production Plant and Vietnam Production Plant during the years. The cash outflow for purchase of the property, plant and equipment during the year ended 31 December 2016 was approximately RMB50.1 million and the carrying amount of the property, plant and equipment as at 31 December 2016 was approximately RMB145.7 million. The investment in non-current assets led to a result of net current liabilities of the Group as at 31 December 2016.

The increase in net current liabilities in the amount of approximately RMB31.9 million from 31 December 2017 to 31 December 2018 was primarily attributable to (i) an increase in the amount due to shareholders/former shareholders of approximately RMB71.6 million, (ii) an increase in borrowings of approximately RMB21.9 million, and (iii) a decrease in the restricted bank deposits of approximately RMB17.4 million, primarily because we had less trade payable as at 31 December 2018, partially offset by, (i) an increase in trade receivables and bill receivable/bill receivable of approximately RMB23.2 million, (ii) an increase in other receivables, deposits and prepayments of approximately RMB14.9 million, (iii) an increase in inventories of approximately RMB12.1 million, (iv) a decrease in contract liabilities of approximately RMB11.5 million, (v) a decrease in other payables and accrued charges of approximately RMB8.9 million, (vi) a decrease in dividend payables of approximately RMB9.0 million, and (vii) a decrease in tax payables of approximately RMB7.5 million.

The decrease in net current liabilities in the amount of approximately RMB35.6 million from 31 December 2018 to 30 June 2019 was primarily attributable to (i) an increase in inventories of approximately RMB50.5 million, (ii) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million, (iii) a decrease in the amount due to shareholders/former shareholders of approximately RMB19.1 million and (iv) a decrease in dividend payables of approximately RMB7.1 million, partially offset by an increase in borrowings of approximately RMB75.3 million.

Although we have significant net current liabilities during the Track Record Period, our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this prospectus, taking into account cash flow generated from our business, available facilities and net proceeds from the Global Offering, and considering the fact that the dividend payables and amounts due to shareholders/former shareholders arising from the Reorganisation will be repaid by us before Listing. For details, please refer to paragraphs headed "Financial Information – Liquidity and Capital Resources – Net Current Liabilities" and "Financial Information – Liquidity and Capital Resources – Working Capital Sufficiency" in this prospectus.

Our Group's net assets (being total equity) decreased from approximately RMB92.5 million as at 31 December 2017 to approximately RMB89.0 million as at 31 December 2018. The decrease in the amount of approximately RMB3.5 million was mainly due to (i) the deemed distribution to shareholders and deemed contribution from a shareholder of approximately RMB72.6 million for the year ended 31 December 2018 as a result of the transfer of equity interest in GHW International SCM from Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear to GHW Holdings on 31 July 2018; and (ii) the additional impairment loss on financial assets recognised under expected credit loss model net of related deferred tax assets in the amount of approximately RMB5.9 million upon the initial adoption of IFRS 9, offset by net profit for the year of approximately RMB74.3 million.

SUMMARY

Summary of consolidated statements of cash flows

The table below sets forth our statements of cash flows during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Operating profit before movements in working capital	45,542	129,973	120,781	88,530	40,387
Net cash generated from/(used in) operating activities	69,024	54,351	19,801	761	(50,970)
Net cash (used in)/generated from investing activities	(43,488)	(53,302)	(19,351)	24,271	(33,477)
Net cash flows (used in)/generated from financing activities	(10,571)	(8,633)	(4,048)	3,588	87,930
Net Increase/(decrease) in cash and cash equivalents	14,965	(7,584)	(3,598)	28,620	3,483
Cash and cash equivalents at beginning of the year/period	27,205	40,877	34,620	34,620	30,261
Effect of foreign exchange rate changes	(1,293)	1,327	(761)	(518)	(58)
Cash and cash equivalents at end of the year/period	40,877	34,620	30,261	62,722	33,686

For the six months ended 30 June 2019, our net cash used in operating activities amounted to approximately RMB51.0 million, which was a combined result of cash generated from operations before changes in working capital of approximately RMB40.4 million, income tax paid of approximately RMB7.5 million and negative change in working capital of approximately RMB83.8 million, as compared with approximately RMB19.8 million of net cash generated from operating activities for the year ended 31 December 2018, which was a combined result of cash generated from operations before changes in working capital of approximately RMB120.8 million, income tax paid of approximately RMB23.1 million and negative change in working capital of approximately RMB77.9 million. The negative operating cash flow for the six months ended 30 June 2019 primarily included (i) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million, which the balance as at 30 June 2019 primarily comprised discounted bank issued bill receivables at fair value through other comprehensive income of approximately RMB53.7 million, mainly resulting from the increase in our customers' payment settling with issued bills and (ii) an increase in inventories of approximately RMB54.0 million.

As the majority of the balance of bill receivables as at 30 June 2019 had been discounted to bank and the Group had recognised the cash received on the discounting of such bill receivables to banks as borrowing (i.e. under financing activities), the increase in bill receivables would not have material impact on the overall cashflow position of the Group, including the cash flow in operating activities and financing activities. Our Group manages our overall cash flow by setting up the following measures:

- (i) **Preparation of monthly cash flow forecast** – our Group prepares a monthly cash flow forecast to closely monitor our cash position in our operations. Our Directors take into account our cash position and available banking facilities at the time prior to proceeding with any of our expansion plans; and
- (ii) **Management of our banking facilities and gearing ratio** – we fund our working capital and expansion plans by our available banking facilities. Our Directors consider and monitor the utilised banking facilities and gearing ratio each month and make the financial decision with reference to our repayment ability and credit risk.

For the six months ended 30 June 2019, our net cash used in investing activities amounted to approximately RMB33.5 million, as compared with approximately RMB19.4 million of net cash used in investing activities for the year ended 31 December 2018. For more details on the material fluctuation on the net cash flow generated from operating activities and investing activities during the Track Record Period, please refer to the paragraph headed “Financial Information – Liquidity and Capital Resources – Cash Flow” in this prospectus.

SUMMARY

Summary of key financial ratios

The table below sets forth our key financial ratios as at each of the dates indicated:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Net profit margin (%)	1.3	3.6	3.4	1.8
Return on equity (%)	31.3	84.6	83.4	N/A
Return on total assets (%)	4.0	13.4	11.4	N/A
Interest coverage ratio (times)	3.3	9.8	9.4	3.4
Current ratio (times)	0.8	0.8	0.8	0.9
Quick ratio (times)	0.6	0.5	0.5	0.5
Gearing ratio (%) ^(Note)	247.1	193.4	222.9	311.8
Net debt to equity ratio (%)	142.5	109.2	159.8	252.5

Note: Gearing ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was calculated by dividing the total interest bearing external borrowings by total equity as at the end of the respective year/period and multiplied by 100%.

For the detailed calculations and fluctuations analyses, please refer to the section headed “Financial Information” in this prospectus.

BUSINESS ACTIVITIES IN THE SANCTIONED COUNTRIES

During the Track Record Period, we made sales of our products to customers in Russia, Ukraine, Lebanon, Egypt, Belarus, Tunisia, Venezuela, Syria and Sudan, all of which are Sanctioned Countries. The total revenue generated from sales to customers in these Sanctioned Countries amounted to approximately RMB60.8 million, RMB94.5 million, RMB128.7 million and RMB40.9 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, representing approximately 3.8%, 4.3%, 6.0% and 4.4% of our total revenue for the corresponding years.

Our legal advisers as to the United States, the United Nations, the European Union and Australian sanctions laws have advised that the sanctions risk exposure to our Group, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors as a result of our Group’s business activities in the Sanctioned Countries during the Track Record Period is low. Our Directors confirm that our Group had not been notified that any sanctions would be imposed on us in relation to our business activities in the Sanctioned Countries during the Track Record Period. Please refer to the paragraph headed “Business – Business activities in the Sanctioned Countries” in this prospectus for details of our business activities in those countries.

NON-COMPLIANCE

The historical non-compliances involving us during the Track Record Period comprises lack of construction permits before commencement of building construction work. Our Directors consider that such non-compliance incidents will not have any material operational or financial impact on our Group and would not affect the suitability of listing of our Company pursuant to Rule 8.04 of the Listing Rules. We have adopted or will adopt a number of rectification actions in relation to these non-compliance incidents and have also implemented a series of enhanced internal control measures to ensure future compliance. For more details, please refer to the paragraph headed “Business – Legal Non-compliance and Proceedings – Non-compliance” in this prospectus.

SUMMARY

LEGAL PROCEEDINGS

As at the Latest Practicable Date, save as disclosed below, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial conditions or results of operations. Please refer to the paragraph headed “Business – Legal Non-compliance and Proceedings – Legal proceedings” in this prospectus for more information. Our wholly-owned subsidiary, GHW Chemicals, was named as one of the defendants in a litigation initiated in the United States in relation to certain cargoes of goods sold by us, and the plaintiff claims an amount of U.S.\$1,333,800 plus interest, cost and attorneys’ fees in damages. On 12 July 2019, we filed a motion with the U.S. court seeking dismissal of the plaintiff’s claims. The plaintiff filed an opposition to our motion on 30 August 2019, to which we filed a reply on 23 September 2019. Oral argument on the motion was scheduled for 8 December 2019. However, after the plaintiff’s lawyer reviewed our moving papers, declarations and exhibits, they obtained the authorisation of the plaintiff to dismiss its lawsuit against GHW Chemicals without seeking any monetary contribution from GHW Chemicals, and without any court costs. Pursuant to the Stipulation and Order of Dismissal (the “Order”) that has been executed by the respective lawyers of the plaintiff and GHW Chemicals, the plaintiff and GHW Chemicals mutually releases each other from any and all claims of whatsoever nature in connection with the facts underlying the Lawsuit. Each party to the Lawsuit must bear their own fees and cost incurred in the Lawsuit. A federal judge executed the Order on 26 November 2019, and the Order was filed on the docket of the federal court. As advised by our U.S. Legal Advisers, the Lawsuit is, therefore, now concluded with no liability, present or future, for GHW Chemicals in relation to the claim alleged by the Plaintiff.

PROPERTIES

Title defects

Our wholly-owned subsidiary, Havay Feeds, entered into the Sub-lease Agreement in June 2003 with the Town People’s Government for use of the Land and the Office Building and we commenced construction of the Xuzhou Production Building for our Xuzhou Production Plant on the Land in 2005. The Town People’s Government initially leased from the Landlord the Land and the Office Building which are subject to Title Defects. In relation to the remedial actions taken or to be taken in relation to the Title Defects, as advised by our PRC Legal Advisers, the lack of land use right certificate of the Land and building ownership certificate of the Office Building is caused by the omission of the Landlord and is beyond the control of our Group. As confirmed by the Feng County Planning Bureau, which is the competent authority in respect of urban and rural planning and land resources management in Feng County, the lack of the land use right certificate of the Land and the building ownership certificate of the Office Building will not result in any non-compliance of the laws and regulations in relation to urban and rural planning and land management in the PRC. As at the Latest Practicable Date, to the best knowledge of our Group and the Directors, the Landlord had not received the relevant notice from the relevant authorities. Given that (i) our Group is only a sub-lessee of the Land and the Office Building, and (ii) the lacking of the Relevant Permits was caused by the lacking of certificates from the Landlord, which is beyond our Group’s control to take any remedial action to rectify the title defects in respect of the Land, the Office Building and the Xuzhou Production Building. In the event that the Sub-lease Agreement is terminated due to the Title Defects or we are requested by the relevant PRC authorities to relocate our production facilities at the Xuzhou Production Plant as a result of the alternation of the overall land use planning in respect of the Land, we could leverage our increased production capacity of the Tai’an Production Plant to satisfy the demand from our customers. In the event that we are forced to relocate from the Xuzhou Production Plant which the Directors expected to take approximately one month, our Directors believe that there will be no material adverse impact on our operations and financial results.

For details, please refer to the paragraph headed “Business – Properties – Title defects” in this prospectus.

SUMMARY

RISK FACTORS

We are subject to risks relating to our business, industry and our investors are also subject to risks relating to doing business in China and the Global Offering. For a description of these risk factors, please refer to the section headed “Risk Factors” in this prospectus. We believe that the following are some major risks that we face:

- our sales and growth in market demand for our products are dependent, among other things, on the conditions and development of the industry of our downstream customers, which in turn depend on the global and in particular, the PRC economy;
- our financial conditions and results of operations may be negatively affected by the outbreak of African Swine Fever or food-borne diseases and illnesses and other health epidemics;
- our financial conditions and results of operations may be negatively affected by the fluctuations in average selling price of our products;
- we are dependent on the three production plants located in the PRC and Vietnam. Any operational disruption in our production plants may result in a reduction of sales volume and may cause us to incur substantial expenditure;
- we rely on our suppliers for our business, which exposes us to risks associated with fluctuations in prices of raw materials and chemical products, and reductions in the availability of raw materials and chemical products supplies may disrupt our operations;
- failure in our integrated data operation platform could result in deficiencies in our business operations;
- we rely on certain key management personnel and the recruitment and retention of other qualified personnel to maintain our continued success; and
- we might not be successful in the research and development of production equipment and in improving our existing production processes and the quality of our existing products.

SHAREHOLDER INFORMATION

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), our Company will be owned as to 37.5% by Commonwealth B Limited and 17.81415% by Commonwealth Happy Elephant Limited.

Commonwealth B Limited is controlled by Mr. Yin (our executive Director, Chairman and chief executive officer) together with his spouse, Ms. Wu Hailing, through their respective holding companies and Commonwealth Happy Elephant Limited is controlled by Mr. Yin, Ms. Wang Wei and Mr. Pan Bing through their respective holding companies. As such, each of Mr. Yin, Ms. Wu Hailing, Ms. Wang Wei, Mr. Pan Bing and their respective holding companies will be considered as our Controlling Shareholders under the Listing Rules upon Listing. Each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in, any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

For details of our history and our major Shareholders, please refer to the sections headed “History, Reorganisation and Corporate Structure” and “Relationship with Controlling Shareholders” in this prospectus.

DIVIDEND

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our subsidiaries declared the dividends of nil, approximately RMB75.9 million, nil and nil, respectively. The dividends declared for the year ended 31 December 2017 in the aggregate amount of approximately RMB26.5 million have been paid by the Group’s internal financial resources and bank borrowings as at 30 June 2019 and the remaining dividends declared in the aggregate amount of approximately RMB49.4 million are expected to be settled by the Group’s internal financial resources and bank borrowings before the Listing. Save as the above, our Group did not pay or declare any dividend during the Track Record Period and up to the Latest Practicable Date.

SUMMARY

We currently do not have any fixed dividend policy and do not have any pre-determined payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our results of operations, cash flows and financial conditions, operation and capital requirements, applicable laws and regulations and any other factors that our Directors may deem relevant and will be subject to approval of our Shareholders. Our 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 us in the future. For details, please see the paragraph headed “Financial Information – Dividend” in this prospectus.

LISTING EXPENSES

Total listing expenses in relation to the Listing are estimated to be approximately RMB43.1 million (assuming an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range between HK\$0.51 and HK\$0.65 per Offer Share and assume that the Over-allotment Option is not exercised). During the Track Record Period, we incurred Listing expenses of approximately RMB10.9 million and RMB7.5 million and RMB3.5 million, respectively, for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019 which was recognised as administrative expenses in our consolidated statements of profit or loss and other comprehensive income. Approximately RMB5.0 million is expected to be recognised as administrative expenses from the period from 1 July 2019 to the Listing Date and approximately RMB16.2 million is expected to be recognised as deduction from equity. The amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the consolidated financial statements of our Group is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of Group for the year ending 31 December 2019 is expected to be affected by the Listing expenses mentioned above, the nature of which are non-recurring.

RECENT DEVELOPMENT

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that there were no material change to our business model, revenue structure and cost structure. Our principal business remained as production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States. However, shareholders and prospective investors are specifically warned that the net profit of our Group for the financial year ending 31 December 2019 may show a substantial decrease as compared to the Track Record Period.

We intend to establish the New Production Plant in the western region from our Tai’an Production Plant at the Taian Daiyue Chemical Industrial Park (泰安岱岳化工產業園) as part of our expansion plan. In October 2019, we have successfully bid the Construction Land on which our New Production Plant will situate in accordance with the Land Auction process. The Land Auction process has been completed and we have acquired the Construction Land in which we have been granted the exclusive rights to occupy and use the Construction Land in early December 2019. For further details, please refer to the paragraph headed “Business – Production – Expansion Plan” in this prospectus.

Based on the management accounts of the Group, for the four months ended 31 October 2019, the Group’s revenue decreased moderately as compared with the corresponding period in 2018, which is primarily attributable to the decrease in aggregate revenue generated from polyurethane materials, animal nutrition chemicals and fine chemicals, offset by the increase in revenue generated from pharmaceutical products and intermediates. For details of the fluctuation on our revenue generated from our four business segments, please refer to the paragraph headed “Latest operational and financial performance of the Group for the four months ended 31 October 2019” in this section.

In respect of our Group’s financial position as at 31 October 2019, as compared with the financial position as at 30 June 2019, we had (i) an increase in borrowings as a net result of a drawdown of a working capital loan from a bank based in Shanghai and a reduction in borrowings associated with discounted bank issued bill receivables, (ii) a decrease in trade receivables due to an increased amount of settlement by our customers who had purchased pharmaceutical products and choline chloride from us, offset by an increase in restricted bank deposits. In October 2019, we had also fully settled the final auction price in respect of the Construction Land where our New Production Plant will be located.

SUMMARY

Despite African Swine Fever has led to temporary negative impact on our Group's financial performance, the purchase orders received by us for choline chloride and betaine in terms of quantity from July to November 2019 are more than 55,000 tonnes and 4,700 tonnes, which reflects an increase of more than 10% and 20%, respectively, as compared to the five months ended 30 November 2018. The number of customers for choline chloride also increased from more than 950 as at 30 November 2018 to more than 1,100 as at 30 November 2019. In addition, since the lead time from receiving purchase orders to delivery of our products is generally within 15 days, we anticipate that our sales volume of choline chloride and betaine will increase in December 2019 and the foreseeable future, because (i) we have received the purchase orders for more than 6,200 tonnes of choline chloride and 400 tonnes of betaine as at 30 November 2019, which already exceed 65% of the average monthly sales volume of choline chloride for the six months ended 30 June 2019 and will be delivered in December 2019, and we expect to receive further purchase orders of choline chloride and betaine in December 2019 which will be delivered within the same month, and (ii) the aforesaid quantity of purchase orders of choline chloride and betaine which had not been recognised as at 30 November 2019 had increased by more than 30% and 5%, respectively, when compared to the quantity of purchase orders of choline chloride and betaine which had not been recognised as at 30 November 2018. Our Group is optimistic about the outlook of the animal nutrition chemicals market as we believe the gradual recovery of the swine industry from African Swine Fever and the expected increase in swine consumption due to growing population in the PRC will provide more confidence to the downstream industries and lead to further increase in demand in our animal nutrition chemical products.

Prospective investors should note that the financial performance of the Group for the year ending 31 December 2019 is expected to be affected by the (i) Listing expenses, the nature of which are non-recurring, (ii) decline in our gross profit for the six months ended 30 June 2019, which was mainly attributable to lower revenue contribution and lower gross profit margin from the animal nutrition chemicals segment as a result of the outbreak of African Swine Fever since the second half of 2018 which led to a decrease in the average selling price of choline chloride, being the most profitable product of the Group during the year ended 31 December 2018, during the same period, and (iii) the decline in the average selling price of polyurethane materials in the PRC due to short-term pricing pressure on the polyurethane materials manufacturers as a result of the increased competition arising from nationwide enlarged production capacity of TDI, which is expected to be absorbed by the increase in demand of polyurethane materials from downstream industries in the coming one to two years.

Our Directors have confirmed that, save as disclosed above and up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 30 June 2019 (being the date to which our latest audited financial information was prepared) and there had been no event since 30 June 2019 which would otherwise materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

REASON FOR THE LISTING

We believe the Listing would grant us access to the active capital market and allow us to fundraise through the issuance of equity and/or debt securities in the future. We consider a combination of equity financing and debt financing as more beneficial to our Group because it can maximise the return for our Shareholders with a more balanced capital structure. In order to obtain additional funding while minimising interest expenses, our Directors believe that the net proceeds from the Global Offering will provide us with the necessary additional financial resources to implement our business strategies and further enhances our corporate profile and competitiveness by providing a broader shareholder base which will therefore provide liquidity in the trading of the Shares. We believe that the enhanced capital structure as a result of the Listing would place us in a better position to negotiate with banks and other financial institutions for a more favourable financing terms when seeking banking facilities going forward. Equity funding, which does not entail a maturity date, would provide us with more flexibility in our cash and liquidity management.

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus and the Over-allotment Option is not exercised, will be approximately HK\$96.3 million. We currently intend to apply the net proceeds from the Global Offering in the following manner:

- approximately 17.2%, or HK\$16.6 million, will be used on the initial establishment of the New Production Plant, which is expected to commence operation in the first quarter of 2022 and will consist of production facilities for the production of trimethylamine and a pilot plant for manufacturing pharmaceutical intermediates, respectively;
- approximately 60.4%, or HK\$58.2 million, will be used to construct production facilities at the New Production Plant for manufacturing trimethylamine, which is expected to commence production in the second quarter of 2022;
- approximately 10.2%, or HK\$9.8 million, will be used on the construction of a pilot plant at the New Production Plant, which is expected to commence production in the second quarter of 2022 for small batch production of various types of pharmaceutical intermediates;
- approximately 2.2% of HK\$2.1 million, will be used on the research and development process of our new pharmaceutical product;
- approximately 0.8%, or HK\$0.8 million, will be used on purchasing hardware and software for upgrading our existing financial and accounting management system; and
- approximately 9.2%, or HK\$8.8 million, will be used as working capital and other general corporate purposes.

Please refer to the paragraph headed “Business – Production – Expansion Plan” and the section headed “Future Plans and Use of Proceeds” in this prospectus for more information.

OFFER STATISTICS

The table below shows the offering statistics of the Global Offering, assuming that the Capitalisation Issue and the Global Offering have been completed and 1,000,000,000 Shares are in issue and without taking into account any Shares which may be issued upon any exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme:

	Based on an Offer Price of HK\$0.51	Based on an Offer Price of HK\$0.65
Market capitalisation of the Shares (<i>Note</i>)	HK\$510 million	HK\$650 million
Unaudited pro forma adjusted consolidated net tangible assets per Share	HK\$0.22	HK\$0.25

Note:

The number of Shares used for the calculation of the market capitalisation and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to shareholder of the Company per Share is calculated based on 1,000,000,000 Shares in issue upon completion of the Global Offering, which comprises the existing 1,000,000 Shares in issue as at the date of this prospectus, 749,000,000 Shares to be issued pursuant to the Capitalisation Issue and 250,000,000 Shares to be issued pursuant to the Global Offering and the dividend payables of the Group as at 30 June 2019 has been taken into account, but without taking into account of any Shares which may be issued as a result of the exercise of the Over-allotment Option, the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to shareholders of the Company to reflect any trading results or other transactions of our Group entered into subsequent to 30 June 2019.

DEFINITIONS

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context may require, relating to the Public Offer
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted and to become effective on the Listing Date and as amended or supplemented from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of our Board
“Board of Directors” or “Board”	the board of Directors
“CAD”	Canadian dollars, the lawful currency of Canada
“Business Day(s)” or “business day(s)”	any day(s) (excluding Saturday(s), Sunday(s) or public holiday(s) in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “Statutory and General Information – A. Further Information about our Group – 4. Written resolutions of our Shareholders” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	chairman of our Board
“close associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Co-Lead Managers”	Alpha International Securities (HONG KONG) Limited, Chung Sun Securities Limited, Standard Perpetual Securities Limited and Livermore Holdings Limited
“Commonwealth Armyfeibear”	Commonwealth Armyfeibear (HK) Limited (佳合(香港)有限公司), a company incorporated in Hong Kong on 8 March 2018
“Companies Law”	the Companies Law (Cap 22 (Law 3 of 1961), as revised) of the Cayman Islands, as amended, consolidated or supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Company”, “our Company”, “we” or “us”	GHW International, an exempted company incorporated in the Cayman Islands on 25 April 2018 with limited liability
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the case of the Company, refers to Mr. Yin Yanbin and Ms. Wu Hailing, Ms. Wang Wei, Mr. Pan Bing, Commonwealth B Limited, Commonwealth Yanbin Limited, Commonwealth Violet Limited, Commonwealth YYB Limited, Commonwealth Happy Elephant Limited, HMZ Holdings Ltd and HappyBean Holdings Limited
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 19 December 2019 executed by our Controlling Shareholders in favour of our Group in respect of taxation and other indemnities, details of which are set out in the paragraph headed “Statutory and General Information – E. Other Information – 1. Tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 19 December 2019 executed by our Controlling Shareholders in favour of our Group containing certain non-competition undertakings to our Group, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company as at the date of this prospectus
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Euro” or “EUR”	Euro, the lawful currency of the member states of the European Union
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by us to prepare the Industry Report
“GHW (Vietnam)”	GHW (Vietnam) Co., Ltd, a company incorporated in Vietnam on 23 July 2013 and our wholly-owned subsidiary

DEFINITIONS

“GHW (Vietnam) Chemicals”	GHW (Vietnam) Chemicals Limited Company, a company incorporated in Vietnam on 7 May 2014 and our wholly-owned subsidiary
“GHW Chemicals”	Nanjing Goldenhighway Chemicals Co., Ltd.* (南京金海威化工實業有限公司), a company established in the PRC on 25 October 1995 and our wholly-owned subsidiary
“GHW Eurochemicals”	GHW EUROCHEMICALS s.r.o., a company incorporated in Slovakia on 1 January 2014 and our wholly-owned subsidiary
“GHW Holdings”	GHW Holdings Limited (金合控股有限公司), a company incorporated in Hong Kong on 25 June 2018 and our wholly-owned subsidiary
“GHW International (HK)”	Golden Highway International (Hong Kong) Limited (金海威國際(香港)有限公司), a company incorporated in Hong Kong on 6 August 2008 and our wholly-owned subsidiary
“GHW International SCM”	Nanjing Goldenhighway International Supply Chain Management Company Limited* (南京金海威國際供應鏈管理有限公司), a company established in the PRC on 18 November 2008 and our wholly-owned subsidiary
“GHW Investment”	Nanjing Goldenhighway Investment Co., Ltd.* (南京金海威投資有限公司), a company established in the PRC on 13 January 2005 and our wholly-owned subsidiary
“GHW Mexico”	Golden Highway Mexico, S. De R.L. De C.V., a company incorporated in Mexico on 10 September 2018 and our wholly-owned subsidiary
“GHW Trading”	Guangzhou Goldenhighway Trading Co., Ltd.* (廣州金海威貿易有限公司), a company established in the PRC on 22 January 2010 and our wholly-owned subsidiary
“GHW USA”	GHW USA LLC, a company formed in the State of Texas, the U.S., on 17 March 2015 and our wholly-owned subsidiary
“Global Offering”	the Public Offer and the Placing
“GOHI Int’L”	GOHI Int’L Limited, a company incorporated in the BVI on 28 May 2018 and our wholly-owned subsidiary
“Goldray International”	Goldray International Enterprises Co., Limited, a company incorporated in Seychelles on 7 January 2016 and our wholly-owned subsidiary
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, with respect to the period before which our Company became the holding company of our current subsidiaries, our Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

“Haijinsha International”	Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd.* (張家港保稅區海金沙國際貿易有限公司), a company established in the PRC on 30 March 2012 and our wholly-owned subsidiary
“Hanhe Enterprises”	Nanjing Hanhe Enterprises Co., Ltd.* (南京漢合實業有限公司), formerly known as Nanjing Hanhe Enterprises Co., Ltd.* (南京漢和實業有限公司), a company established in the PRC on 9 July 1997 and 89.53% owned by Hanhe Investment
“Hanhe Investment”	Nanjing Hanhe Investment Co., Ltd.* (南京漢合投資有限公司), a company established in the PRC on 12 January 2004 which is owned as to 80.1151% by Mr. Yin, 8.7626% by Mr. Chen Zhaohui, 3.6115% by Mr. Zhuang Zhaohui (all being our executive Directors) and 7.5108% by Ms. Xu Shirong (a shareholder of Commonwealth GHW Limited, one of our Shareholders)
“Hanshang Weisou”	Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.* (南京瀚商微搜電子商務有限公司), a company established in the PRC on 14 January 2016 and our wholly-owned subsidiary
“Havay Feeds”	Xuzhou Havay Feeds Co., Ltd.* (徐州漢威飼料有限公司), a company established in the PRC on 23 July 2003 and our wholly-owned subsidiary
“Havay Group”	Taian Havay Group Co., Ltd.* (泰安漢威集團有限公司), a company established in the PRC on 9 November 2010 and our wholly-owned subsidiary
“Havay Industry”	Havay Industry Inc., a company incorporated in British Columbia, Canada, on 23 September 2015 and our wholly-owned subsidiary
“HK eIPO White Form”	the application of the Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the IPO App or the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified in the IPO App or on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar of our Company in Hong Kong
“Hong Kong dollars” or “HK\$”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“IAS”	International Accounting Standard
“IASB”	International Accounting Standards Board

DEFINITIONS

“IFRSs”	International Financial Reporting Standards promulgated by IASB
“Independent Third Party(ies)”	an individual(s) or company(ies) who/which is or are independent of and not connected with (within the meaning of the Listing Rules) any of the connected persons (including any of the directors, chief executive and substantial shareholders (as defined in the Listing Rules)) of our Company, our subsidiaries or any of their respective associates
“Indian Rupee” or “INR”	Indian Rupee, the lawful currency of India
“Industry Report”	an independent research report, commissioned by us and prepared by Frost & Sullivan for the purpose of this prospectus
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Jinruntai Chemicals”	Wuhan Jinruntai Chemicals Co., Ltd.* (武漢金潤泰化工有限公司), a company established in the PRC on 16 February 2011 and our wholly-owned subsidiary
“Joint Bookrunners” or “Joint Lead Managers”	Fortune (HK) Securities Limited, Head & Shoulders Securities Limited, I Win Securities Limited, SPDB International Capital Limited and First Shanghai Securities Limited
“Joint Global Coordinators”	Fortune (HK) Securities Limited and Head & Shoulders Securities Limited
“Latest Practicable Date”	21 December 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“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 the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange commence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted on 16 December 2019, as amended from time to time, a summary of which is set forth in Appendix III to this prospectus
“MOFCOM”	the Ministry of Commerce of the PRC (formerly known as the Ministry of Foreign Trade and Economic Cooperation of the PRC)(中華人民共和國商務部)

DEFINITIONS

“Mr. Yin”	Mr. Yin Yanbin (尹燕濱), our Controlling Shareholder and an executive Director, Chairman of the Board and our chief executive officer
“MXN”	Mexican Peso, the lawful currency of Mexico
“New Production Plant”	our production facilities to be established at the western region from the Tai’an Production Plant
“Nomination Committee”	the nomination committee of the Board
“Nuovomondo Chemicals”	Nuovomondo Chemicals Private Limited, a company incorporated in India on 25 March 2011 and our wholly-owned subsidiary
“Nuowei Trading”	Tianjin Nuowei Trading Co., Ltd.* (天津諾威貿易有限公司), a company established in the PRC on 17 May 2013 and our wholly-owned subsidiary
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the price for each Offer Share of not more than HK\$0.65 per Share and expected to be not less than HK\$0.51 per Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) and to be fixed on the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Organic Chemicals Co.”	Nanjing Organic Chemicals Co., Ltd.* (南京有機化工有限責任公司), a company established in the PRC on 12 December 2000
“Over-allotment Option”	the option we will grant to the Placing Underwriters, exercisable by the Joint Global Coordinators on behalf of the Placing Underwriters pursuant to the Placing Underwriting Agreement at any time for up to 30 days after the last day for lodging of applications under the Public Offer, to require us to issue up to an aggregate of 37,500,000 additional Shares, representing 15% of the Offer Shares, at the Offer Price, to cover over-allocations in the Placing, if any, details of which are described in the paragraph headed “Structure and Conditions of the Global Offering – Over-allotment Option” in this prospectus
“Overseas Subsidiaries”	Havay Industry, GHW USA, GHW Eurochemicals, Nuovomondo Chemicals, Ukrhimformacia and Star International
“person”	any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus

DEFINITIONS

“Placing Shares”	the 225,000,000 new Shares initially being offered at the Offer Price for subscription pursuant to the Placing subject to the terms and conditions as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Placing Underwriter(s)”	the underwriter(s) of the Placing, who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing and expected to be entered into by, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Placing Underwriters, as further described in the paragraph headed “Underwriting – Placing” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“PRC government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC law
“PRC Subsidiaries”	GHW International SCM, GHW Chemicals, Havay Group, Hanshang Weisou, Haijinsha International, GHW Investment, Nuowei Trading, Jinruntai Chemicals, GHW Trading, Tianyu Transportation, Xinnuo Pharmaceutical, Yueda Logistics, Havay Feeds
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Date”	the date on which the final Offer Price is to be determined by our Company and the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), which is expected to be on or around Friday, 10 January 2020 and in any event not later than 12:00 noon on Wednesday, 15 January 2020
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription to the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Public Offer Shares”	the 25,000,000 new Shares offered by our Company for subscription at the Offer Price pursuant to the Public Offer (as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus)
“Public Offer Underwriter(s)”	the underwriter(s) of the Public Offer named in the paragraph headed “Underwriting – Underwriters – Public Offer Underwriters” in this prospectus

DEFINITIONS

“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 30 December 2019 relating to the Public Offer entered into, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Public Offer Underwriters, as further described in paragraph headed “Underwriting – Public Offer underwriting arrangements and expenses” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RUB”	Russian Ruble, the lawful currency of the Russian Federation
“SAC”	the Standardisation Administration of the PRC (中華人民共和國國家標準化管理委員會)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sanctioned Countries”	countries that are the targets of economic sanctions as administrated by the OFAC, the laws of other countries and under international law. In respect of the Group’s sales during the Track Record Period, the Sanctioned Countries are Russia, Ukraine, Lebanon, Egypt, Belarus, Tunisia, Venezuela, Syria and Sudan
“Sanctioned Person(s)”	certain person(s) and entity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the European Union, the United Nations or Australia
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 16 December 2019, a summary of principal terms of which is set out in the paragraph headed “Statutory and General Information – D. Share Option Scheme” in Appendix IV to this prospectus

DEFINITIONS

“Sole Sponsor”	Fortune Financial Capital Limited, a licenced corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity
“Star International”	Star International Saint-Petersburg LLC, a company incorporated in Russia on 26 March 2007 and our wholly-owned subsidiary
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Tai’an Production Plant”	our production facilities located in Tai’an, Shandong Province
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buybacks issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tax Consultant”	BDO Tax Limited, the tax consultant of the Company with respect to transfer pricing review
“Tianyu Transportation”	Nanjing Tianyu Transportation Co., Ltd.* (南京天宇運輸有限公司), a company established in the PRC on 7 May 1999 and our wholly-owned subsidiary
“Track Record Period”	the period comprising the three financial years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019
“Ukrainian Hryvnia” or “UAH”	Ukrainian Hryvnia, the lawful currency of Ukraine
“Ukrhimformacia”	Ukrhimformacia Limited Company, a company incorporated in Ukraine on 27 April 2006 and our wholly-owned subsidiary
“Underwriters”	The Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “U.S.\$”	United States dollars, the lawful currency of the United States
“U.S. Legal Advisers”	Montgomery McCracken Walker & Rhoads LLP, the legal advisers to our Company as to U.S. law
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“Vietnam”	the Socialist Republic of Vietnam
“Vietnamese Dong” or “VND”	Vietnamese Dong, the lawful currency of Vietnam

DEFINITIONS

“Vietnamese Legal Advisers”	Global Vietnam Lawyers LLC, the legal advisers to our Company as to Vietnamese law
“WHITE Application Form(s)”	the application form(s) for use by the public who require such Public Offer Shares to be issued in the applicant’s own name(s)
“Xinnuo Pharmaceutical”	Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.* (江蘇省信諾醫藥對外貿易有限公司), a company established in the PRC on 5 January 1998 and our wholly-owned subsidiary
“Xuzhou Production Plant”	our production facilities located in Xuzhou, Jiangsu Province
“YELLOW Application Form(s)”	the application form(s) for use by the public who require such Public Offer Shares to be deposited directly in CCASS
“Yueda Logistics”	Taian Yueda Logistics Co., Ltd.* (泰安岳達物流有限公司), a company established in the PRC on 24 October 2016 and our wholly-owned subsidiary
“%”	per cent

Unless expressly stated or the context requires otherwise:

- *amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items;*
- *all data contained in this prospectus are as at the Latest Practicable Date;*
- *all references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified; and*
- *solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi amounts into Hong Kong dollars have been made at the rate of RMB0.89 to HK\$1.00.*

* *The English names of companies incorporated in the PRC, the PRC laws and regulations, the PRC government authorities and the awards and accreditation obtained by the Group are translation of their Chinese names and are included for identification purposes only. If there is any inconsistency between such Chinese names and their English translations in this prospectus, the Chinese names shall prevail over their English translations.*

GLOSSARY OF TECHNICAL TERMS

The glossary contains explanations of certain terms used in this prospectus as they relate to the business of our Group. As such, these terms and their meanings may not correspond to the standard meaning or usages of these terms.

“acidification”	a process in which the system is converted from alkalinity or neuter to acidity by adding acid
“BSI”	British Standards Institution, an independent product certification organisation based in the United Kingdom
“by-product”	output from a joint production process that is minor in quantity and/or net realisable value when compared to the main products
“CAGR”	compound annual growth rate
“catalyst”	a substance that speeds up a chemical reaction
“deamination”	a process by which an amine group is removed from a molecule
“ERP system”	enterprise resource planning system
“FAMI-QS”	a code of practice which provides the requirements for implementing measures necessary to ensure feed safety and quality of products manufactured by processes and aims to ensure feeds safety by minimising unsafe practices and the risk of hazardous ingredients entering the food chain
“GB/T”	national standards of SAC which are recommended (which are prefixed GB/T) and may be identical to or modified from or not equivalent to international standards of the ISO
“GB/T 19001-2016”	the PRC equivalent standard of ISO 9001:2015
“GB/T 22000-2006”	the PRC equivalent standard of ISO 22000:2005
“GB/T 24001-2016”	the PRC equivalent standard of ISO 14001:2015
“GB/T 28001-2001”	the PRC equivalent standard of OHSAS 18001:2007
“GDP”	gross domestic product
“Halal”	a recognition that the products are permissible under Islamic law and these products are usable by Muslims
“integrated chemical services”	a complete supply chain to provide customers with full spectrum of services from pre-sales consulting services, sales of chemical products to after-sales technical support
“intermediates”	chemicals that are used as raw materials to produce other chemical products
“IPBC” or “iodopropynyl butyl carbamate”	iodopropynyl butyl carbamate
“ISO”	the International Organisation for Standardisation, an independent non-governmental international organisation based in Geneva, Switzerland that develops and publishes international standards required by business, government and society around the world. ISO collaborates with its partners in international standardisation

GLOSSARY OF TECHNICAL TERMS

“ISO 14001:2015”	a standard developed by ISO which specifies requirements for an environmental management system that an organisation can use to enhance its environmental performance and manage its environmental responsibilities in a systematic manner that contributes to the environmental pillar of sustainability
“ISO 22000:2005”	a standard developed by ISO which specifies requirements for a food safety management system where an organisation in the food chain needs to demonstrate its ability to control food safety hazards in order to ensure that food is safe at the time of human consumption
“ISO 9001:2015”	a standard developed by ISO which specifies requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet its requisite standards and aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and assurance of conformity to customer and applicable requisite requirements
“ISO/IEC 17025:2005”	a general requirement of ISO for the competence to carry out tests and/or calibrations, including sampling. It covers testing and calibration performed using standard methods, non-standard methods and laboratory-developed methods
“MIBK”	methyl isobutyl ketone
“Modified MDI”	methylene diphenyl diisocyanate variants
“OA system”	office automation system
“OHSAS 18001:2007”	a standard developed by BSI which specifies the minimum requirements for occupational health and safety management best practice
“Polymeric MDI”	polymeric methylene diphenyl diisocyanate
“sq.m.”	square metres
“TDI”	toluene diisocyanate
“tonnes”	metric tonnes

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy;
- our profit estimate and other prospective financial information; and
- the regulatory environment and industry outlook for the industry and markets in which our Group operate.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the markets in which we operate relating to any aspect of our business or operations;
- general economic, market and business conditions in the industry and markets in which we operate;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this prospectus.

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described in the following risk factors when considering making an investment in the Shares being offered in the Global Offering. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and our business and operations are conducted substantially in the PRC and Vietnam and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business may be adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment. For details regarding the regulations of the PRC and Vietnam and other relevant matters, please see the sections headed “Regulatory Overview” and “Appendix III – Summary of the Constitution of the Company and Companies Law of the Cayman Islands” in this prospectus.

This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our sales and growth in market demand for our products are dependent, among other things, on the conditions and development of the industry of our downstream customers, which in turn depend on the global and, in particular, the PRC economy.

During the Track Record Period, we derived revenue primarily from sales of our products to customers in the PRC. We also export products to more than 50 overseas markets, including Vietnam, Russia, Ukraine, India, the United States and other European countries. The demand for our chemical products depends, among other things, on the conditions of the global and, in particular, the PRC economy.

In our PRC and overseas markets, general economic conditions, interest rate levels, inflation and unemployment rates, demographic trends, GDP growth and consumer confidence, among other things, influence the growth of the industries where our products are widely used or applied. During the Track Record Period, we derived revenue primarily from sales of our products to manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we generated approximately 74.3%, 79.2%, 74.2% and 80.4% of our revenue from sales to these customers, respectively. As a result, a downturn in the relevant industries in the PRC or other markets where our products are sold, a downturn in general economic conditions or competition for our products in the markets in which we currently sell or intend to sell, may affect our sales, resulting in pressure on the prices, volumes and margins achieved or achievable in the future. For instance, polyurethane materials are commonly used in the automotive industry for the production of automotive interior (such as steering wheel armrest and seat cushion headrest), automotive exterior (such as car roof and automotive painting), engine compartment and are also widely adopted for refrigerator application. Therefore, the demand for our major products under the polyurethane materials segment, is significantly affected by conditions and development of the automotive industry or demand for refrigerator in the PRC. If our downstream customers experience a decline in the sales of automobiles or refrigerators due to a downturn in general economic condition and if we are unable to diversify our customer base, our sales and growth in market demand for our products may be adversely affected.

RISK FACTORS

Although the PRC economy and the demand from our customers have significantly increased in recent years, there is no assurance that the current level of growth will continue to sustain. A decline in demand of our products or a shift to the lower end products resulting from the deteriorating economic conditions may adversely affect our business, financial conditions, results of operations and prospects.

Our financial conditions and results of operations may be negatively affected by the outbreak of African Swine Fever or food-borne diseases and illnesses and other health epidemics.

During the Track Record Period, we derived revenue in the animal nutrition chemicals segment primarily from sales of our products to manufacturers in the feed additives and livestock industry. Choline chloride, which is one of our major products, is primarily used in swine's feed additives. Therefore, our business and financial performance is dependent on the demand of downstream swine industry, which is susceptible to outbreaks of food-borne diseases and illnesses and other health epidemics such as African Swine Fever. Since the second half of 2018, there has been an outbreak of African Swine Fever in several provinces in the PRC, which can cause massive deaths of pigs in a short period of time. As a result of African Swine Fever, the PRC has slaughtered infected pigs and prohibited the export of pork from certain provinces. As advised by Frost & Sullivan, due to the outbreak of African Swine Fever, the demand for choline chloride has been weakened in 2018, resulting in a decrease in the price of choline chloride in 2018 and the first quarter of 2019. If there is a prolonged or recurrence of shortage of swine as a result of African Swine Fever or other food-borne diseases and illnesses and other health epidemics, the average selling price, sales and growth in market demand for our products may be adversely affected, which in turn may materially and adversely affect our financial conditions and results of operations.

Our financial conditions and results of operations may be negatively affected by the fluctuations in average selling price of our products.

During the Track Record Period, the majority of our revenue was derived from the polyurethane materials and animal nutrition chemicals segments. Any fluctuations in average selling price of our products in the polyurethane materials and animal nutrition chemicals segments may materially and negatively affect our financial conditions and results of operations.

Any unstable fluctuation on the upstream supply of our products in the PRC may affect their selling prices. For instance, there was a decrease in the average selling price of polyurethane materials in the PRC during the first half of 2019, which was mainly attributable to the pricing pressure on the polyurethane materials manufacturers as a result of the increased competition arising from the nationwide enlarged production capacity of TDI. As advised by Frost & Sullivan, the average selling price of polyurethane materials in the PRC in June 2019 has reached its lowest level in three years. There was a drop in the average selling price of TDI in November 2019 primarily due to the increase in utilisation of TDI production capacity of one of the major upstream manufacturers in the PRC in October 2019. Since the upstream supplies of our polyurethane products are subject to a variety of factors that are beyond our control, including the existing and potential production capacity of the manufacturers in the market, government policies and environmental control and overall economic conditions and business environment, all of which may have an impact on their market prices and therefore our cost of purchase from time to time, we cannot assure you that there will be an increasing trend of average selling price of our polyurethane products, which we typically price on a markup pricing basis. In case there is any decrease of average selling price of our polyurethane products in the future, our business, operating results and financial conditions may be materially and adversely affected, or this may cause significant fluctuations in our operating results from period to period.

On the other hand, the outbreak of African Swine Fever in the PRC since the second half of 2018 had weakened the demand of swine's feed additives in the PRC due to the massive death of pigs and the subsequent slaughter of infected pigs and prohibition on export of pork from certain provinces. As the choline chloride market is highly dependent on the demand of downstream swine industry, the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at low level in 2019. There is no assurance that our financial conditions and results of operations will not be materially and adversely affected by the declining average selling price of our animal nutrition chemicals products, arising from any prolonged or recurrence of shortage of swine due to African Swine Fever.

RISK FACTORS

We are dependent on the three production plants located in the PRC and Vietnam. Any operational disruption in our production plants may result in a reduction of sales volume and may cause us to incur substantial expenditure.

Apart from the products that we procured from third party manufacturers, we conduct all of our production activities at the two production plants in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, respectively, in the PRC and one production plant in Binh Duong Province, Vietnam. Our manufacturing operations may be subject to significant interruption if we experience closure of either one of the three production plants, interruption in, or prolonged suspension of, any substantial part of our production, or any damage to or destruction of our production facilities arising from unexpected or catastrophic events such as natural disasters, terrorism or other third party interference, which are beyond our control. Such risks of operational breakdown cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met.

In addition, there is no assurance that we can continue to lease the land at Xuzhou, Jiangsu Province where our current production plant is located when the relevant lease terms expire or required to be vacated. If we are unable to renew our existing leases, or if there is sudden request for vacation for the leased production plant, we may need to secure alternative premises. As advised by our PRC Legal Advisers, for the leased land where our Xuzhou Production Plant is located, we have entered into a sub-lease agreement which the party whose rights to grant such sub-lease to us are in doubt. For detail, please see the paragraph headed "Business – Properties" in this prospectus. If we are required to be vacated from this land, our Directors currently expect an aggregate cost of RMB2.5 million for write off of factory building and fixed assets and relocation of the fixed assets in the Xuzhou Production Plant and the Group will be required to allocate the production capacity from the Xuzhou Production Plant to Tai'an Production Plant. The production facilities at our Tai'an Production Plant will reach full utilisation sooner and we may not be able to meet the increasing demand from the customers for choline chloride and betaine if we cannot implement our business strategies successfully.

Any closure of production plants, breakdown or suspension of production or failure to supply products to our customers in a timely manner pursuant to our sales agreement may result in breach of contracts, loss of revenue, as well as exposing us to liability and the requirement to pay compensation under the relevant sales agreements, lawsuits and damage to our reputation. Consequently, our business, financial conditions and results of operation may be adversely affected.

We rely on our suppliers for our business, which exposes us to risks associated with fluctuations in prices of raw materials and chemical products, and reductions in the availability of raw material and chemical products supplies may disrupt our operations.

We use significant quantities of various chemicals in our manufacturing processes, such as trimethylamine, the principal raw material used to produce choline chloride and betaine, and iodine, the principal raw material used to produce pharmaceutical intermediates. We also procure chemical products from third party manufacturers such as polymeric MDI and TDI for our onward sales to customers. During the Track Record Period, these raw materials and chemical products have been generally available from a number of independent suppliers. However, we cannot assure you that this would continue to be the case in the future. We generally acquire raw materials and chemical products from large domestic suppliers in the PRC and from overseas suppliers. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the total purchase amount from our five largest suppliers accounted for approximately 41.7%, 54.2%, 44.0% and 39.4% of our total cost of sales, respectively. We may be adversely affected by fluctuations in the price of the raw materials and chemical products procured by us that have been subject to historical periods of rapid and significant movements in price.

The prices of raw materials and chemical products from third party manufacturers may be affected by a number of factors, including market supply and demand, changes in the anti-dumping duties, the PRC and global economic conditions and changes to the PRC or international environmental and regulatory requirements. Any significant increase in the cost of our raw materials or chemical products from third party manufacturers may increase our cost of sales and negatively affect our profit margin and, more generally, our business, financial conditions, results of operation and prospects. A reduction in, or lack of availability of, raw materials or chemical products from third party manufacturers or interruptions in the supply chain may also impact our profitability to the extent that we are required to pay higher prices for, or are unable to secure adequate supplies of, the necessary raw materials or chemical products.

RISK FACTORS

We have not entered into hedging arrangements with respect to the price of the raw materials used to produce our products or chemical products from third party manufacturers. In response to price changes of raw materials and chemical products from third party manufacturers, we seek to adjust the prices at which we sell our products to pass any increase in our costs to our customers to maintain our margins. If any supplier that we rely on for raw materials and chemical products ceases or limits production, raises prices of its products or sells its products to alternate buyers, this may restrict our production and sales of our products and we may incur significant additional costs to find alternate, reliable suppliers. We may also experience significant production or delivery delays while locating new supply sources. We cannot assure you that we will always be able to pass on these increased costs. If we were unable to pass on all or a portion of the increased cost of any of our raw materials or chemical products to our customers, it may have an adverse effect on our business, financial conditions, results of operation and prospects.

Failure in our integrated data operation platform could result in deficiencies in our business operations.

Our operations are managed by our integrated data operation platform which has enhanced our operational efficiency and effective inventory control. We use the ERP system to support certain key procedures in our operation from inventory management, sales and delivery of products and financial management. In addition, we use the OA System for centralised management of our daily administrative operations and production process control system for closely monitoring the production process. For details, please refer to the paragraph headed “Business – Integrated Data Operation Platform” in this prospectus.

The satisfactory performance and reliability of our integrated data operation platform are fundamental to ensure that we maintain our smooth daily operations and our competitiveness in our industry. However, we cannot assure you that there will not be any failure or breakdown of our integrated data operation platform in the future. Any failure or breakdown in our integrated data operation platform could interrupt our normal business operation and result in a significant slowdown in our operational efficiency during such failure or breakdown. Any prolonged failure or breakdown of the integrated data operation platform could materially impact our ability to maintain effective inventory control of products and offer services to our customers, which could have a material adverse effect on our business and results of operation.

We rely on certain key management personnel and the recruitment and retention of other qualified personnel to maintain our continued success.

The success of our business depends on, to a considerable extent, the services, expertise and continuity of our senior management personnel and other qualified and experienced personnel, most of whom have an in-depth understanding of our industry and operations and may be difficult to replace. Our key management teams comprise our executive directors and senior management as disclosed in the section headed “Directors and Senior Management” in this prospectus. In particular, our executive Directors, Mr. Yin, Mr. Chen Zhaohui and Mr. Zhuang Zhaohui, who have over 20 years of industry experience. Furthermore, our key operational personnel such as Mr. Zhou Chunnian, Mr. Sun Guibin, Mr. Chen Hua, senior management such as Ms. Jiang Hong and Mr. Diao Cheng have been with us for approximately 20 years on average. They are crucial to our success due to their expertise and experience in our industry, market development, contribution to technological development and expertise in managing our operations. In addition, the relationship and reputation that our management has established and maintained with our customers contribute to our ability to maintain good relationships with customers. There is no assurance that any of them will continue in his or her present capacity with us for any particular period of time, and the loss of services of any senior management or personnel without timely and appropriate replacement could have an adverse effect on our ability to implement our business strategy and maintain our operational stability. This may result in decreased consumer confidence in and reduced market demand for our products, which in turn may materially and adversely affect our business, financial conditions and results of operation.

RISK FACTORS

In addition, our success depends on our ability to attract competent personnel. However, we may not be able to attract the personnel in order to manage our existing operations and our future development. We may also need to offer better remuneration and other benefits to recruit personnel that are critical to our operation and development. Furthermore, our competitors may also seek to hire our personnel. We cannot assure you that we have the resources to fully achieve our staffing needs. Our failure to attract and retain competent personnel, and any increase in staffing costs to retain such personnel might have a negative impact on our ability to maintain our competitive position and to expand our business effectively.

We might not be successful in the research and development of production equipment and in improving our existing production processes and the quality of our existing products.

We rely on our research and development team to develop new production equipment and methods to improve our existing products or production processes. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our expenses in relation to our research and development activities amounted to RMB22.7 million, RMB32.8 million, RMB40.4 million and RMB14.1 million, respectively. However, development of new production equipment and production processes can be time consuming and costly. We cannot assure you that any of our research projects will be completed within the anticipated time frame, or lead to any breakthroughs, or that the results of such research and development projects will lead to viable commercial production. If we are not successful in researching and developing new production equipment and methods or if we are not able to translate our research and development efforts into commercial production, we might not be able to recover the research and development costs incurred. We may have to continue our operations with possibly outdated equipment, products and production processes that may restrict our ability to compete in the market and, in turn, our business and results of operation may be adversely affected.

Our Group's cashflow position may be adversely affected if the issuing banks fail to settle the discounted and endorsed bank issued bills on maturity.

Our bills receivables and bill receivables at fair value through other comprehensive income represented receivables evidenced by bank issued bills. We allow our customers to use banks' acceptance bills to settle their purchases with us. These bills, once received by us, may be discounted to cash with banks prior to their maturity dates subject to the payment of discount interest, or endorsed by us to settle our payables.

Our Group is subject to exposure in respect of the settlement obligation of these bank issued bills receivables under the relevant PRC rules and regulations, in the event that the issuing banks fail to settle the bills on their maturity date. The Group's maximum exposure to loss is the same as the amount of payables by the Group to banks or the suppliers in respect of the discounted/endorsed bank issued bills. As at 30 June 2019, should the issuing banks fail to settle the bills on maturity, the amount of payables by the Group to the banks and the suppliers in respect of the discounted and endorsed bank issued bills was approximately RMB165.5 million. We cannot assure you that the issuing banks will be able to fulfil their guaranteed payment obligations to settle the bank issued bills. In the event that they fail to do so, there may be recourse to the Group on these endorsed/discounted issued bills by the suppliers or the nominated banks and our Group's cashflow position and liquidity may be adversely affected.

We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States, the European Union, Australia and the United Nations Security Council and other relevant sanctions authorities.

The United States and, to a lesser extent, other jurisdictions, including the European Union and Australia, maintain broad economic sanctions targeting the Sanctioned Countries. In addition, the United States and other jurisdictions have implemented Targeted Sanctions Programs which target parties or economic sectors regardless of where they are located. For details on the relevant sanctions laws, please refer to the paragraph headed "Regulatory Overview – Sanctions Laws and Regulations" in this prospectus.

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During the Track Record Period, we sold our products to customers in Russia, Ukraine, Lebanon, Egypt, Belarus, Tunisia, Venezuela, Syria and Sudan, which are Sanctioned Countries. The total revenue generated from sales to customers in these Sanctioned Countries amounted to approximately RMB60.8 million, RMB94.5 million, RMB128.7 million and RMB40.9 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively representing approximately 3.8%, 4.3%, 6.0% and 4.4% of our total revenue in the corresponding period. For details of our sales to customers in the Sanctioned Countries, please see “Business – Business Activities in the Sanctioned Countries” in this prospectus.

We cannot predict the interpretation or implementation of government policy at the state or local levels of the United States or any policy by the European Union, the United Nations, Australia and other applicable jurisdictions with respect to any of our current or future activities with our customers from the Sanctioned Countries. We give no assurance that our future business will be free of risk under sanctions implemented in these jurisdictions due to our business nature or that we will conform our business to the expectations and requirements of the United States authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the United States, the European Union, the United Nations, Australia or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company.

In addition, since many sanctions programmes are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable. We cannot assure you that if the scope of sanctions were expanded or if our safeguards to prevent sales to any sanctioned person were to fail, our business, financial conditions and results of operation would not be materially and adversely affected.

Certain state and local governments of the United States and institutional investors have restrictions on the investment of funds in companies that are members of corporate groups with specified activities in certain Sanctioned Countries. Concerns about potential legal or reputational risk associated with our historical and ongoing operations in countries subject to sanctions could also reduce the marketability of our Offer Shares to particular investors, which could affect the price of our Offer Shares and Shareholders’ interests in us, any of these events could have an adverse effect on the value of your investment in us.

We have undertaken to the Stock Exchange that (i) we will not use the net proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, any Sanctioned Countries or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including but not limited to, any government, individual or entity that is the subject to any OFAC-administered sanctions or that would be in breach of the sanctions imposed by the United States, the European Union, the United Nations or Australia, (ii) we will not undertake any future business that would cause our Group, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investor to violate or become a target of the sanction laws of the United States, the European Union, the United Nations and Australia, and (iii) we will make timely disclosure on the Stock Exchange’s website and our own website if we believe that any of our activities have created a material sanctions risk to our Group and our Shareholders. We will also include such disclosure in our annual and interim reports and will include a discussion of any planned business and the relevant monitoring measures in any Sanctioned Countries. If we breach any of these undertakings to the Stock Exchange after Listing, it is possible that the Stock Exchange may delist our Shares.

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Before investing in the Shares, you should consider if such investment would expose you to any of the United States, the European Union, the United Nations, Australia or other sanctions law risk arising from your nationality or residency. Any of these events could have an adverse effect on the value of your investment in us. We cannot assure you that our past business activities will not subsequently be considered sanctionable business activities under the United States, the European Union, the United Nations and/or Australian sanctions laws, rules and regulations. If our historical business activities in connection with the Sanctioned Countries are subsequently considered to be in violation of any of the United States, the European Union, the United Nations and/or Australian sanctions laws, rules and regulations, we may be subject to the applicable penalties pursuant to such laws, rules and regulations. Our business and reputation could be adversely affected if the relevant authorities of the United States, the European Union, the United Nations, or Australia were to determine that any of our historical and on-going business activities constituted violations of the sanctions they impose.

Our business operations are subject to significant operational and transportation risks relating to hazardous waste and in connection with potential accidents arising from our operations and other unforeseen risks.

We generate hazardous wastes during production processes including waste activated carbon, potassium chloride, cashew nut oil sludge, sodium nitrate and sludge at the sewage treatment facilities from time to time at our production plants in the PRC and Vietnam. Improper handling of these wastes can result in serious pollution. Any accidents resulting from improper handling of these wastes may cause serious environmental, health and safety issues for our employees or others, cause significant damage to our production plants and result in production interruptions or result in harm to the environment or natural resources. Our operations are also subject to unforeseen risks. We cannot assure you that we are insured for any of these risks or that if insured, we will be successful in making claim under our insurance policies or that the claimed proceeds will be sufficient to compensate the actual damages suffered, or at all. Any of these events may also lead to litigation, government fines or penalties, which in turn may adversely affect our reputation, financial conditions and results of operation.

Our business involves the operation of machinery and handling of chemicals, which, if operated or handled improperly, may result in health and safety issues for our employees, physical injury or even death. If work-related accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to possible fines or penalties. Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or government requirements to implement additional safety measures. Such business interruptions may have an adverse effect on our business, financial conditions and results of operations. We cannot assure you that all risks have been covered adequately by our existing insurance policies. If we incur substantial liabilities and they are not covered by our insurance policies, our business, financial conditions and results of operations may be adversely affected.

Our expansion plan might not be completed as planned, may exceed our original budget and might not achieve the intended economic results or commercial viability.

Our future success to a large extent depends on our ability to expand our production capacity. We intend to strengthen our leading position in the animal nutrition chemicals market by performing technological enhancement to adjust and recalibrate the existing machinery and equipment to upgrade our production facilities at our Tai'an Production Plant, which will house the expanded production capacity for choline chloride and betaine and building a new production plant in the western region from the Tai'an Production Plant to produce trimethylamine, which is the key raw material for producing choline chloride and betaine, to capitalise on the strong demand for animal nutrition chemicals and to reduce our overall production costs. As at the Latest Practicable Date, the technological enhancement for increasing the production capacity of choline chloride and betaine, which was fully funded by our internal financial resources, has been completed. For details, please refer to the paragraph headed "Business – Production – Expansion Plan" and the section headed "Future Plans and Use of Proceeds" in this prospectus. Specifically, our expansion plan relating to the upgrade of our production facilities at the Tai'an Production Plant and construction of the New Production Plant in Tai'an, Shandong Province might involve the following risks:

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- *Risk of failure to obtain relevant permits for construction.* We cannot assure you that we will obtain the relevant approvals, permits and licences in relation to the construction of the New Production Plant in a timely manner, or at all. In the event that we fail to obtain the necessary approvals, permits and licences, our expansion plan may be delayed.
- *Risk of operating at a utilisation rate lower than our expectation.* Our actual production volume may vary depending on the demand for choline chloride and betaine, which in turn may be affected by the market trend, customers' preferences or other factors which are beyond our control. The demand for choline chloride and betaine to be produced by our upgraded facilities at the Tai'an Production Plant might not be up to our expectation due to a decrease of order volume from our existing customers or a lack of new customers, and hence, the production lines might be operated at a utilisation rate lower than our expectation, which may adversely affect our profitability and margin.
- *Risk of adversely affecting our liquidity.* We expect to fund the upgrade of our production facilities at the Tai'an Production Plant and the construction of the New Production Plant by our internal financial resources and the proceeds from the Global Offering, respectively. Hence, our liquidity may be adversely affected if we are not able to maintain our cash flow.

We cannot assure you that we will be able to complete our expansion plan within budget, on schedule or at all. Our expansion plan may be adversely affected by factors such as lack of utilities and personnel, unexpected technical problems, natural disasters, inability to obtain required governmental permits and approvals, problems with construction of our existing or future production facilities, logistic difficulties and any unforeseen legal or regulatory impediments introduced by the PRC government. If there is any delay in the progress of our expansion plan, we might not be able to deliver our products in the quantity and quality demanded by our customers and hence, our reputation and future business opportunities may be adversely affected. Further, these plans might not achieve the intended economic results or commercial viability, which in turn may weaken our competitive position in the market and adversely affect our business, financial conditions and results of operation.

We expect to incur substantial depreciation expenses from the expansion plan of our New Production Plant, which may adversely affect our results of operations and financial conditions.

We may be subject to significant depreciation expenses arising from the expansion plan of our New Production Plant after it commences operation. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). According to IFRSs, depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. In view of our business strategies and expansion plan, we anticipate that our future capital expenditure will increase as we construct our New Production Plant and purchase major equipment and machinery. Such capital expenditure may result in increase in depreciation expenses, which may in turn adversely affect our results of operations. We plan to commence the construction work of the New Production Plant in April 2020 and it is expected to commence operation in the first quarter of 2022. Our projected capital expenditure for the year ending 31 December 2019, 2020 and 2021 is nil, approximately RMB70.6 million and RMB41.0 million, respectively. We estimate that the annual depreciation expenses associated with the expansion plan will be approximately RMB11.5 million. Such depreciation expenses may have a negative effect on our profitability, results of operations and financial conditions.

We require various permits and licences for the operation of our business and for the production and sales of chemicals and use, generation and disposal of hazardous chemicals in the PRC and Vietnam. The loss of or failure to renew any or all of these licences and permits may adversely affect our business and operations.

In accordance with the PRC and Vietnamese laws and regulations, we are required to maintain various licences and permits to operate and to manufacture our products. Such regulations include, without limitation, the Regulations on the Safe Management of Hazardous Chemical Materials, the Regulations on Safety Production Licence and the Measures for Implementation of Safety Production Licence of Hazardous Chemical Production Enterprises that apply to the production, storage, use, operation and transportation of hazardous chemicals in the PRC, Decree 104/2009 and Decree 113/2017

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in Vietnam. For details of the various licences and permits that we must obtain for our operations, please refer to the paragraph headed “Business – Licences and Permits” and the section headed “Regulatory Overview” in this prospectus.

In particular, our business and operations involve the use, generation and disposal of hazardous chemicals, including substances that are highly regulated and may cause harm to the environment or human health, including waste activated carbon, potassium chloride, cashew nut oil sludge, sodium nitrate and sludge at the sewage treatment facilities. As a result, we are subject to various environmental protection laws and regulations in the PRC and Vietnam governing the emission, discharge, release and disposal of these substances and other pollutants. The laws and regulations in the PRC require enterprises that produce environmental wastes to establish environmental protection accountability system and to adopt effective measures to prevent and control the pollution and harms caused by waste gases, waste water, and waste residue. The PRC environmental protection laws and regulations also require manufacturers discharging pollutants to pay pollution fees in accordance with the relevant national regulations. Under the Vietnamese law, the enterprises which generate hazardous waste shall obtain the requisite registration and sign a contract to transfer hazardous waste with organisations or individuals having an appropriate licence in case of failure of self-reuse, recycling, co-treatment, treatment or recovery of energy from hazardous waste at the location.

We are required to comply with such laws and standards in relation to our production processes, and the relevant regulatory authorities would also carry out regular inspections to ascertain our compliance with the applicable laws and regulations. Save as disclosed in the paragraph headed “Business – Legal Non-compliance and Proceedings” in this prospectus, we are advised by our PRC Legal Advisers and Vietnamese Legal Advisers that we have obtained and maintained all the necessary permits and licences required in connection with our operations in all material respects as at the Latest Practicable Date. Failure to comply with the applicable PRC or Vietnamese environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations. The PRC and Vietnamese government and the PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. We cannot assure you that we will be in compliance with all such laws and regulations at all times. In the event that the PRC or Vietnamese government imposes more stringent environmental protection laws and regulations, our production and distribution costs may increase, or we may be forced to curtail or suspend production or to incur material capital expenditure or other costs to remain in compliance and we may be unable to pass on these additional costs to our customers.

We are also required to renew our licences and permits periodically. Failure to pass these inspections, loss of or failure to renew our licences and permits may result in temporary or permanent suspension of some or all of our production activities, which may disrupt our operations and may result in our failure to meet our contractual obligations. This may adversely affect our business, financial conditions and results of operations.

In addition, our production processes may result in releases of hazardous chemicals or other forms of pollution (including through gas emissions, wastewater discharges and waste disposal activities) that may cause harm to the environmental or to human health. Since we have been operating our existing production plants since 2003, some of our properties in the PRC have been subject to industrial or chemical use for a prolonged period and we cannot assure you that these properties have not been impacted by such activities. In the event that hazardous chemicals and other forms of pollution are present at our properties or result from such activities, we may be subject to claims for personal injury or property damages. We may also be required by governmental authorities to investigate or remedy such conditions or pay compensation for any harm that may adversely affect our business operation and financial conditions.

Our insurance coverage might not be adequate to cover all the risks we may face and if we were no longer covered by our existing insurance, it may be difficult to obtain replacement insurance on acceptable terms or at all.

We have obtained insurance coverage for our important fixed assets and products in delivery. We have also insured against any work-related injury or death of our employees and any injury or property loss of third party caused by accidents in our business operation. We believe these insurance policies are generally in accordance with customary industry practices, including deductibles and limits of coverage. However, we cannot be fully insured against all potential hazards incidental to our business, including

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losses resulting from war or terrorist acts, or all potential losses, including damage to our reputation. While we use our best efforts to maintain the continued safe operation of our production plants, certain of our raw materials, production processes and finished products are potentially destructive and dangerous in unexpected, uncontrolled or catastrophic situations, including fire, explosions, leaks and ruptures, chemical spills, natural disasters, unscheduled downtime and major equipment failures where we are unable to obtain insurance coverage at a reasonable cost or at all.

Incidents such as these at our production plants could temporarily shut down or disrupt our manufacturing operations, causing production delays and resulting in liability for workplace injuries and facilities. We cannot assure you that the safety measures we have in place for our operations will be sufficient to mitigate or reduce industrial accidents. As our insurance coverage may not be sufficient to cover such loss, any uninsured loss or loss in excess of the insured limits may have to be compensated by us. This could in turn materially and adversely affect our business and financial performance.

Due to the current market conditions, premiums and deductibles for certain insurance policies may increase substantially and, in some instances, certain insurances may become unavailable at a reasonable cost or available only for certain risks. If we were for any reason no longer covered by our existing insurance, we cannot assure you that we would be able to obtain replacement insurance on acceptable terms or at all, which may have an adverse effect on our results of operation.

Any interruption, shortage of utilities or fluctuation in utility prices may adversely affect our business operations.

Our production process requires a stable and large supply of utilities, primarily electricity and water. Electricity plays a particularly important function in the production of our products. As such, our entire production process may be forced to stop if there is an insufficient supply of utilities or a suspension of such supplies. We also anticipate that our reliance on such supplies would further increase as we seek to expand our production capacity. Any shortage of supply may therefore adversely affect our production flow and prevent us from satisfying obligations under sales agreements to our customers during the affected period.

Furthermore, if the supply from the utility companies experiences breakdowns or disruptions and suspends power generation, or if the utility companies terminates their supply agreements with us, we may have to rely on more expensive alternative sources of electricity. Although we have not experienced any power shortages caused by power supply limits imposed by the local government or shortage of water during the Track Record Period, we cannot assure you that this will not happen in the future. Any shortages of electricity or water supply may disrupt our production and adversely affect our business, financial conditions and results of operation.

We may be adversely affected by any decrease in our sales to our customers or our customers' default on their obligations under our contracts with them.

During the Track Record Period, we generally entered into legally binding sales agreements of one year or per order basis sales agreements for each transaction with our customers. As such, we cannot assure you that our customers will continue their purchases, if at all, from us at the current levels. Moreover, our revenue is also subject to our customers' business, product quality, sales strategy, industry conditions and the overall economic market environment. We cannot rule out the risk that our customers may terminate our sales agreements prior to the agreed term, become insolvent or otherwise default on payments under such sales agreements, or fail to take delivery of our products in accordance with the sales agreements. Consequently, we may fail to recover all expenditure for sales of our products, the construction and operation of our production plants, and other utilities. In essence, any significant reduction of sales to or loss of any of our customers may adversely affect our profitability and results of operations.

We only consider to grant a credit period for potential customers which are manufacturers and have been established and operated for two years or more unless the relevant potential customers are the related enterprises or subsidiaries of our existing customers. We generally do not grant any credit period for enterprises which are subject to litigation in respect of sales contract disputes, administrative penalty, continuous financial loss, non-compliance and outstanding tax arrears. Depending on factors including but not limited to the scale of operation, business relationship with our Group, transaction amount and

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historical payment records, we generally grant our customers a credit period of 15 days to 30 days. We may exercise discretion to grant a longer credit period to some of our large and long-standing customers. We cannot assure you that any of our customers which have been granted credit can fulfil their obligations under the sales agreements we entered into with them. As at 31 December 2016, 2017, 2018 and 30 June 2019, our allowance of doubtful debts amounted to approximately RMB1.6 million, RMB1.4 million and RMB8.0 million and RMB8.4 million, respectively. We cannot assure you that we will not encounter such difficulties in the future. Any default by our customers on their obligations under our sales agreements with them may have an adverse effect on our business, financial position and results of operation.

We are exposed to credit risk of our customers.

During the Track Record Period, our sales were generally made with credit period from 15 to 30 days. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the average turnover days of trade receivables were approximately 30.9 days, 22.5 days, 24.6 days and 29.0 days, respectively, and the average turnover days of trade receivables and bill receivables/ bill receivables at fair value through other comprehensive income were approximately 31.3 days, 22.8 days, 25.9 days and 35.6 days, respectively. We may be forced to assume greater amount of credit risk in the future as a result of the competitive conditions under which we operate and the continuing changes in the global economic and financial environment, which may limit our customers' access to credit in the future. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our balance of trade receivables (before allowance of doubtful debts) was approximately RMB130.0 million, RMB141.5 million, RMB158.6 million and RMB157.3 million, respectively. As at 31 December 2016 and 2017, our balance of bill receivables was approximately RMB3.1 million and RMB0.9 million, respectively. As at 31 December 2018 and 30 June 2019, our balance of bill receivables at fair value through other comprehensive income was approximately RMB13.6 million and RMB54.7 million, respectively. If we are forced to assume greater amount of credit risk and we encounter problems or delays in collecting amounts due from our customers, our liquidity could be negatively affected.

Our business and reputation may be affected by safety concerns, customer complaints, product tampering, quality control concerns or adverse publicity in relation to our products and may be liable for damages based on product liability claims.

Our products involve an inherent risk of injury that may result from tampering by unauthorised third parties, improper use, or product contamination or degeneration, including the presence of foreign contaminants, chemicals, substances or other agents or residues during the various stages of procurement, production, transportation and storage. We cannot assure you that our products will not cause any health-related illness or injury in the future or that we will not be subject to claims or lawsuits relating to such matters. Further, other than the cargo transportation insurance against the loss or change of the cargo by which our products are transported, we do not maintain any product liability insurance. In the event that a product liability claim is brought against us, we cannot assure you that we will be successful in defending such claims and, as a result, may be required to pay substantial damages.

Besides, while we have established quality control measures to monitor the quality of the raw materials and finished products throughout our production process, the effectiveness of the quality control measures depends on a number of factors, including the design of the measures and our ability to ensure that our employees adhere to our quality control guidelines, and we cannot assure you that our quality control measures, even when working effectively, can eliminate all risks in relation to the product quality issues and receive no complaint or claim relating to our products from our customers. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection could result in the production of defective products, delays in the delivery of our products, the need to recall defective or substandard products. This would bring a material adverse effect on our reputation in the market among current or prospective customers.

We cannot assure you that the relevant government authorities will not promulgate new laws or regulations containing recall mechanisms for chemical products. Under such circumstances, we may be required by the PRC government authorities to recall our products if they fail to meet the relevant quality or safety standards. We cannot assure you that no product liability claims would be asserted against us as a result. A product liability judgment against us or a product recall may have an adverse effect on our reputation, business and results of operation.

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Any future litigation, legal disputes or claims against us could be costly and time-consuming to defend.

We may become subject, from time to time, to legal proceedings and claims that arise in the ordinary course of business. As at the Latest Practicable Date, we were involved in a litigation initiated in the United States. For details, please refer to the paragraph headed “Business – Legal Non-compliance and Proceedings – Legal proceedings – U.S. litigation” in this prospectus.

There is no assurance that the outcome of the above proceedings would be favourable to us. In addition, any such litigation to which we may become a party might result in substantial costs and divert management’s attention and resources, which might seriously harm our business, financial conditions, results of operations and cash flows. Insurance might not cover such claims, might not provide sufficient payments to cover all of the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. In particular, any claim could result in unanticipated liability for us if the liability exceeds any available insurance coverage. A claim brought against us that is uninsured could result in unanticipated costs and could have a material adverse effect on our financial conditions, results of operations, cash flows or reputation.

Our operations may be subject to transfer pricing adjustments by competent authorities.

During the Track Record Period, we primarily produced our products through Havay Group and GHW (Vietnam) while our sales orders in respect of some products with our customers are concluded by Xinnuo Pharmaceutical, GHW International SCM, GHW Chemicals, GHW International (HK), GHW (Vietnam) Chemicals or our Overseas Subsidiaries. Finished goods were sold by Havay Group or GHW (Vietnam) to the aforementioned subsidiaries which eventually sold the products to the third party customers. For details, please refer to the paragraph headed “Business – Business activities in the Sanctioned Countries – Intra-Group Sales between Our Various Subsidiaries” in this prospectus. As at the Latest Practicable Date, our Directors were not aware of any enquiry, audit or investigation by any tax authority in the PRC, Vietnam, Hong Kong or the jurisdictions in which our Overseas Subsidiaries operated with respect to transfer pricing procedures carried out by our Group.

There is no assurance that the tax authorities would not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. If a competent tax authority later find that the transfer prices and the terms that our Group has applied are not appropriate, such authority may require our Company or its subsidiary to reassess the transfer prices and reallocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher overall tax liability for our Group and may adversely affect the business, financial conditions and results of operation of Group.

We may not be successful in identifying, acquiring or merging with suitable business targets, which could adversely affect our growth and revenue.

In accordance with our business development strategy, we also intend to expand our business through targeted acquisitions, joint ventures and partnerships in order to enter into new markets and further develop our product mix. Such arrangements may be subject to the completion of due diligence, numerous regulatory restrictions and approvals and negotiations of definitive agreements. Furthermore, the success of our expansion through such means is limited by the availability of, and competition for, suitable acquisition targets, or joint venture partners and by our financial resources, including available cash and borrowing capacity. As such, there is no assurance that we will be able to identify and enter into arrangements with suitable business partners or acquisition targets in the future on commercially acceptable terms, if at all, or will have sufficient capital to fund such arrangements. Failure in identifying and entering into viable arrangements with suitable targets in the future could adversely affect our business growth.

Future acquisitions or joint ventures expose us to potential risks, including potential difficulties in operating in the jurisdictions of the acquired target or joint venture partner, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenue to offset the costs and expenses of the acquisition. Acquisitions and joint ventures may also result in an increased leverage, assumption of potential legal liabilities in respect of the acquired businesses, and incurrence of impairment charges related to goodwill and other intangible assets.

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As a result, even if we were successful in entering into arrangements with such targets, we cannot assure that the relationships with such partners will result in positive impact on our revenue, nor can we assure that such arrangements would not be terminated before we can drive all the anticipated benefits. Should that be the case, we may not be able to generate a return on our investment or recover our investment and we may also be forced to incur extra costs in terms of potential compensations or damages for early termination under the relevant contracts and thus, our business operation and financial conditions may be adversely affected.

Our plan for research and development of pharmaceutical products presents increased risks.

We procured various pharmaceutical products from third party manufacturers for our onward sale to our customers. In the future, we intend to invest in our research and development for small batch production of certain pharmaceutical products so as to strengthen our sales in the segment of pharmaceutical products and intermediates. For details, please refer to the paragraphs headed “Business – Business Strategies” and “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus. We cannot assure you that the new pharmaceutical products will be launched to the market according to our anticipated time frame or budget.

The competitive conditions and customer preferences of the pharmaceutical products market may be different from our existing markets. The pharmaceutical products market may have well-established competitors with greater financial, marketing, customer service resources, and greater brand recognition than we do. Customers in the pharmaceutical products market might not be familiar with our brand and we may need to build up our brand awareness with greater effort than we originally planned. We may find it more difficult in the pharmaceutical products market to hire, train and retain qualified employees. As a result, our future operation in these markets may be less successful than those in the segments of animal nutrition chemicals, polyurethane materials and fine chemicals. We cannot assure you that we will be able to operate successfully in this target market, or that our pharmaceutical products will achieve a wide market acceptance or receive a positive market response. Such competition pressures may adversely affect our market share, profitability and financial conditions

The failure of our patents and trademarks to protect our intellectual property may adversely affect our business.

We believe that developing and enhancing our products, production processes and technologies that can be differentiated from those of our competitors are the key to our success. We have developed several proprietary production methods and equipment which adopted technologies that our directors consider as unique. As such, we rely on our patents to protect certain advanced technical features of our production processes. We have obtained various patents in the PRC for the devices of aqueous choline chloride, potassium iodide and polyurethane materials, such as evaporation and compression system, cooling system and gas emission treatment system. For details, please refer to the paragraph headed “Statutory and General Information – B. Further Information About Our Business – 2. Intellectual property rights” set out in Appendix IV to this prospectus.

Nevertheless, our actions to protect our proprietary rights may be insufficient to prevent others from developing similar products to ours as the scope of protections is limited to the countries in which they are granted. As our patents in relation to a particular technology are only granted in the PRC, we will not be able to exclude competitors from using that technology in other jurisdictions where we do not have a patent. This may affect the sales of our products to the overseas market and could therefore have a material adverse effect on our competitiveness and financial conditions. Furthermore, any future patent application filed by us might not result in an issued patent or, if patents are issued to us, such patents might be subject to challenges as to their scope or may be found to be invalid or otherwise unenforceable. You should be aware that the expiration of a patent or the failure of our patents to protect our formulations, production processes, technology, trade secrets or proprietary know-how may result in intense competition with consequent erosion of profit margins. In addition, our competitors and any other third parties may obtain patents that restrict or preclude our ability to lawfully manufacture and market our products in a competitive manner, which may adversely affect our business and results of operations.

We also rely on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. While it is our policy to enter into non-disclosure agreements with our research and development staff to protect our intellectual property,

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we cannot assure you that our confidentiality agreements will not be breached; such non-disclosure agreements will provide meaningful protection for our trade secrets or proprietary know-how; or adequate remedies will be available in the event of an unauthorised use or disclosure of these secrets and know-how. In addition, we cannot assure you that others will not obtain knowledge of these trade secrets through independent development or other legal means.

We may be subject to claims of infringement of third party intellectual property rights.

We seek to develop and implement new technologies and production processes quickly, and in doing so we might not be aware of other third party rights and accordingly, may be unable to assess the scope and validity of those third party rights. In addition, product development is inherently uncertain in a rapidly evolving technology environment in which there may be numerous patent applications pending, many of which are confidential when filed with regard to similar technologies. There may also be a certain degree of uncertainty regarding who rightfully owns rights in a process or technology. For example, when we collaborate with our strategic partner to develop the devices or method for production, it may be unclear as to who owns the resulting technology, and as a result we may be subject to disputes or restrictions on the use of those devices or methods. Accordingly, we may be subject to lawsuits for infringement on intellectual property rights.

Intellectual property litigation may adversely affect the development or sales of the challenged product or technology or require us to pay substantial damages or royalties to licence proprietary rights from third parties if we are found liable for the alleged infringement. Licences might not be available to us on acceptable terms, if at all. Given the rapid technological development that characterises the industry, we cannot assure you that our current measures are adequate and that we will not be subject to claims of infringement by third parties, both within or outside of the PRC. Any intellectual property litigation may cause us reputational damage and incur significant expense and divert our personnel's attention and efforts, any of which may have an adverse effect on our business, financial conditions, results of operation or prospects.

Foreign governments may institute various trade regulation measures on imported goods. Such measures may be applicable to our products and adversely affect our export sales that constitute an important portion of our revenues.

A significant portion of our products is exported to the international markets such as Vietnam, Russia, Ukraine, India, the United States and other European countries. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our sale in the international markets accounted for approximately 13.2%, 14.7%, 22.0% and 23.2% of our sales, respectively. We expect our sales in overseas countries to continue to contribute an important portion of our revenue in the near future. As such, we are subject to applicable laws and regulations of the countries that import our products and our export sales and, in turn, financial conditions and results of operations, are subject to the economic, political, social and legal developments in those jurisdictions.

Our products exported from the PRC are subject to anti-dumping duties or tariffs in countries such as the U.S., India and South Korea. Such duties, which are payable by importers when the products enter these relevant countries, effectively increase the prices of products imported from the PRC and put the manufacturers in the PRC at a disadvantage to manufacturers in other countries. Tariffs imposed by the U.S. also increase the price of products originating in the PRC and prevent them from entering into the U.S. For example, on 6 July 2018, the U.S. began imposing tariffs of 25% on approximately U.S.\$34 billion worth of imports from PRC, with the public comment process pending for an additional 25% tariff on products of the PRC with an annual trade value of approximately U.S.\$16 billion. The products targeted by the additional tariffs are believed to be those which benefit from the PRC's industrial policy and forced technology transfer practices. On the same day, the PRC retaliated against the U.S. by imposing tariffs on U.S.\$34 billion in U.S. exports to the PRC, and threatening tariffs on another U.S.\$16 billion. In light of the PRC's response by imposing duties on U.S. goods, the U.S. proposed to take further action in the form of an additional 25% tariff on products of the PRC with an annual trade value of approximately U.S.\$200 billion, which was subject to public comments through 5 September 2018. On 17 September 2018, the Office of the United States Trade Representative released a list of approximately U.S.\$200 billion worth of PRC imports that would be subject to additional tariffs. The additional tariff, initially of 10%, was effective starting from 24 September 2018. Subsequently, the PRC announced retaliatory tariff increases on U.S.\$60 billion worth of U.S. imports. On 2 December 2018, it was reported that the U.S. and the PRC reached a temporary deal, pursuant to which the U.S. will postpone the increase of tariff to 25% on approximately U.S.\$200 billion worth of PRC imports,

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pending negotiations between the two parties over the next 90 days. On 10 May 2019, the U.S. increased tariffs on U.S.\$200 billion worth of PRC products from 10% to 25%. On 13 May 2019, the PRC announced that it would increase tariffs on U.S.\$60 billion worth of U.S. imports from 1 June 2019 in response to tariff increases imposed by the U.S. on 10 May 2019. The tariff for importing goods are levied based on the origin of manufacturing the goods. As some of the products sold by the Group in the U.S. are made in the PRC, such goods are subject to the tariffs when imported into the U.S.. In particular, our Group imported approximately 989.8 tonnes of choline chloride to the U.S. for the year ended 31 December 2018 and the six months ended 30 June 2019, of which approximately 545.6 tonnes were sold during the period from 24 September 2018 to 10 May 2019. The total sales revenue derived from these 545.6 tonnes of choline chloride amounted to approximately U.S.\$466,000. Based on the 10% additional tariff imposed on these products, these products are subject to additional tariff in the amount of approximately U.S.\$46,600 for the year ended 31 December 2018 and the six months ended 30 June 2019. We did not import any product to the U.S. since the imposition of 25% tariff on 10 May 2019 and therefore we are not subject to any additional tariff. The current U.S. administration has created uncertainty with respect to, among other things, existing and proposed trade agreements (including the renegotiation of North American Free Trade Agreement to better implement U.S. trade policy objectives, such as through the potential addition of new provisions to address regulatory practices, state-owned enterprises, services, customers procedures, sanitary measures, labour, the environment, and other matters which may affect our business or the business of our customers), free trade generally, and potential significant increases on tariffs on goods imported into the U.S., particularly from Mexico, Canada and the PRC. Although similar duties or tariff barriers are not imposed by the said overseas countries on our products exported from Vietnam, we cannot assure you that the overseas countries will not impose such duties on our products exported from Vietnam in the future. We are also not aware of any particular orders, rules, regulations and investigations in any other foreign countries other than the U.S., India and South Korea, that may materially affect our export sales. However, we cannot assure you that no similar petition or investigations will be initiated against our products in the future in jurisdictions to which we export and may in the future export our products. If any such petitions are filed, they may result in the imposition of new countervailing duties or other forms of government trade protection measures on our products. Our business, results of operations and financial conditions may be adversely affected.

Any continuing or new foreign government trade protection measures unfavourable to our products, such as imposition of custom duties and import tariffs may significantly increase the cost of importing our products by our foreign customers as we may pass on such additional costs to our customers. Our foreign customers may be unwilling, or might not be able to, pass on the extra cost to their customers due to domestic competition and choose instead to purchase products from our competitors who are not subject to such trade protection measures. Hence, we may substantially lose our competitive advantages in overseas markets and export sales revenue, and our business, financial conditions and results of operations may be adversely affected.

We may not be able to obtain or renew our land use rights and building ownership rights for our business and production facilities.

As at the Latest Practicable Date, we held land use rights for three parcels of land in the PRC with an aggregate site area of approximately 96,485 sq.m. and expiry date on 14 August 2061 and 2 July 2063. We also leased one parcel of land in Vietnam with a site area of approximately 10,000.5 sq.m. and expiry date on 19 March 2058. In addition, we owned various buildings in the PRC, Vietnam, Hong Kong and Ukraine which are mainly utilised for production, warehousing and office. As advised by our PRC Legal Advisers and Vietnamese Legal Advisers and as confirmed by our Directors, save as disclosed in the paragraph headed “Business – Properties – Title defects” in this prospectus, we have obtained building ownership rights for all jurisdictions where our Group owns the buildings and we are entitled to occupy and use these buildings. However, we cannot assure you that we will be able to renew the title certificates for properties that are critical to our operations as they expire. Furthermore, we may move our production plants or construct additional production plants in the future. We cannot assure you that we will be able to obtain all of the necessary certificates and permits or complete the procedures for construction of our New Production Plant or any other possible relocation or construction. Our rights as owner of these properties may be adversely affected as a result of the absence of necessary certificates, permits or procedures, and we may be subject to litigations or other actions taken against us and/or lose the right to continue to operate on these properties, which may, in turn, adversely affect our business, financial conditions and results of operation.

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We are exposed to risks associated with fluctuations in foreign currency exchange rates.

A significant portion of our revenue, cost of sales and expenses are denominated in Renminbi, while the net proceeds of the Global Offering will be in Hong Kong dollars. Any appreciation in Renminbi against foreign currencies will adversely affect the relative value of the proceeds we will receive from the Global Offering.

For the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we recorded net foreign exchange loss of RMB0.7 million, RMB3.4 million, RMB0.5 million and net foreign exchange gain of RMB3.0 million, respectively, arising from transactions conducted in our ordinary course of business. The loss was mainly caused by the depreciation of the U.S. dollars against Renminbi as the functional currency of our subsidiaries in the PRC is Renminbi while the export sale to customers and purchase from overseas suppliers were mainly settled in the U.S. dollars. Fluctuations in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and the PRC's foreign exchange regime and policy. Renminbi has been unpegged from the U.S. dollars since 2005 and, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate. Renminbi may appreciate or depreciate significantly in value against the U.S. dollars in the future. There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As at the Latest Practicable Date, we had not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

Apart from the exchange difference arising from transactions conducted in our ordinary course of business mentioned above, we may be subject to foreign exchange gain or loss as our consolidated financial statements are denominated in Renminbi while some of our assets and liabilities are denominated in foreign currencies of respective Group entities, such as U.S. dollars, Euro, Vietnamese Dong, Ukrainian Hryvnia and Indian Rupee. Such exchange difference represents the difference in the exchange rates between Renminbi as our reporting currency and the relevant foreign currencies at the beginning and the end of the respective reporting period. It is not charged to our consolidated statements of profit or loss because such difference was related to the translation of foreign operations as at the respective reporting dates and arose in the preparation of our consolidated audited financial statements. For the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we recorded a gain of approximately RMB0.5 million, a loss of approximately RMB1.2 million, a gain of approximately RMB0.7 million and a loss of approximately RMB1.8 million, respectively.

The value of Renminbi against U.S. dollars and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in the PRC and the foreign exchange policies of the PRC. On 21 July 2005, the PRC government adopted on a more flexible managed floating exchange rate system to allow value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. Since the adoption of this new policy, the Renminbi appreciated more than 20% against the U.S. dollars over the following three years. The People's Bank of China regularly intervenes the foreign exchange market to limit fluctuations in Renminbi exchange rates.

The impact of future exchange rate fluctuations on our results of operations and financial conditions cannot be accurately predicted and there is no assurance that such exchange rate fluctuations will not in the future have a material adverse effect on our results of operations, financial conditions and prospects.

We experience seasonal fluctuations.

We experience seasonal fluctuations in our business and results of operations. Sales of our products are generally slower during the first quarter of each year as a result of the Chinese New Year holidays in the first quarter, where many of the consumer product manufacturers are in recess. As a result, comparisons of our sales and results of operations of the first quarter each year with other corresponding period within a single calendar year or in different calendar years are not necessarily meaningful and should not be relied as indicators of our performance for any future fiscal period.

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Seasonal fluctuation in our revenue requires us to monitor and control our working capital carefully so as to provide our business with adequate cash for operations. Failure to manage seasonality in our business may cause our revenue and financial conditions to be adversely affected.

We have substantial indebtedness and may incur additional indebtedness in the future, and we may not be able to generate sufficient cash to satisfy our existing and future debt obligations and to fund our expenditure.

We maintain a certain level of indebtedness to finance our operations. Our total outstanding interest-bearing bank and other borrowings as at 31 December 2016, 2017 and 2018 and 30 June 2019, were approximately RMB159.5 million, RMB178.9 million, RMB198.4 million and RMB324.3 million, respectively. Our gearing ratio was approximately 247.1%, 193.4%, 222.9% and 311.8% as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Our substantial indebtedness and high gearing ratio could have adverse consequences, it could, among others:

- require us to dedicate a higher portion of our cash flow from operations to servicing and repaying our debts, thereby reducing the availability of our cash flow to fund working capital or expand our business;
- increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for or reacting to changes in our business or the industry in which we operate;
- restrict us from making strategic acquisition or take advantages of business opportunities; and
- limit our ability to borrow additional funds to equity capital in the future or increase the cost of such funding or borrowing.

In the future, we may incur additional indebtedness and contingent liabilities, thereby increasing the risks we will be facing as a result of our indebtedness. Our future operating performance will be affected by, among other things, prevailing economic conditions, change in conditions and development of industry of downstream customers, products pricing, procurement price of raw materials, changes in laws and regulations and other unforeseen factors, will affect our ability to generate sufficient cash to satisfy our outstanding and future debt obligations. In the event that we are unable to generate sufficient cash flow to pay our anticipated operating expenses and to repay our debts, we may be forced to adopt an alternative strategy such as reducing or delaying capital expenditure, disposing of our assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be implemented successfully or at all, which may result in adverse effects on our financial conditions and results of operations.

We recorded net current liabilities during the Track Record Period and historical accumulated loss and may record net current liabilities and accumulated loss in the future.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, we recorded net current liabilities of approximately RMB80.3 million, RMB80.0 million, RMB111.9 million and RMB76.2 million, respectively. For details of our net current liabilities position and reasons for the fluctuations, please refer to the paragraph headed “Financial Information – Liquidity and Capital Resources – Net Current Liabilities” in this prospectus. As at 1 January 2016, the Group recorded an accumulated loss of approximately RMB63.0 million, which was brought forward primarily because of substantial decrease of profitability in our sales of chemicals and increase of our other expenses over marketing, depreciation charges and research and development activities in relation to equipment and production methods of various products between 2013 and 2015. For details, please refer to the paragraph headed “Financial Information – Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Accumulated losses before the Track Record Period” in the prospectus. We may continue to have net current liabilities and accumulated loss in the future as our business expands. If we are unable to obtain sufficient funds to meet our needs or refinance our loans on commercially

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acceptable terms and continue to improve our financial performance, or if at all, then we would not be able to repay our borrowings, particularly, our short-term borrowings, upon maturity. This could adversely affect our business, financial conditions and results of operation.

We recorded negative operating cash flow for the six months ended 30 June 2019.

The Group is required to maintain sufficient level of working capital on a continuous basis to fund its business operations. We recorded negative operating cash flow of approximately RMB51.0 million for six months ended 30 June 2019. The negative net operating cash flow primarily included (i) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million, which the balance as at 30 June 2019 primarily comprised discounted bank issued bill receivables at fair value through other comprehensive income of approximately RMB53.7 million, mainly resulting from the increase in our customer's payment settling with issued bills, and (ii) an increase in inventories of approximately RMB54.0 million. For further details, please see the paragraphs headed "Financial Information – Liquidity and Capital Resources – Cash Flow – Cash flow used in/from operating activities" in this prospectus.

There is no guarantee that the Group's business will be able to generate positive operating cash flows from time to time or that the Group will be able to finance its working capital in the future. In the event that the Group fails to maintain sufficient level of working capital, the Group's business operations and financial performance may be materially and adversely affected.

The preferential tax treatment that our certain subsidiaries currently enjoy is subject to review and approval by the PRC tax authorities from time to time, and the government subsidies received by our Group are non-recurring in nature.

Pursuant to the EIT Law and Implementation Regulations of the Law of the PRC, the tax rate applicable to our subsidiaries incorporated in PRC was 25% throughout the Track Record Period. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our effective tax rates were approximately 2.1%, 15.6%, 18.6% and 7.0%, respectively. During the Track Record Period, certain of our subsidiaries were recognised as High and New Technology Enterprises or qualified as small low-profit enterprises and enjoyed a preferential tax rate with reduction of their taxable income. For details, please refer to the paragraph headed "Financial Information – Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Income tax expenses" in this prospectus. There is, however, no assurance that we will continuously be awarded the status as High and New Technology Enterprises or qualified as small low-profit enterprises or enjoy the preferential tax rate with reduction of the taxable income in the future.

In addition, for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we were granted one-off and unconditional subsidies in the amount of approximately RMB0.7 million, RMB1.5 million, RMB2.4 million and RMB1.0 million, respectively. These government subsidiaries were one-off in nature and represented the subsidies received from local government in recognition of our contribution in local districts, which were in generally discretionary with varying amounts depending on each of the subsidy programmes. We cannot guarantee that we will be able to secure the same amount (if any) of such subsidies from the local governments in the future.

If the PRC government changes its policy of supporting new technology development and small enterprises or reduces the government subsidies, or if we cease to be eligible for certain preferential tax treatment or receive the government subsidies in the future, our results of operations and profitability will be adversely affected.

We face the risk of obsolescence for our inventories.

Our inventories consist of raw materials and consumables, work in progress and finished goods which are ready to be delivered to the customers. We believe that maintaining effective inventory control enables us to satisfy the market demand in a timely manner. As at 31 December 2016, 2017, 2018 and 30 June 2019, our balance of inventories was approximately RMB100.4 million, RMB152.5 million, RMB164.6 million and RMB215.1 million, respectively. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our average inventory turnover days were approximately 22.7 days, 24.8 days, 31.4 days and 42.2 days, respectively. We recorded written down of

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inventories of approximately RMB0.2 million, reversal of written down of approximately RMB24,000 and written down of inventories of approximately RMB0.2 million and RMB3.5 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

We face the risk of obsolescence for our inventory when there are unexpected material fluctuation in the supply and demand of raw materials and finished goods by suppliers and customers, respectively, or when there is any change in may lead to a decrease in demand for our products and overstocking of raw materials. If we fail to secure sufficient purchase orders from our customers in the future, the volume of obsolete and slow-moving inventory, in particular, the raw materials may increase and we may need to either write off or sell off our inventory at a lower price. Consequently, our financial position and results of operations may be materially and adversely affected.

RISKS RELATING TO THE INDUSTRY WHICH WE OPERATE IN

Changes in the law and regulation in the jurisdictions in which we operate may have an adverse effect on us.

The regulatory environment for our business activities may continuously change at international, supranational, national and provincial levels as a result of technological progress, safety and environmental concerns, and customer demands regarding product quality and specifications. Changes in the rules, regulations, controls and laws with which we must comply may lead to increased compliance costs and more rigorous controls with regard to our handling of substances or hazardous materials, as well as their production, use, recycling or disposal. This may (i) compel us to significantly scale back on production, or possibly discontinue production altogether, or shut down, temporarily or permanently, certain production plants, (ii) restrict our ability to alter or expand our facilities, to modify certain production processes or to continue production, and (iii) possibly compel us to abandon certain markets or our ability to export certain of our products to those markets, or institute costly emissions control or reduction systems, or, more generally, to incur expense for the renovation of existing sites. Any of these events may require significant capital expenditure and negatively affect our production costs and our product portfolio or expose us to considerable liability risks.

We face competition from other companies, which may affect our market share and profit margins.

We actively compete with companies selling or producing the same or similar chemical products. Depending on the products involved, we encounter competition in terms of the factors such as product innovation, delivery, quality, services, performance, price, technical support and product recognition. Some of our competitors are established global enterprises with longer operating histories, large scale of operation, larger customer bases and extensive sales network and offer a broader range of products than us. As a result, these competitors may be able to take advantage of their economic scale of operation and demonstrate stronger research and development and technology advancement for product innovation and quality stability. Our competitiveness depends on our ability to make use of our global resources allocation advantages, strong logistics systems, wide customer bases and our integrated data operation platform.

According to Frost & Sullivan, our main competition in the animal nutrition chemicals market stems from a few larger market players which are equipped with comprehensive capabilities covering product research and development, manufacturing, technical support or other value-added services while our main competition in the polyurethane materials market stems from fragmented and small sized companies which focus on single product category. We expect our competitors to continue to develop and introduce new and enhanced products, which could impact the market acceptance of our products. In addition, we may in the future face competition from more sophisticated competitions in the PRC, including from international competitors operating in the PRC. Current and future consolidation among our competitors and customers may also cause a loss of our market share. If we fail to maintain our competitiveness by continuing to expand our productions and maintaining the quality and efficiency of our existing productions, or if more competitors enter into these market, we may be forced to lower our product prices, or lose sales, causing a decline in profitability, leading to adverse effects to our business operations and financial conditions.

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We are required to comply with various health and safety laws that are extensive and the compliance of which may be onerous or expensive.

We are subject to applicable national and local laws and regulations with respect to the protection of the health and safety of employees in the PRC and Vietnam. These laws and regulations govern, among other things, protection of the health and safety of employees, quality of standard regarding the protective equipment and facilities during work for employees and safety inspection. For details, please refer to the section headed “Regulatory Overview” in this prospectus. Our manufacturing processes and products are subject to stringent quality and occupational safety standards. In addition, as at the Latest Practicable Date, we have obtained various certifications for our management systems, including GB/T19001-2016/ISO9001: 2015 (production quality management system), ISO9001: 2015 (management system), GB/T 22000-2006/ISO22000: 2005 (food safety management system) and FAMI-QS Code (feed safety management system).

If we fail to comply with these laws and regulations or if a more stringent enforcement regime is implemented, we may be exposed to penalties, fines, suspension or revocation of our licences or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, we cannot assure you that the PRC and Vietnamese government or the governments of other overseas jurisdictions in which we have operations would not impose additional or more onerous laws or regulations, compliance with that may cause us to incur significantly increased costs that we might not be able to pass on to our customers.

As at the Latest Practicable Date, we are not aware of any material adverse changes or developments in health and safety laws or regulations imposed by relevant governmental authorities. Nevertheless, there is no assurance that there will not be adverse changes or developments in such laws and regulations in the future. If we fail to adapt to these changes, our reputation may be damaged, we may lose or might not be able to renew our licences and permits or we may be required to pay penalties or fines or take remedial actions, any of which could have an adverse effect on our business, results of operations and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

A substantial part of our assets and business operations are currently located in the PRC and a significant portion of our revenues during the Track Record Period are derived from the sales of products to customers in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, approximately 86.8%, 85.3%, 78.0% and 76.8% of our revenue were generated from the sales of products to customers in the PRC, respectively. Accordingly, our business, financial conditions, results of operations and prospects are significantly affected by economic, political, social and legal developments in the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including its structure, the degree of governmental involvement, its level of development, its growth rate, the control of foreign exchange and capital flows, and the allocation of resources. The economy of the PRC is in transition from a planned economy to a market-oriented economy. In recent years, the PRC government has implemented economic reform measures emphasising the utilisation of market forces in the development of the PRC economy, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, the PRC government continues to play a significant role in regulating the industrial environment. It also exercises significant control over the economic growth of the PRC through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policies and providing preferential treatment to particular industries or companies. All of these factors could affect the PRC’s overall economic growth, which in turn could affect our business, financial conditions, results of operations and prospects. While the economy of the PRC has experienced significant growth in the past 20 years, growth has been uneven across both geographic regions and various sectors of the economy

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and that growth may not continue. We cannot predict whether our results of operations and financial conditions could be materially and adversely affected by changes in economic conditions in the PRC, or the PRC governmental monetary policies, interest rate policies, tax regulations or policies.

In addition, the PRC government has implemented industrial restructuring policies over various sectors, especially the food, agriculture and animal husbandry industries. In particular, the PRC government has promulgated laws and regulations from time to time to restrict or prohibit the use of certain feed additives, due to the growing safety concerns in recent years. These recent changes or introduction of new policies may raise uncertainties on the future industry development of feed additives and the market demand in the PRC. For example, in July 2019, the Ministry of Agriculture of the PRC has announced that certain types of animal drugs which are used as feed additives are forbidden to be produced, imported or used in the PRC. These animal drugs are pharmaceuticals in nature which are used on animals and subject to licensing requirement in the PRC. In addition, pursuant to the Guiding Catalogue of Industrial Restructuring (2019 Edition)(《產業結構調整指導目錄(2019年本)》) which was promulgated on 30 October 2019 by the National Development and Reform Commission and will come into effect on 1 January 2020, the state encourages the development of high-quality, safe and environmentally friendly agricultural feed and feed additives which have obtained the identification of green food production. Although our products are not animal drugs and are currently not prohibited or restricted by the PRC government, due to any potential change or development of laws and policies, we cannot predict if the PRC government will further limit the scope in use of feed additives in animal feed by extending the scope of prohibition to other types of chemicals, forbid the use of all types of feed additives in animal feed or impose any policy which may not be favourable to the feed additives industry. In the event that the PRC government has implemented any regulation which may limit or ban the use of feed additives in animal feed, there may be a decrease in market demand of our Group's animal nutrition chemical products, and our results of operations and financial conditions could be materially and adversely affected.

Uncertainties with respect to the PRC legal system may have an adverse effect on us.

A substantial part of our business and operations are conducted in the PRC and governed principally by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. The PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, finance, foreign exchange and trade with a view to develop a comprehensive system of commercial law.

However, the PRC has not developed a fully integrated legal system. The recently enacted laws and regulations might not sufficiently cover all aspects of economic activities in the PRC, or may be unclear or laws and regulations in the PRC are promulgated in broad principles. On the other hand, the rules may be enacted by the government of provinces, autonomous regions, cities and other legislative bodies according to local economic and social conditions, so long as those rules do not contradict the promulgated laws and regulations. Therefore, a legal issue may encounter different treatment in different regions, which may lead to uncertainties and inconsistencies regarding interpretation and enforcement of the PRC laws.

Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we might not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management's attention. In addition, we cannot predict future developments in the PRC legal system or the effects of such developments. The materialisation of all or any of these uncertainties could have an adverse effect on our business, financial position, results of operations and prospects.

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Our Company may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on its worldwide income.

Under the EIT Law that took effect on 1 January 2008, except for the purchase and sale of equity through a public securities market, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this tax law, which defines “de facto management body” as an organisation that exercises substantial and overall management and control over an enterprise’s manufacturing or business operation, finance and property.

The determination of enterprise residency is further clarified in the “Notice of the SAT on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the ‘De Facto Management Bodies’ Standard” (《國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), which was issued on 22 April 2009 and has a retrospective effect since 1 January 2008. The notice provides specific tests setting out under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC. However, these tests are provided only in respect of enterprises that are established offshore by PRC incorporated enterprises. No clarification of what constitutes a “de facto management body” is provided in this notice or any other public document in respect of enterprises that are established offshore by private individuals or foreign enterprises.

The PRC tax authorities in different regions may have different interpretations and policies in the implementation of the EIT Law and relevant regulations and the classification of resident and non-resident enterprises. Substantially all of our Company’s management is currently based in the PRC and the Directors expect them to continue to be located in the PRC for the foreseeable future. None of our Company nor any of our non-PRC subsidiaries are currently treated as “resident enterprises” for enterprise income tax purposes by the relevant tax authorities, however in the event that any or all of them are treated as “resident enterprises”, their respective worldwide income, excluding dividends received from our Company’s PRC subsidiaries, will be subject to PRC income tax at a rate of 25%. The imposition of such PRC income tax on some or all of our members may have an adverse effect on our business, financial conditions, results of operations and prospects.

Dividends payable by our Company to non-PRC shareholders and their gains on the sale of Shares may become subject to income taxes under PRC tax laws.

Under the EIT Law, the Personal Income Tax Law of the PRC and relevant implementing regulations, unless otherwise stipulated in a relevant international tax treaty entered into by the PRC, dividends payable to shareholders that are “non-resident enterprises” are subject to a withholding tax of 10%, and dividends payable to shareholders who are “non-resident individuals” may be subject to a withholding tax of 20%, in each case to the extent such dividends are deemed to have their sources within the PRC. Similarly, any gain realised on the transfer of shares by “non-resident enterprise” shareholders are also subject to a 10% PRC income tax (or other treaty rate, if applicable), and any gain realised on the transfer of shares by “non-resident individual” shareholders may be subject to a 20% PRC income tax, in each case if such gain is regarded as income derived from sources within the PRC.

If our Company is considered to be a “resident enterprise” by virtue of having its “de facto management body” in the PRC, it is unclear whether the dividends we pay with respect to our Shares and the gains “non-resident enterprise” and “non-resident individual” Shareholders may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and subject to PRC income tax. If we are required under EIT Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders, or if our shareholders are required to pay PRC income tax on the transfer of our Shares, the value of investment or return on investment in our Shares may be materially and adversely affected.

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The strengthened scrutiny over acquisition and disposition transactions by the PRC tax authorities may have an adverse impact on us or your disposition of our Shares.

On 3 February 2015, the SAT issued the Public Announcement on Several Issues Concerning Corporate Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“Circular No. 7”), which abolished certain provisions in the Notice on Strengthening the Administration of Corporate Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) (“Circular No. 698”), which had been previously issued by the SAT on 12 December 2009, as well as certain other rules for clarification of Circular No. 698. Circular No. 7 provided comprehensive guidelines relating to, and strengthened the scrutiny of the tax authorities in the PRC over, indirect transfers by a non-resident enterprises of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”) and stipulated that tax authorities in the PRC are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of an equity interest in an overseas holding company which directly or indirectly holds the PRC Taxable Assets, by disregarding the existence of the overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been made for the purpose of evading PRC enterprises income tax and without any reasonable commercial purpose.

Circular No. 7 provides the exemptions, including where a non-resident enterprise generates income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds PRC Taxable Assets on a public market and where the income from an indirect transfer of PRC Taxable Assets would have been exempted from PRC enterprises income tax under an applicable tax treaty or arrangement if the non-resident enterprise had directly held and disposed of the PRC Taxable Assets. However, it is unclear whether the said exemptions are applicable to the transfer of our Shares or to any acquisition by us outside the PRC involving PRC Taxable Assets in the future, or whether the tax authorities in the PRC will instead reclassify any such transaction by applying Circular No. 7. The tax authorities in the PRC may deem any transfer of our Shares by our Shareholders which are non-resident enterprises, or any acquisition by us outside the PRC involving PRC Taxable Assets in the future, to be subject to the regulations set out in Circular No. 7 which may subject our Shareholders or us to additional tax reporting obligations in the PRC or tax liabilities.

Our Company is a holding company and our ability to pay dividends is primarily dependent upon the earnings and distributions by our subsidiaries in the PRC.

Our Company is a holding company incorporated in the Cayman Islands with limited liability. The majority of our business operation are conducted through our subsidiaries in the PRC and therefore, our revenue and profit are substantially contributed by our subsidiaries in the PRC.

Our ability to pay dividends to our Shareholders is primarily dependent upon the earnings of our subsidiaries in the PRC and their distribution of funds to us, primarily in the form of dividends. The abilities of our subsidiaries in the PRC to make contributions to us depends upon, among other things, their distributable earnings. PRC laws require that dividends be paid only out of accumulated profits according to the PRC accounting standards and regulations. PRC laws also require all of our PRC subsidiaries to set aside part of their after-tax profit as statutory reserves. These statutory reserves are not available for distributions as cash dividends. In addition to these restrictions, other factors such as cash flow conditions, restrictions on distributions set out in the articles of associations of our subsidiaries in the PRC, restrictions contained in any debt instruments, withholding tax and other arrangements may affect the abilities of our subsidiaries in the PRC to make distributions or reduce the amount of distributions to us, which in turn would limit our ability to grow, make investments or acquisitions that may be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Inflation in the PRC may negatively affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the PRC economy, including increasing interest rates and capital reserve thresholds at PRC commercial banks. The effects of the stimulus measures implemented by the PRC government since the global economic

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crisis that unfolded in 2008 and the continued growth in the overall economy have resulted in sustained inflationary pressure. If such inflationary pressure continues and is not mitigated by PRC government measures, our cost of sales would likely increase, and our profitability would likely be reduced and we might not be able to pass any cost increases to our customers. If the measures implemented by the PRC government to control inflation are successful, these measures may also slow economic activities in the PRC and reduce demand for our products and decrease our revenue growth.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of the PRC. We receive a portion of our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of the PRC for capital account transactions, such as the repatriation of equity investment in the PRC and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to the Global Offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from the Global Offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in the PRC. Our choice of investment is affected by the relevant PRC regulations with respect to capital account and current account foreign exchange transactions in the PRC. Our investment decisions are additionally affected by various other measures taken by the PRC government relating to the PRC chemical market, including those disclosed in the section headed “Regulatory Overview” in this prospectus. In addition, our transfer of funds to our subsidiaries in the PRC is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries may restrict our ability to act in response to changing market conditions.

It may be difficult to effect service of process upon, or to enforce judgments obtained outside the PRC against us, our Directors or our senior management members who reside in the PRC.

We are incorporated in the Cayman Islands. The vast majority of our assets, our subsidiaries and their assets are located in the PRC. In addition, substantially all of our Directors and our officers reside within the PRC and most assets of our Directors and officers are also located within the PRC. As a result, it may be difficult for investors to effect service of process outside the PRC upon most of our Directors and officers, including in respect of matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may only be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if there are reciprocal relationships between the PRC and such jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal recognition or enforcement of judgments of courts with the Cayman Islands, Japan, the United Kingdom, the United States and most other western countries. Although Hong Kong and the PRC entered into an agreement on reciprocal recognition of judgments, enforcement of judgments is predicated on a written choice of court agreement that gives a PRC or Hong Kong court exclusive jurisdiction. As a result, it may be difficult or impossible for investors to effect service of process against our assets, management members or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

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PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the net proceeds from the Global Offering, are subject to PRC regulations. For example, the outstanding amount of any of our loans to our subsidiaries in the PRC, together with their other cross-border financing, cannot exceed an amount calculated on a risk-weighted approach stipulated in the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) and such loans must be registered no later than three (3) business days prior to the drawdown of the loan or issue of debt securities and shall be reported to the People's Bank of China and the SAFE after its settlement is made. In addition, our capital contributions to our major PRC subsidiaries must be registered with MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments and may have an adverse effect on our business, financial conditions and results.

Natural disasters, outbreaks of contagious diseases or terrorist attacks in the PRC may have a material adverse effect on our business, financial conditions and results of operations.

Any future occurrence of force majeure events, natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in areas where we operate. These areas may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or are susceptible to epidemics, various types of influenza, potential wars or terrorist attacks, riots, disturbances or strikes. Serious natural disasters may result in tremendous casualties and destruction of assets and disrupt our business and operations. Severe contagious disease outbreaks could result in a widespread health crisis that could materially and adversely affect business activities and operations in the affected regions. Acts of war or terrorist activities, riots or disturbances may also cause casualties to our employees, and disrupt our business network and operations. Any of these factors or other factors beyond our control could have an adverse effect on the overall business environment of the areas where we operate and therefore negatively affect our business and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN VIETNAM

Geopolitical risks, including risks arising from recent events in Vietnam, may have an adverse impact on our business, financial conditions and results of operations.

Apart from our operations in the PRC, we also have operations in Vietnam whose economy and legal system remain susceptible to risks associated with an emerging economy and is subject to higher geopolitical risks than developed countries. Examples include the social unrests in Vietnam targeting PRC-related businesses, and territorial and other disputes among neighbouring countries in Asia. Social and political unrests could give rise to various risks, such as loss of employment and safety and security risks to persons and properties. Any such event may in turn have an adverse impact on our businesses, financial conditions and results of operations.

The Vietnamese Dong may be subject to foreign exchange controls imposed by the government in Vietnam.

In Vietnam, the Vietnamese Dong is not generally freely convertible into other currencies. Under certain conditions, such as fulfilment of Vietnam's financial obligations, the government in Vietnam allows foreign invested enterprises to convert Vietnamese Dong into other currencies for repatriation of profits from their operations in Vietnam abroad. However, there is no assurance that such rules or regulations will not be subject to change in the future or any tightening of foreign exchange control laws in Vietnam may impair our ability to repatriate profits from our operations in Vietnam to our Company. If any of the above occurs, our business, results of operations and financial conditions may be materially and adversely affected.

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Foreign investors may find it difficult to enforce foreign judgments obtained against our operations in Vietnam.

Some of our operating subsidiaries are incorporated under the laws of Vietnam and the relevant assets are located in Vietnam.

In Vietnam, pursuant to the Civil Proceedings Code, courts in Vietnam will consider the recognition of civil judgements issued by the courts of a country, subject to certain restrictions, with which it has signed a relevant bilateral treaty with or on the basis of reciprocity. Countries that have entered into such bilateral treaties include Algeria, Belarus, Bulgaria, China, Cuba, Czechoslovakia, France, Hungary, Kazakhstan, Laos, Mongolia, North Korea, Poland, Russia, Taiwan and Ukraine. Should the foreign judgement be with a country that has not entered into such bilateral treaties, enforcement will only be possible via a judgement in Vietnam.

As a result of the restrictions and limitations on the enforceability of foreign judgements, it could be difficult to enforce a foreign judgement against our subsidiaries incorporated in Vietnam.

Changes in the economic, political and legal environment of Vietnam, and Vietnam's less developed legal system, may adversely affect our business, financial conditions and results of operations.

Our business operations in Vietnam are subject to the economic, political and legal environment in Vietnam. Vietnam's economy differs from the economies of many countries in terms of government involvement, level of development, growth rate, allocation of resources and inflation rate. Prior to the 1990s, Vietnam's economy was mainly a planned economy. Since 1987, increasing emphasis has been placed on the utilisation of market forces in the development of the economy. In connection with the development of the economy, the Vietnamese Government has adopted a 10-year socio-economic development strategy for 2010 to 2020. Although state owned enterprises still account for a substantial portion of Vietnam's industrial output, the Vietnamese Government in general is reducing the level of direct control that it exercises over the economy through state plans and other measures. It is our understanding that there is an increasing level of freedom and autonomy in areas such as resource allocation, production and management and a gradual shift in emphasis to a market economy and enterprise reform.

The legal system of Vietnam also differs from most common law jurisdictions, in that it is a system in which decided legal cases have little precedential value. The laws and regulations are subject to broad and varying interpretations by government officials, courts and lawyers. The courts of Vietnam have the power to read implied terms into contracts, adding a further layer of uncertainty. As a result, government officials, courts and lawyers often express different views on the legality, validity and effect of a particular legal document. In addition, the views of governmental authority received on a particular issue have no binding effect or finality, so there is no guarantee that similar issues will be dealt with in a similar way by other governmental authorities. Furthermore, recognition and enforcement of legal rights through Vietnam courts, arbitration centres and administrative agencies in the event of a dispute is uncertain.

As part of its transition from a planned economy to a more market-oriented one, the government in Vietnam has implemented a series of economic reforms, including lowering trade barriers and import quotas to encourage and promote foreign investment. In preparation for Vietnam's accession to the World Trade Organisation in 2007, the government in Vietnam has also promulgated a series of laws and regulations on local and foreign investment, including the Law on Investment, which regulates investments in Vietnam, and the Law on Enterprises, which sets out the types of corporate vehicle investors may establish to carry out their investment projects. However, conflicting interpretations between local regulators in different provinces and between different ministries, have created confusion over key issues. The Vietnam National Assembly issued new investment and enterprise laws in November 2014, which came into force on 1 July 2015, to improve the country's investment climate. In addition, in the context of pursuing and maintaining economic reforms, the government in Vietnam has promulgated other laws and regulations in recent years designed to attract foreign investment and business development in Vietnam, which may intensify the competition in our industry. Although the government in Vietnam has made progress in economic reform and the development of laws and regulations, there remain inherent uncertainties and inconsistencies in the interpretation, implementation and enforcement of laws and government policies, including tax regulations. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition, depending upon the

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outcome of these experiments. Furthermore, there can be no assurance that the government in Vietnam will continue to pursue policies of economic reform or that any reforms will be successful or the impetus to reform will continue. If any of the changes adversely affect us or our business, or we are unable to capitalise on the economic reform measures of the government in Vietnam, our business, financial conditions and results of operations could be adversely affected.

The economy in Vietnam may be subject to periods of high inflation which could materially and adversely affect our business, financial operation and results of operations and growth prospects.

Government anti-inflation policies and a decline in global commodity and petroleum prices have led to a decrease in Vietnam's inflation rate. While these inflation rates are lower than rates of earlier years, there can be no assurance that the economy in Vietnam will not be subject to future periods of high inflation. Should inflation in Vietnam increase significantly, our costs, including labour costs and transportation are expected to increase. Furthermore, high inflation rates could have an adverse effect on Vietnam's economic growth, business climate and dampen consumer purchasing power. As a result, a high inflation rate in Vietnam could materially and adversely affect our business, financial conditions and results of operations and growth prospects.

RISKS RELATING TO THE GLOBAL OFFERING AND THE SHARES

Our Controlling Shareholders have substantial influence over the Company following the Global Offering and their interests may conflict with the interests of our other Shareholders.

Immediately following the Global Offering and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), our Controlling Shareholders will directly or indirectly hold in aggregate approximately 55.31415% of the Shares. Our Controlling Shareholders will, through their voting power at the Shareholders' meetings and their delegates on the Board, have significant influence over our business and affairs, including matters relating to our management and certain decisions requiring the approval of our Shareholders, including mergers or other business combinations, acquisition or disposition of assets, issuance of additional shares or other equity securities, timing and amount of dividend payments and the election of management.

The interests of our Controlling Shareholders may differ from the interests of other Shareholders, and they are free to exercise their votes according to their own interests. For example, our Controlling Shareholders may choose to cause our business to pursue strategic objectives that conflict with our other Shareholders' interests. In the event that the interest of our Controlling Shareholders conflict with those of other Shareholders, our other Shareholders may be disadvantaged as a result. The significant ownership interest held by and substantial control of our Controlling Shareholders may also have the effect of delaying, deferring or preventing a change in control, discouraging bids for our Shares at a premium over the market price or adversely affecting the market price of our Shares.

Future sale of our securities in the public market (or perception that such sales may occur) could have a material and adverse impact on the prevailing market price of our Shares.

The market prices of the Offer Shares could decline as a result of future sale of substantial amount of the Shares or other securities relating to the Shares in the public market or the issuance of new Shares or other securities, or the perception that such sales or issuances may occur. Future sale of substantial amounts of our securities, including any future offerings, or the perception that such sales are likely to occur, may also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem to be appropriate.

While the Shares held by our Controlling Shareholders are subject to a lock-up period, details of which are set out in the paragraph headed "Underwriting – Undertakings – Undertakings to the Stock Exchange Pursuant to the Listing Rules" in this prospectus, we are not in a position to give any assurances that they will not dispose of any Shares during the relevant periods. If any of their undertakings are waived or breached or after the restriction lapse, any future sales of a substantial number of our Shares, or the perception that these sales may occur, would materially and adversely affect the prevailing market prices of our Shares.

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There has been no prior public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing and permission to deal in our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering.

Furthermore, the price and trading volume of our Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows, announcement of new investments, strategic alliances and/or acquisitions, fluctuations in market price for our products or fluctuations in market price for companies in our industry, changes of senior management of our Group and general economic conditions. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. There is no assurance that such developments will or will not occur. In addition, shares of other companies listed on the Stock Exchange have experienced substantiality price volatility and trading volume fluctuations in the past. It is likely that from time to time, our Shares will be subject to changes in price that may not be directly related to our Group's financial or business performance.

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 when the trading of our Offer Shares begins.

The Offer Price of our Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be the 7th business day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Investors will experience immediate dilution as a result of the Global Offering and could face further dilution if our Company issues additional Share or other securities in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, the potential investors will experience an immediate dilution in unaudited pro forma net tangible asset value to approximately HK\$0.22 per Share and approximately HK\$0.25 per Share based on the Offer Price of HK\$0.51 per Offer Share and HK\$0.65 per Offer Share, respectively.

We believe that our current cash and cash equivalents, anticipated cash flows from operations, the available banking facilities and the proceeds from the Global Offering will be sufficient to meet out anticipated cash needs for the foreseeable future. However, additional funds may be required in the future to finance the expansion or new developments of the business and operations of our Group or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than a pro rata basis to existing Shareholders, the percentage ownership of our Shareholders may be diluted or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

In addition, our Company may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after issue would result in the reduction in the percentage ownership of our Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

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Certain facts and other statistics in this prospectus with respect to the PRC, the PRC economy and the industry in which we operate are derived from various government or official sources and might not be reliable.

Certain facts and statistics in this prospectus relating to the PRC, the PRC economy and the industry in which we operate have been derived from various official government publications and industry-related sources. While we believe that these publications and sources are appropriate sources for such information, have taken reasonable care in extracting and reproducing such information and have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading, we cannot guarantee in full the quality or reliability of such source materials. These facts and statistics have not been prepared or independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, or materials prepared based on such facts and statistics, which might not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or might not be comparable to statistics produced for other economies or in other markets and should not be unduly relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

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

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

Investors for our Shares may face difficulties in protecting their interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For further information, please refer to the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus.

Dividends declared in the past may not be indicative of our dividend policy in the future.

Our Directors may declare dividends, after taking into account, among other things, our results of operations, cash flows and financial conditions, operation and capital requirements, the amount of distributable profits, the Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the paragraph headed “Financial Information – Dividend” in this prospectus. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. There is no assurance that the amount of dividends declared by the Company in the future, if any, will be at a level comparable with that in the past.

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There are risks associated with forward-looking statements.

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “expect”, “believe”, “plan to”, “intend”, “could”, “anticipate”, “estimate”, “should” and “will” or similar words or statements. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our further business, operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks 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. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not without our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. For further details, please refer to the section headed “Forward-looking Statements” in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

For the purpose of the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations are primarily located in the PRC and will continue to be based in the PRC, our executive Directors and substantially all senior management members are and will continue to be based in the PRC. At present, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Yin (the chairman, chief executive officer and executive director of our Company) and Mr. Wu Wing Hou (the chief financial officer and company secretary of our Company). Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address (if the authorised representative is not based at the registered office), facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. Each of the authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange;
- (b) our authorised representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, the authorised representatives and our Directors, our Company has implemented a policy whereby (i) each Director will provide his/her office phone number, mobile phone number, residential phone number, office facsimile number and email address to the authorised representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorised representatives when he/she travels; and (iii) all Directors will provide their mobile phone numbers, office phone numbers, email addresses and office fax numbers to the Stock Exchange. Our Company will inform the Stock Exchange promptly in respect of any change in the contact details of our Directors;
- (c) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed Fortune Financial Capital Limited as its compliance adviser, who will act as an additional channel of communication with the Stock Exchange. The appointment of the compliance adviser of our Company will commence on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date;
- (d) meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or our Company's compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorised representatives and compliance adviser; and
- (e) each Director who is not ordinarily resident in Hong Kong has confirmed that he/she has valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period upon request.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to 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, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms, on the terms and subject to the conditions set out herein. No person in connection with the Global Offering is authorised to give any information, or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters, and any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

UNDERWRITING

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

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriter under the terms of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

SELLING RESTRICTIONS OF OFFER SHARES

No action has been taken to permit any offering of the Offer Shares 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 nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Offer Shares will be required to confirm, or by his/her/its acquisition of the Offer Shares be deemed to confirm, that he/she/it is aware of the restrictions on the offer of the Offer Shares described in this prospectus and that he/she/it not acquiring, and has not been offered, any such shares in circumstance that contravenes any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Prospective subscribers for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

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

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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

APPLICATION FOR LISTING ON STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue and the Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme. Under section 44B(1) of the Companies (WUMP) Ordinance, if the permission for the Shares to be listed on the Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the application lists to the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules) without taking into account any Shares that may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

No part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

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

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

DEALINGS AND SETTLEMENT

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. (Hong Kong time) on Tuesday, 21 January 2020.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Shares will be traded in board lots of 4,000 Shares each and are freely transferable.

The stock code for the Shares is 9933.

Our Company will not issue any temporary document of title.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All of the Shares will be registered in our Company's branch register of members to be maintained in Hong Kong by the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

Our Company's principal register of members will be maintained by the principal share registrar and transfer office, Conyers Trust Company (Cayman) Limited, at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dealings in the Shares registered in our Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares. None of our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives (where applicable) or any other persons involved in the Global Offering accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares.

LANGUAGE

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

EXCHANGE RATE CONVERSION

Unless otherwise specified and for illustration purpose only, conversion of RMB into HK\$ in this prospectus is based on the exchange rate set out below:

RMB0.89: HK\$1.00

Such conversion shall not be construed as representations that amount of such currency was or may have been converted into HK\$ and vice versa at such rates or any other exchange rates.

ROUNDING

Any discrepancies in any table or chart between the totals and the sums of the amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Yin Yanbin (尹燕濱)	Flat 402, Block 10 Vanke Golden Homestead Jianye District Nanjing City PRC	Chinese
Zhuang Zhaohui (莊朝暉)	Flat 3202, Block 8 Phase 1, Yanlord Yangzi Riverbay Town No. 198 Leshan Road Jianye District Nanjing City PRC	Chinese
Chen Zhaohui (陳朝暉)	Flat 1804, Unit 2, Block 3 No. 199 Leshan Road Jianye District Nanjing City PRC	Chinese
Zhou Chunnian (周春年)	Flat 201, Unit 1, Block 6 Jiahu Green Island Jiangning District Nanjing City PRC	Chinese
Chen Hua (陳華)	Room 102, Unit 2 Block 13, New World Garden 3 Bancang Street Xuanwu District Nanjing City PRC	Chinese
Sun Guibin (孫桂彬)	Flat 501, Block 4 No. 18 Fengfu Road Qinhuai District Nanjing City PRC	Chinese
<i>Independent non-executive Directors</i>		
Sun Hongbin (孫宏斌)	Room 405, Block 1 No.9 FuchunJiang East Street Jianye District Nanjing City PRC	Chinese
Wang Guangji (王廣基)	Room 601, Block 5 Ziwei Garden Aoti Xincheng No.169 Leshan Road Jianye District Nanjing City PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential address	Nationality
Zheng Qing (鄭青)	Room 403 Block 29 No.520 Zhongshan East Road Nanjing City PRC	Chinese

Please refer to the section headed “Directors and Senior Management” in this prospectus for the background information on our Directors and senior management personnel.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	Fortune Financial Capital Limited <i>A corporation licensed by the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO</i> 43/F Cosco Tower 183 Queen’s Road Central Hong Kong
Joint Global Coordinators	Fortune (HK) Securities Limited <i>A corporation licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity under the SFO</i> 43/F Cosco Tower 183 Queen’s Road Central Hong Kong Head & Shoulders Securities Limited <i>A corporation licensed by the SFC to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO</i> Room 2511, 25/F Cosco Tower 183 Queen’s Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	Fortune (HK) Securities Limited <i>A corporation licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity under the SFO</i> 43/F Cosco Tower 183 Queen’s Road Central Hong Kong Head & Shoulders Securities Limited <i>A corporation licensed by the SFC to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO</i> Room 2511, 25/F Cosco Tower 183 Queen’s Road Central Hong Kong I Win Securities Limited <i>A corporation licensed by the SFC to carry out Type 1 (dealing in securities) regulated activity under the SFO</i> Room 1916 Hong Kong Plaza 188 Connaught Road West Sai Wan Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

SPDB International Capital Limited

*A corporation licensed by the SFC
to carry out Type 1 (dealing in securities)
and Type 6 (advising on corporate finance)
regulated activities under the SFO*
33/F, SPD Bank Tower
One Hennessy, 1 Hennessy Road
Hong Kong

First Shanghai Securities Limited

*A corporation licensed by the SFC
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*
19/F & Room 2505-10
Wing On House
71 Des Voeux Road Central
Hong Kong

Co-Lead Managers

Alpha International Securities (HONG KONG) Limited

*A corporation licensed by the SFC
to carry out Type 1 (dealing in securities),
Type 2 (dealing in futures contracts) and
Type 4 (advising on securities)
regulated activities under the SFO*
Unit 2301, 23/F
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Chung Sun Securities Limited

*A corporation licensed by the SFC
to carry out Type 1 (dealing in securities) and
Type 2 (dealing in futures contracts)
regulated activities under the SFO*
Room 2538-2540
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Standard Perpetual Securities Limited

*A corporation licensed by the SFC
to carry out Type 1 (dealing in securities) and
Type 6 (advising on corporate finance)
regulated activities under the SFO*
Room 2104 K. Wah Centre
191 Java Road
North Point
Hong Kong

Livermore Holdings Limited

*A corporation licensed by the SFC
to carry out Type 1 (dealing in securities)
regulated activity under the SFO*
Unit 1214A, 12/F Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to our Company

As to Hong Kong law

Loeb & Loeb LLP
21st Floor, CCB Tower
3 Connaught Road Central
Hong Kong

As to PRC law

Jingtian & Gongcheng
34th Floor, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing
PRC

As to Cayman Islands law

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to Vietnamese law

Global Vietnam Lawyers LLC
8th Floor, Centec Tower
72-74 Nguyen Thi Minh Khai Street
Ward 6, District 3
Ho Chi Minh City
Vietnam

As to U.S. law

Montgomery McCracken Walker & Rhoads LLP
437 Madison Avenue
New York, NY 10022
U.S.

As to U.S. and United Nations sanctions law

Loeb & Loeb LLP
10100 Santa Monica Boulevard
Suite 2200
Los Angeles, CA 90067
U.S.

As to European Union sanctions law

RadcliffesLeBrasseur
85 Fleet Street
London
EC4Y 1AE
the United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to Australian sanctions law

Holding Redlich
Level 65, MLC Centre
19 Martin Place
Sydney NSW 2000
DX529 Sydney
Australia

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

As to Hong Kong law

**H.M. Chan & Co in association with
Taylor Wessing**
21st Floor
8 Queen's Road Central
Hong Kong

As to PRC law

Zhong Lun Law Firm
23/F, R&F Center
10 Huaxia Road
Pearl River New Town
Tianhe District
Guangzhou
PRC

**Auditors and reporting
accountants**

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Industry consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**
1018, Tower B
500 Yunjin Road
Shanghai 200232
PRC

Tax consultant

BDO Tax Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Compliance adviser

Fortune Financial Capital Limited
43/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Receiving bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters in the PRC	6th Building, Xincheng Science Park No. 69 Aoti Street Nanjing PRC
Principal place of business in Hong Kong	Room 1604 OfficePlus@Sheung Wan 93-103 Wing Lok Street Sheung Wan Hong Kong
Company's website	www.goldenhighway.com (information contained in such website does not form part of this prospectus)
Company secretary	Mr. Wu Wing Hou (胡穎豪) (Member of HKICPA) Flat 2, 15th Floor Yuet Sum Mansion 2 Western Street Sai Ying Pun Hong Kong
Authorised representatives	Yin Yanbin (尹燕濱) Flat 402, Block 10 Vanke Golden Homestead Jianye District Nanjing City PRC Mr. Wu Wing Hou (胡穎豪) (Member of HKICPA) Flat 2, 15th Floor Yuet Sum Mansion 2 Western Street Sai Ying Pun Hong Kong
Audit committee	Zheng Qing (鄭青) (Chairlady) Wang Guangji (王廣基) Sun Hongbin (孫宏斌)
Remuneration committee	Zheng Qing (鄭青) (Chairlady) Zhuang Zhaohui (莊朝暉) Sun Hongbin (孫宏斌)
Nomination committee	Sun Guibin (孫桂彬) (Chairman) Zheng Qing (鄭青) Sun Hongbin (孫宏斌)
Risk management committee	Zhou Chunnian (周春年) (Chairman) Chen Hua (陳華) Sun Guibin (孫桂彬)

CORPORATE INFORMATION

**Principal share registrar and
transfer office in the Cayman
Islands**

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Branch share registrar and
transfer office in Hong Kong**

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal banks

Shanghai Pudong Development Bank (Nanjing Branch)
No.99 Hunan Road
Nanjing City, PRC

Bank of Nanjing
No.112 Shanxi Road, Gulou District
Nanjing City, PRC

Industrial and Commercial Bank of China
(Nanjing City Xuanwu Sub-branch)
No.139 Hongwubei Road
Nanjing City, PRC

Bank of Communications
(Tai'an City Xiangyang Sub-branch)
No.164 Daidao'an Road, Taishan District
Tai'an City, Shandong Province
PRC

INDUSTRY OVERVIEW

This section contains information or industry statistics which is derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan. We believe that the information or industry statistics has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information or industry statistics is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading. The information or industry statistics has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriter, or any of their affiliates or advisers, nor any other party involved in the Global Offering (except Frost & Sullivan) and no representation is given as to its accuracy (except Frost & Sullivan). The Directors believe after taking reasonable care, that there have been no material adverse changes in the market information since the date of issue of the Industry Report which may qualify, contradict or have an impact on the information or industry statistics in this section.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, the global integrated chemical services market and integrated chemical services market in the PRC for the period from 2014 to 2023. We paid Frost & Sullivan a fee of RMB962,000, which we believe reflects market rates for reports of this type.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the global integrated chemical services market for the prospective investors. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the integrated chemical services market worldwide with the geographical focus in the PRC. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period from 2019 to 2023. In addition, Frost & Sullivan has developed its forecast on the bases and assumptions that (i) the global economy and economy in the PRC and are likely to maintain stable growth in the next decade, (ii) the country and regions' social, economic and political environment are likely to remain stable in the forecast period, (iii) the global integrated chemical service market is expected to grow based on the key industry drivers including higher downstream demand and strong capital support, and (iv) the integrated chemical services market in the PRC is expected to grow based on the key industry drivers including higher downstream demand, strong capital support in research and development and advantageous location.

Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various government agencies, and (ii) the information obtained from interviews is for reference only and the findings in this report are not directly based on the results of these interviews.

ABOUT FROST & SULLIVAN

Founded in 1961, Frost & Sullivan has 49 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in the PRC and direct access to the knowledgeable experts and market participants in the chemical market and its industry consultants, on average, have more than three years of experience.

DIRECTOR'S CONFIRMATION

Our Directors have confirmed that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

OVERVIEW OF GLOBAL INTEGRATED CHEMICAL SERVICES MARKET

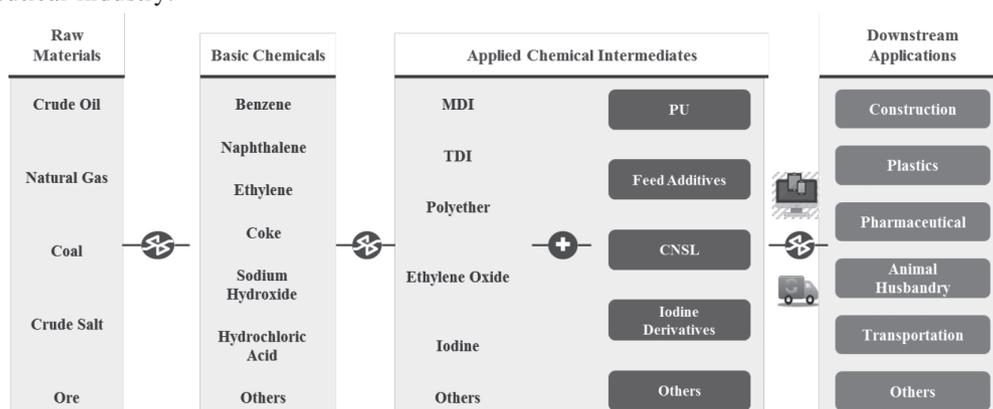
Definition

Integrated chemical services refer to a series of commercial activities related to applied chemical products, including the research and development, manufacturing and selling of chemical products. In some cases, some integrated chemical services companies may sell the chemical products through online platforms or mobile applications and provide logistics services for their customers.

Industry value chain analysis

The raw materials are commonly natural resources such as crude oil and natural gas which may be obtained through mining, drilling, refining and gas processing. The downstream industry processes and manufactures basic chemicals, including benzene, toluene and xylene.

The nearest upstream of applied chemical products industry is the basic chemicals industry, where manufacturers sell basic chemical products to applied chemical products companies and manufacture applied chemical products, including MDI, TDI, polyether and ethylene oxide. After that, the applied chemical products companies will further process the intermediates and make them into applied chemical products for downstream industries such as animal husbandry, the construction industry and the pharmaceutical industry.



Source: Frost & Sullivan

Market size analysis

Market size and breakdown of the global integrated chemical services market

Over the period from 2014 to 2018, the size of the global integrated chemical services market saw continuous growth and increased from approximately US\$3,947.1 billion in 2014 to US\$4,507.4 billion in 2018, representing a CAGR of 3.4%. Markets with a larger share of commodity chemicals demonstrated a decline in 2015 because of the collapse in oil prices, whereas those markets with a more fragmented status were able to maintain positive growth. The global integrated chemical services market is expected to generate a total revenue of approximately US\$5,633.1 billion in 2023, representing a CAGR of 4.6% between 2018 and 2023, as a result of increasing urbanisation and growing markets in developing countries such as India, Turkey and Thailand.

The European integrated chemical services market showed slow growth in recent years. The European integrated chemical services market generated a total revenue of US\$819.5 billion in 2018, representing a CAGR of 1.1% between 2014 and 2018. The vast majority of European markets struggled in 2015 after the oil prices in France, Germany and Sweden declined for multiple years in the historical period from 2014 to 2018. The performance of the market is forecasted to accelerate, with an anticipated CAGR of 2.7% for the period from 2018 to 2023, which is expected to drive the market to a value of US\$936.2 billion by the end of 2023, stimulated by research and innovative initiatives such as SusChem, the European technology platform for sustainable chemistry, and the active adoption of low carbon technology for the development of sustainable chemicals.

INDUSTRY OVERVIEW

The North American integrated chemical services market declined by 6.3% from 2014 to 2015 but quickly recovered with a year-over-year growth rate of 4.8% from 2016 to 2017. The North American integrated chemical services market generated total revenue of US\$732.9 billion in 2018, representing a CAGR of 1.9% between 2014 and 2018. The U.S. took up more than 90% of the North American market and was the second largest market worldwide after China, accounting for more than 16% of worldwide chemical exports in 2018. Although the collapse in oil price in 2015 adversely affected the market, positive growth was driven by large investments and an abundant supply of natural gas (including shale gas) in the U.S., the National Development plan in Mexico and the varied offering of the Canadian market. The performance of the market is forecasted to accelerate, with an anticipated CAGR of 5.0% over the period from 2018 to 2023, which is expected to drive the market size to reach US\$937.2 billion in 2023, stimulated by the development of fine chemicals fueled by advancing technology and increasing investment.

Market drivers of global integrated chemical services market

Digital innovation

Digital innovation, in particular e-commerce, enables chemical companies to serve their customers directly and at a lower cost compared to traditional sales channels. E-commerce, the rise of which was been driven by e-commerce platform providers and distributors, may be disruptive in B2C markets such as the agrochemicals market.

U.S. shale gas boom

The U.S. shale gas boom has restructured the landscape of the global chemicals industry, especially for commoditised basic chemicals. This has led to low and more stable gas prices in the U.S., which has reduced the cost of producing chemicals such as ethylene and attracted considerable investment. Other regions such as Europe and Asia which typically use naphtha, a derivative of oil, to produce upstream chemicals are at a competitive disadvantage compared to the U.S. in producing basic chemicals.

Competitive landscape overview

Leading integrated chemical services providers in the world are characterised as having a long history of development, rich industry experience and extensive sales networks across the world. Large integrated chemical services providers usually sell and distribute a wide range of chemical products, including nutrition, industrial chemical products and specialty chemicals. Additionally, large players have formed complete supply chains to provide customers with highly efficient services. From pre-sale consulting services to the after-sales technique support, large players gain market reputation and customer recognition through providing integrated chemical services, while small sized players tend to focus on their respective regional markets instead of the global market due to their limited sales channels. Our Group ranked 46th globally in the global chemical sales market in 2018 with a recorded total revenue of approximately RMB2,152.9 million.

OVERVIEW OF INTEGRATED CHEMICAL SERVICES MARKET IN THE PRC

The Chinese integrated chemical services market generated a total revenue of RMB11,525.8 billion in 2018, representing a CAGR of 6.1% between 2014 and 2018. The market has seen relatively strong growth due to large market investment, good trade routes and increasing domestic demand, driven by increased urbanisation and industrialisation.

Strong growth is expected to continue in the forecast period, albeit at a slower pace. The growth of the market is forecasted to decelerate with an anticipated CAGR of 4.1% for the period from 2018 to 2023. The value of the market is expected to be RMB14,062.5 billion by the end of 2023.

Market size of polyurethane market

Polyurethane is widely utilised in cushion foams, interior components and other lightweight automotive parts to foster fuel and energy savings. The market size of polyurethane in terms of revenue in the PRC increased from RMB88.6 billion in 2014 to RMB148.0 billion in 2018, representing a CAGR of 13.7%. The surge in 2017 was mainly contributed by the increase of price of polyurethane materials due to the planned or unexpected suspension of major international players.

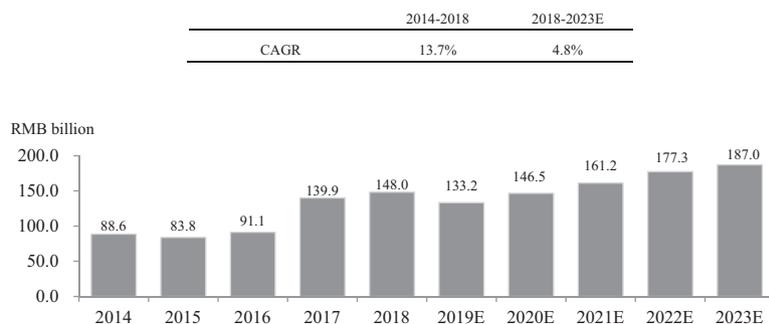
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The drop of market size in 2019 for polyurethane market was mainly because the nationwide enlarged production capacity of TDI, which is expected to be absorbed by the increase in demand of polyurethane materials from downstream industries in the coming one to two years as described in the paragraph headed “Cost factor analysis – Cost of key raw materials for polyurethane” in this section, has increased the competition in the polyurethane market, which placed certain level of short-term pricing pressure on the manufacturers of polyurethane materials during 2019. In addition, the unstable trade environment and the temporary decrease in demand from downstream industries where polyurethane is applied such as the automobile industry also led to the decrease in market size in 2019. The PRC has been consolidating a high-quality foreign trade development during recent years upheld by optimising foreign trade structure. However, the environment for foreign trade development is more complex with greater uncertainty and more risks and challenges. From the international point of view, the weakening of the world economic growth momentum, and the rising of trade protectionism aggravated the instability of the external market. For instance, there had been trade war between the PRC and the United States since late 2018 where each country imposes tariffs on goods that are traded reciprocally, which affected the export value of polyurethane materials in 2019. In respect of the temporary decrease in demand from downstream industry, the sales revenue of the automobile industry witnessed a decrease of 5.7% in the first half of 2019 compared with the same period in 2018. Automobile industry is one of the industries where polyurethane is usually applied. Polyurethane is further manufactured to produce automobile accessories including instrument panel, rear view mirror and seat cushion. Therefore, the temporary decrease in sales of automobile industry in the first half of 2019 also led to the temporarily decreasing downstream demand and therefore the decline of the polyurethane market in 2019. However, the aforementioned decrease in TDI price is considered temporary which was mainly as a result of facility expansion of TDI suppliers in 2019 and is expected to maintain stable in the long run. This could be evident in the historical development of TDI price in the past few years, such as the temporary decrease in market price of TDI near the end of 2013 and 2014 due to the increased production capacity of certain major market players. The market price recovered gradually as the manufacturers have to maintain profitability in the long run. Furthermore, TDI suppliers tend to adjust their actual production capability based on the changing market demand in order to keep production efficiency and their competitive position in the market. It is expected that the polyurethane market is projected to gradually maintain upward trend in the foreseeable future which will be sustained by the growing demand from the cold chain logistics market where polymeric MDI is used to produce thermal insulation materials for preserving perishable products such as dairy products, meat, agriculture which are essential for human’s daily dietary needs in life, due to the higher expectation from general public on safety and quality in terms of food transportation. Moreover, the development of free-trade-zone in the PRC as sustained by the supportive policy of the PRC Central Government has caused increased importing of fresh products which provides ample opportunities for further expansion of cold chain logistics market in the PRC, hence further contributing to the rising demand for polymeric MDI in the future.

High demand for lightweight and durable materials from end-use industries such as furniture, construction, electronics and appliances, automotive, footwear and packaging has driven the growth of the market in recent years and the trend is likely to continue. While the increasing demand for comfortable lifestyle products and improving income levels in the PRC is one of the important factors driving the growth of these consumer product industries, certain favourable regulations and policies also promote the development of some of these markets. For instance, in January 2019, the National Development and Reform Commission issued the implementation plan about supply optimisation for strengthening and promoting the domestic consumption market (2019) 《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》, which denotes that subsidy should be allocated to stimulate product consumption that replace previous home appliances including refrigerators, washing machines and others with environmentally friendly and smart ones. Further, the Vehicle Purchase Tax Law in the PRC (《中華人民共和國車輛購置稅法》) has been put into operation since 1 July 2019 to stabilise the rate of the vehicle purchase tax which will create a stable market consumption environment for automotive industry. As one of the major downstream applications together with the aforementioned growing demand for thermal insulation materials from end-use cold chain industry, the automotive industry is likely to be the major driving force to the future growth of polyurethane industry in the PRC. Passenger vehicle ownership penetration rate in the PRC increased rapidly from 90 units per 1,000 people in 2014 to 140 units per 1,000 people in 2018, representing a CAGR of 11.7%. Well-developed countries generally have a higher penetration rate. For example, the passenger vehicle ownership penetration rate in the U.S. was more than 700 units per 1,000 people in 2017. The market potential of the passenger vehicle industry in China is still enormous and expected to reach more than 200 units per 1,000 people in 2023, representing a CAGR of approximately 7.4% from 2018. As of the third quarter of 2018, many leading players of the polyurethane market in the PRC have registered positive year-over-year growth. For example, the total revenue of Company C and Company J, leading polyurethane players in the PRC, increased approximately 17% and 13% as of the third quarter of 2018 over the same period in 2017, respectively. Driven by strong demand, it is estimated that in the year of 2023, the revenue of the polyurethane market in the PRC will be approximately RMB187.0 billion, representing a CAGR of 4.8% over the period from 2018 to 2023.

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Market size of polyurethane market, the PRC, by revenue, 2014-2023E



Source: Frost & Sullivan

Over the past five years, the import volume of polyurethane products fluctuated and increased from 0.13 million tonnes in 2014 to 0.17 million tonnes in 2018, while the export volume of polyurethane products from the PRC steadily increased from 0.13 million tonnes in 2014 to 0.21 million tonnes in 2018, representing a CAGR of 12.7%. The PRC has transformed from a net importer of polyurethane products to a net exporter due to advancing production technology and rapidly expanding capacity. Moreover, due to the improvement of infrastructure and the rising demand for real estate in the Asia Pacific regions, the exportation of polyurethane products from the PRC is likely to increase in the forecasting period.

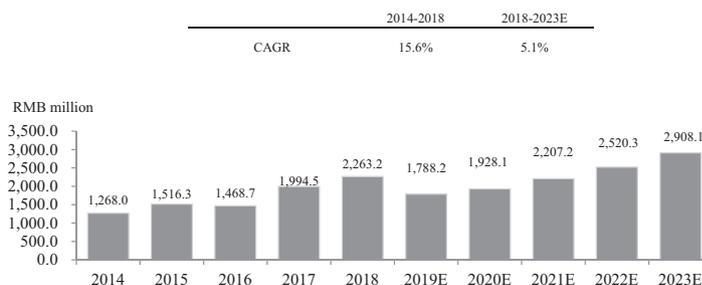
Market size of choline chloride market

Choline chloride is a complex vitamin that is added as an important nutrient in animal feeds. The revenue of the choline chloride market in the PRC experienced a fluctuation during the past five years and increased from RMB1,268.0 million in 2014 to RMB2,263.2 million in 2018, representing a CAGR of 15.6%. The revenue of the choline chloride market in the PRC decreased in 2016, mainly due to decreased production volume caused by tightened environmental inspection and the suspension of operation of some industry players. Moreover, in 2017, the price of choline chloride soared to approximately RMB7,420.0 per tonne, representing a year-on-year growth rate of approximately 75.8%. This was mainly due to the insufficiency of choline chloride, caused by an unexpected decrease in production volume in the same year. In 2018, the domestic sales revenue of the choline chloride market reached approximately RMB1,086.3 million, accounting for approximately 48% of the total market size in the PRC. The drop of market size in 2019 for choline chloride market was mainly due to the temporary decrease in demand for animal nutrition chemicals. The outbreak of African Swine Fever led to the decrease in supply of livestock in 2019 based on the data from National Bureau of Statistics. The decrease in consumption of swine resulted in decrease in selling price of choline chloride in the first half of 2019 compared with that in 2018. However, it is expected that the increase in market size of choline chloride will resume in 2020 as a result of the expected recovery of selling price of choline chloride due to gradual ease of African Swine Fever and the implementation of favourable governmental guidelines to ensure stable supply of livestock, as further particularised in this section.

The total revenue of the choline chloride market in the PRC is projected to increase to RMB2,908.1 million in 2023, representing a CAGR of 5.1% from 2018, mainly driven by diversified downstream applications and increasing external demand. According to the IMF and the National Health and Family Planning Commission, after the full implementation of the second-child policy, the total population of the PRC will reach 1.41 billion by 2023. Based on the newly-added population of 24 million from 2018 and the current consumption level of swine (per capita consumption of 41.5 kg), it is estimated that the rising population will increase pork consumption by about 996 thousand tonnes. Moreover, by 2023, there will be more than 100 million rural people converted into the urban population. At present, the per capita swine consumption of rural households in the PRC is less than 70% of urban households. Based on the current urban consumption level, swine consumption is expected to increase by about 700,000 tonnes by 2022. The growing population and accelerating urbanisation is expected drive up the consumption of meat and encourage the growth of choline chloride market.

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Market size of choline chloride market, the PRC, by revenue, 2014-2023E



Source: Frost & Sullivan

The import volume of choline chloride to the PRC decreased from 182 tonnes in 2014 to 156 tonnes in 2018. As one of the major choline chloride exporters in the world, the PRC's export volume of choline chloride increased from 170,137 tonnes in 2014 to 218,350 tonnes in 2018 at a CAGR of 6.4%.

By the end of 2023, the export volume of choline chloride from the PRC is projected to gradually increase to 301,901 tonnes, representing a CAGR of 6.7% from 2018 to 2023, due to the expansion of downstream applications such as the oil and gas industry, worldwide and in particular the United States, where choline chloride can be used as clay stabiliser and expansion inhibitor with high efficiency and safety.

Introduction of trimethylamine market

Trimethylamine is an organic compound which is used in the synthesis of choline, plant growth regulators or herbicides. The market size of trimethylamine in the PRC in terms of total production volume increased from approximately 137.6 thousand tonnes in 2014 to approximately 158.0 thousand tonnes in 2018, with the price of trimethylamine staying relatively stable from approximately RMB6,500 per tonne to RMB6,300 per tonne during 2014 to 2017 and experienced an increase to RMB7,500 per tonne in 2018 because of the rise in crude oil price. It is expected that due to the gradual ease of African Swine Fever, the limited number of trimethylamine manufacturers in the PRC who tend to have more control in terms of pricing when compared to the downstream choline chloride manufacturers by reaching consensus on pricing among themselves in order to secure profitability and the decrease in crude oil price in the last quarter of 2018, the aforementioned fluctuation in the price of trimethylamine in 2018 was considered temporary. The price of trimethylamine varies due to its form and purity. The price of 98% anhydrous trimethylamine, which is the form of trimethylamine with almost highest purity available from the market, is generally higher than the average price of trimethylamine with lower purity. During the period from 2014 to 2018, the price of 98% anhydrous trimethylamine remained relatively stable at around RMB7,900 to RMB8,100 per tonne. Despite the outbreak of African Swine Fever, it is estimated that the price of 98% anhydrous trimethylamine will remain relatively stable and may gradually increase to RMB8,660.8 per tonne in 2023. Driven by the downstream demand, it is likely that the production volume of trimethylamine in the PRC would keep an increasing momentum and reach approximately 186.2 thousand tonnes, with a price of RMB8,042.9 per tonne in 2023.

The trimethylamine market in the PRC was considered quite concentrated in 2018 with 7 sizeable market players. The top five trimethylamine manufacturers contributed to more than 90% of the entire sales volume of trimethylamine. The largest market player is a listed company located in Shandong Province of the PRC, whose chemical products cover chemical fertilisers, organic amine and other chemical materials.

Market size of feed grade synthetic betaine market

Over the period from 2014 to 2018, the market size of feed grade synthetic betaine in the PRC experienced a general increase, rising from approximately RMB439.9 million in 2014 to approximately RMB621.9 million in 2018, representing a CAGR of 9.0%. The slight decrease in 2016 was majorly influenced by the material decrease of raw material prices such as trimethylamine, hydrochloride and chloroacetic acid, which in turn adversely affected the price of feed grade synthetic betaine in the PRC at less than RMB6,500 per tonne in 2016. Since 2017, the price of feed grade synthetic betaine has gradually recovered and further increased to nearly RMB9,000 per tonne in 2018, as supported by raw material prices and strong domestic and export demand. It is estimated that the market size of feed grade synthetic betaine is anticipated to reach approximately RMB755.5 million in 2023, representing a CAGR of approximately 4.0% from 2018.

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Introduction of moxifloxacin market

As the fourth generation of quinolones drugs, moxifloxacin was first introduced to the market by one of the most renowned chemical companies worldwide with its headquarter based in Germany in September 1999 and which entered the PRC market in the second half of 2002. After a decade of development, the moxifloxacin market in the PRC has increased from approximately RMB2.5 billion in 2014 to approximately RMB4.5 billion in 2018, representing a CAGR of 15.8%. Due to advantages such as broad spectrum sterilisation and small toxic side effects, it is estimated that moxifloxacin is going to gradually replace the third generation of quinolones drugs and reach a market size of approximately RMB7.0 billion in 2023, representing a CAGR of approximately 9.2%.

As there are licence and capital investment requirements for moxifloxacin products, it is common that qualified manufacturers of pharmaceutical products engage other suppliers of pharmaceutical raw materials like moxifloxacin side chain manufactures to carry out research and development and production of pharmaceutical products.

In 2018, the market of moxifloxacin side chain in the PRC was considered concentrated, shared by a limited number of manufacturers (less than ten). Major competitive focuses of the moxifloxacin side chain market lies in the manufacturers of production technology know-how, the acquisition of specialised talents, and the ability to secure sufficient capital to support the operation of equipment and production lines. In 2018, the sales volume of moxifloxacin side chain generated by the largest market players took up approximately 50% of the total market. Large scale players have established stable relationships with their upstream raw material suppliers and downstream customers who are mainly moxifloxacin manufacturers.

Introduction of iodine derivatives

Methyl iodide:

Methyl iodide is used as an intermediate in the manufacturing of pharmaceuticals such as vitamin U and analgesic and pesticides, in methylation processes, and in the field of microscopy. The total downstream demand for methyl iodide in the PRC is approximately 150 tonnes per year. Due to the technical threshold, there are less than five methyl iodide manufacturers in the PRC, where the price of methyl iodide ranges from RMB200 per kilogramme to RMB400 per kilogramme based on the chemical's degree of purity and chemical process. Outside of our Group, there are currently two major methyl iodide manufacturers located in Jiangsu Province and Jiangxi Province with a production capacity approximately 250 tonnes per year.

Methyl iodide is used as chemical intermediates to produce acetic acid. In the PRC, the market size of acetic acid increased from RMB12.7 billion in 2013 to RMB26.5 billion in 2018. The total production capacity of acetic acid in the PRC remained stable but the price of acetic acid fluctuated due to the rise and fall of overseas supply. It is forecasted that due to gently stable downstream applications such as PTA (purified terephthalic acid) and the fall back of acetic acid, the total market size of acetic acid will reach RMB33.1 billion in 2023.

IPBC:

IPBC (iodopropynyl Butyl Carbamate) is a water-soluble preservative that is used globally in industries such as paints and coatings, wood preservatives, personal care and cosmetics. As an effective fungicide, to which people show low sensitivity, IPBC is usually added as a preservative in cosmetic and other products at very low concentrations. The total downstream demand for IPBC in the PRC is approximately 300 tonnes per year with a price range from RMB200 per kilogramme to RMB400 per kilogramme. Outside of our Group, there is currently one major IPBC manufacturer located in Shanghai with a production capacity of approximately 500 tonnes per year.

The major downstream application of IPBC is industrial fungicide for industries including industrial water treatment, paints and coatings, wood preservatives, personal care, and cosmetics. Stimulated by the industrialisation process and stricter environmental regulations, the market size of industrial fungicide in the PRC increased steadily from RMB25.1 billion in 2014 to RMB32.6 billion in 2018, representing a CAGR of approximately 6.8%. Compared with a global market of approximately US\$50 billion in 2017, the industrial fungicide market in the PRC is still in its early development stage. It is estimated that the industrial fungicide in the PRC will reach approximately RMB46.7 billion in 2023 with a CAGR of 7.5%, mainly a result of demands for sustainability from downstream applications such as industrial water treatment and paints and coating that drive the growth of IPBC.

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Key drivers for the integrated chemical services market in the PRC

- ***Higher downstream demand brought by the “Belt & Road Initiative”***

The “Belt & Road Initiative” is a development strategy promoted by the PRC’s government to connect the PRC with Europe, Central and Western Asia, Southeast Asia and Africa. The initiative allows companies from the PRC to establish strong trade connections with the above regions, benefiting industries such as transportation, infrastructure, manufacturing and energy. Notwithstanding that countries along the “Belt & Road” may be rich in crude oil, rubber and other resources, their local chemical processing capacity is relatively weaker compared with that of the PRC chemical companies. As such, these countries still need to import chemicals from other countries such as the PRC. Accordingly, in line with the fundamental principle and the development of “Belt & Road Initiative”, the applied chemical intermediates industry in the PRC has been greatly fuelled by an increasing exporting demand.

- ***Strong capital support in R&D***

The chemicals industry is one of the most innovative industries in the PRC. According to the 2017 Statistical Communique of National R&D Expenditure issued by the National Bureau of Statistics in 2017, the total R&D investment in the chemicals industry was approximately RMB91.2 billion in 2017, showing an increase of 8.4% from the previous year and implying that great effort was paid by chemical companies to advance their formulas and technologies. Advanced formulas and technologies achieved from investment in R&D enable companies to offer differentiated products and strengthen their growth momentum. Due to the increasingly stringent environmental regulations in the PRC, it is anticipated that the innovative chemical intermediates, such as innovative polymers which are biodegradable and thermal insulated in nature and grinding-type resin which significantly lowers volatile organic compound content in solvent-based coating, would increase the downstream demand of such innovative products from various industries, such as electrical appliances, curing agent and coating industries. Accordingly, such rising demand encourages more chemical companies to further invest in R&D for the production of innovative products. Such innovative products are often of higher value-adding and would gradually replace the outdated products, which could attract the downstream customers to replenish its stock with the new products in large quantity, thus further promoting the development and market demand of the applied chemical intermediates industry in the PRC.

Market constraints for the integrated chemical services market in the PRC

- ***Increasing scrutiny***

In the PRC, most applied chemical intermediates companies generate relatively heavy pollution. These companies need to comply with a variety of regulatory compliance and government-mandated requirements through maintaining strict quality management and detailed product information. Special production techniques, materials, and packaging needs force companies to maintain stringent controls over their manufacturing processes, adding on extra costs for the applied chemical intermediates companies.

- ***Overcapacity issues caused by over-heated investment***

After decades of rapid development, many subsectors of the applied chemical intermediates industry in the PRC are now faced with oversupplies because of the investment-led growth model, in which the establishment of new plants is encouraged. On account of the production of similar categories of products, applied chemical intermediates companies in the PRC are left chasing after a finite number of customers. Moreover, the overall growth in demand has slowed down in line with a deceleration in the growth of macroeconomy in the PRC. The overcapacity in product production and oversupply of products is likely to constrain the further development of the market.

Development trends for the integrated chemical services market in the PRC

- ***Optimisation in industrial structure***

At present, the PRC’s macroeconomy has entered the era of “New Normal” (新常态), indicating optimisation of the industrial structure and more focus on the sustainable development. During the 13th Five Year Plan, the PRC’s applied chemical intermediates companies are likely to continue to adjust and improve the structure by shutting down outdated capacity and promoting technology innovation internally. Externally, they tend to develop advanced manufacturing capacities globally, introduce cutting-edge

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technologies from overseas countries and purchase product lines, in order to complement their existing offerings or allow themselves to move into potentially lucrative areas, in alliance with the business's strategic goals.

- **Increasing level of digitalisation**

In recent years, applied chemical intermediates companies have made great effort to shift from “product sellers” to “solution providers” through digitalisation, which has transformed the industry across its entire horizontal value chain. By using digitalisation to integrate manufacturing systems, applied chemical intermediates companies can optimise their production footprints and redesign processes. Meanwhile, the companies can explore new revenue opportunities through digital marketing and sales platforms. It is foreseeable that the trend of digitalisation within the applied chemical intermediates industry will continue, and that companies equipped with better digitalisation solutions may gain a competitive edge over others.

Cost factor analysis

Cost of key raw materials for polyurethane

Price Analysis on Key Raw Materials of Polyurethane, the PRC, 2014-2023E

Unit: RMB/tonne

Products	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
MDI	18,503.3	15,230.8	16,301.7	26,092.0	25,570.2	21,250.0	22,482.5	23,876.4	26,264.1	28,890.5
TDI	17,438.0	12,416.4	18,734.6	31,151.1	28,839.0	14,153.0	15,568.3	17,125.1	18,837.6	20,721.4
Polyether	13,239.0	10,624.6	9,422.0	11,002.0	12,152.0	10,201.0	10,609.0	11,139.5	11,696.5	12,281.3

MDI (methylenediphenyl diisocyanate), TDI (toluene diisocyanate) and polyether are the three main raw materials for polyurethane manufacturing. From 2014 to 2018, the price of polyether decreased from RMB13,239.0 per tonne in 2014 to RMB12,152.0 per tonne in 2018 at a CAGR of -2.1%, mainly due to the decrease in oil prices. While the prices of MDI and TDI experienced a relatively bigger fluctuation from RMB18,503.3 per tonne and RMB17,438.0 per tonne in 2014 to RMB16,301.7 per tonne and RMB18,734.6 per tonne in 2016, respectively, and increased significantly to RMB25,570.2 per tonne and RMB28,839.0 per tonne, in 2018, respectively, mainly due to the production suspension of main producers due to various reasons such as unforeseen disasters (such as production suspension caused by a power cut as a result of Tropical Storm Harvey in 2017) breakdown in the maintenance of equipment and environment controls. Both MDI and TDI prices surged in 2017; in addition to great demand in the PRC, the increase in price was primarily due to tightening supply caused by the discontinuation of production by several major suppliers. For instance, the 600,000 tonne per year MDI facilities of Company C, the leading polyurethane manufacturer in the PRC, were temporarily shut down in August 2017 and resumed operation after two weeks, due to facility maintenance. The 400,000 tonne per year MDI facility of Chongqing branch of the global leading chemical company once suspended production on 12 December, 2017 for nearly one month due to unexpected issues with critical plant equipment of its syngas supplier. In response to environmental protection requirements, the Juhai subsidiary of Company J, the second largest polyurethane manufacturer in the PRC suspended its production in October 2017 for about one month, which reduced approximately 10,000 tonnes of its TDI production of the year. Additionally, two TDI suppliers, located in Shandong and Gansu Province respectively, suspended operation for nearly one month and started equipment inspection due to equipment fault. In terms of overseas TDI supply, the 120,000 tonne per year TDI facility of one of the top ten global chemical companies headquartered in Japan, was shut down permanently in 2016, contributing to an unstable supply which drove up the price as well. The price of TDI experienced a downtrend during the second half of 2018 and such trend continued in January and February of 2019 as a result of the decrease in demand during Chinese Spring Festival. Moreover, market price of TDI continues to drop as a result of increasing market supply, which was primarily due to the commencement of production of the new TDI production facilities with annual production capacity of approximately 300,000 tonnes by the largest PRC polyurethane materials manufacturer and the resumption of production of Huludao facility with annual production capacity of 50,000 tonnes in January 2019. The market price of TDI dropped to the lowest level in the first quarter of 2019 when compared to 2018 and rebounded in April 2019 mainly as a result of a series of incidents in the market including the temporary inspection of TDI facility of the largest PRC polyurethane materials manufacturer. The aforementioned fluctuation in market price of TDI during the first half of 2019 was considered as temporary, and it is expected that there will not be significant fluctuation in the average selling price of TDI in the second half of 2019 and 2020. In short run, the price of polyurethane materials will remain relatively stable afterwards

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in general, save as the drop in the average selling price of TDI in November 2019 primarily due to the increase in utilisation of TDI production capacity of one of the major upstream manufacturers in the PRC in October 2019. It will rise by approximately 6% to 12% in the coming one to two years, driven by (i) the high demand attributable to their wide applications in various end-use industries such as furniture, construction, and footwear industries as they are lightweight, durable, and waterproof which add resilience, strength and comfort for the products, in electronics and appliances and packaging industries for effective insulation and reducing vibration, and in automotive industries to foster comfort, protection and energy conservation, and (ii) the growing demand for thermal insulation materials from end-use cold chain industries as mentioned below. It is estimated that the prices of MDI and TDI might increase in the long run, driven by the increasing downstream demand, especially in the construction industry and automotive industry. For instance, apart from the growing demand for thermal insulation materials from end-use cold chain industry, the auto production volume in the PRC grew from 23.5 million units in 2014 to 27.8 million units in 2018 at a CAGR of 4.3% and is estimated to reach more than 38 million units in 2023, driven by the development of new energy vehicles and the increasing income levels of PRC residents, which in turn would further drive the development of polyurethane market both in terms of both price and volume in the long run.

Cost of key raw materials for choline chloride and betaine

Trimethylamine hydrochloride and ethylene oxide are the two main raw materials for the choline chloride industry. Trimethylamine hydrochloride and chloroacetic acid are the two main raw materials for the betaine products. Choline chloride manufacturers also purchase trimethylamine directly to produce choline chloride. Over the period from 2014 to 2018, the price of ethylene oxide decreased from RMB10,495.0 per tonne to RMB10,292.6 per tonne. However, there was a slight increase from 2016 to 2018, influenced by the insufficient supply of ethylene oxide and the rebound of ethylene prices. The price of ethylene oxide is estimated to recover and maintain stable going forward due to the reason that ethylene oxide can be further processed into detergent, surfactant and applied in a wide range of downstream industries. The development of infrastructure set forth in the 13th Five-Year-Plan stimulates the demand for concrete, one of the major downstream products of ethylene oxide.

From 2014 to 2018, the price of 98% anhydrous trimethylamine, which is the form of trimethylamine with almost the highest purity available from the market, fluctuated and slightly increased to RMB8,100 per tonne in 2018, which resulted from stable demand from downstream, such as choline chloride, and a slight rise in crude oil price. It is forecasted that the price of 98% anhydrous trimethylamine may increase to RMB8,660.8 per tonne in 2023 with a CAGR of 1.3% from 2018.

The price of chloroacetic acid experienced material decrease from 2015 to 2016 and hit RMB2,869.0 in 2016, mainly due to sluggish support from its raw material and weak demand from downstream such as pesticide due to higher environmental requirements. In 2017 and 2018, stimulated by oil prices and production suspension due to stricter environmental inspections, the price of chloroacetic acid rose back to approximately RMB4,587.0 per tonne in 2018 and is estimated to fluctuate and eventually stabilise at approximately RMB4,357.1 per tonne in 2023.

Average selling prices of choline chloride and betaine

The price of choline chloride experienced a consecutive downward trend from 2014 to 2016, decreasing from approximately RMB4,828.2 per tonne to RMB4,219.6 per tonne, which was mainly due to the low-price competition brought by the influx of choline chloride manufactures. In 2017, with the stringent environment control, many small-sized manufactures with outdated equipment which released environmental pollution were suspended or eliminated, resulting in a low level supply of choline chloride. Therefore, the price of choline chloride surged to approximately RMB7,420.0 per tonne.

However, due to the outbreak of African Swine Fever (ASF) in the PRC, the demand for choline chloride has been weakened in 2018, resulting in a decrease in choline chloride price. The continued decrease in the price of choline chloride in the first quarter of 2019 was mainly influenced by the decrease of ethylene oxide price and sluggish demand from the downstream industry like swine industry due to ASF. According to the National Bureau of Statistic of China, the price of swine increased by approximately 5.1% in March 2019 from the same period of last year, showing signs of recovery of the swine industry. Based on the latest market information, price of choline chloride experienced slight fluctuation but generally remained stable during July to October in 2019 when compared to the first half of 2019, and the price is expected to recover gradually in 2020 and afterwards, due to gradual ease of African Swine Fever and as supported by a series of measures taken by local government under the guidance of central government to minimise the outbreak of swine fever. For instance, according to the Ministry of Agriculture and Rural

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Affairs, the number of new outbreaks had slowed down significantly from approximately 100 cases in the second half of 2018 to approximately 15 cases from June to November 2019. The gradual ease of African Swine Fever indicates the recovered and expected rising demand for choline chloride. In addition, the government of Guangdong Province issued guidelines in June 2019 to improve pork production and quality control, while the government of Zhejiang Province would give allowance for farms which introduce locally produced swine. Besides, some market participants in the animal husbandry industry have announced expansion plans to further develop swine breeding business, which suggests the demand for choline chloride may potentially increase. Moreover, the government has also issued beneficial guidelines in September 2019 to help guarantee the sufficient supply of livestock in the PRC. The guideline denotes that the time period of interest subsidy loan for establishing and expanding livestock farm will be extended to the end of 2020. In response to the national guidelines, the Ministry of Finance and the Ministry of Agriculture and Rural Affairs of the PRC have jointly issued policies with respect to the coverage of livestock insurance, in which the insurance amount for each breeding livestock has been increased from RMB1,000 to RMB1,500 to encourage and support the recovery and expansion of production scale of the swine breeding farms. In addition, the number of live pigs in stock in 12 provinces nationwide rebounded in October 2019 after nine months of declines. The average selling price of choline chloride in the PRC has shown recovery in November 2019 after the continuous decrease in average selling price of choline chloride by approximately 13.5% since the outbreak of African Swine Fever and reaching its bottom in the second and third quarters of 2019. Hence, based on the favourable national policies and the latest market conditions, it is expected that there will be steady domestic supply of livestock in the next year, which will result in an increase in demand of animal nutrition chemicals and increase in market price for choline chloride by approximately 10% in 2020.

The price of betaine experienced fluctuation and increased from approximately RMB 7,233.4 per tonne in 2014 to approximately RMB8,920.1 per tonne in 2018. The decrease in 2015 and 2016 was majorly influenced by the decrease in prices of main raw materials. Due to the surge in raw material prices and stable downstream demand, the price of betaine in the PRC bounced back in 2017 and 2018. Moreover, as the prices of betaine products differ according to product specifications such as the content of betaine or product form (such as powder or liquid), the selling prices of betaine products can range from approximately RMB5,000 per tonne to RMB15,000 per tonne. As major betaine manufacturers in the PRC continue to improve their product quality, it is anticipated that the price of betaine will further increase and reach approximately RMB9,337.6 per tonne in 2023.

Competitive landscape of integrated chemical services market in the PRC

Ranking of integrated chemical services market

The integrated chemical services market in the PRC was fragmented in 2018, with the top five players generating an aggregate revenue of RMB269.1 billion in 2018, taking up a share of 2.4%. Our Group took up a share of approximately 0.02%.

Leading chemical services providers provide a wide range of chemical products, ranging from agricultural related to industrial related and others. The largest player remained the leading position in the integrated chemical services market in the PRC, who is featured with its integrated value chain, covering upstream manufacturing and downstream application.

Ranking of choline chloride market in the PRC

Animal feed additive are comprised of two major categories, namely, protein and vitamin. As one of the significant sub-segments of vitamin under animal feed additives, choline chloride functions to accelerate the growth and egg production of poultry, which is significant to the poultry or livestock breeding industry.

The overall choline chloride market in the PRC in 2018 was considered to be concentrated with a few large scale players and a number of local small-to-medium sized companies, contributing to a total domestic sales revenue of RMB1,086.5 million in 2018. Large players are equipped with comprehensive capabilities that cover product research and development, manufacturing, technical support or other value-added services. Moreover, large players usually have extensive sales networks covering both domestic and overseas regions. As well as focusing on domestic marketing, large players actively explore opportunities abroad to further promote their market position.

INDUSTRY OVERVIEW

In 2018, the Group ranked first in the choline chloride market in terms of domestic sales revenue. The top five players of the same market contributed to an aggregate domestic sales revenue of RMB1,004.8 million that took up a share of approximately 92.5%. The market share of the Group in terms of domestic sales revenue in choline chloride in the PRC remained relatively stable at approximately 30.1% and 30.3% in 2017 and 2018, respectively. The market share of the second to the fifth largest players, namely Company F, Company G, Company H and Company I (a company based in Hebei Province which mainly focuses its business on manufacturing of choline chloride) accounted for approximately 49.1% in 2017 when compared to the market share of approximately 62.2% by the second to the fifth largest players, namely Company F, Company G, Company H and Company M in 2018. Meanwhile, our Group demonstrated outstanding performance in the global choline chloride market and ranked second with a market share of approximately 16.8% in 2018.

Ranking	Company name	Brief introduction	Domestic sales revenue in choline chloride in the PRC, 2018 (RMB million)	Market share, 2018
1	<i>The Group</i>	<i>Our Group is a leading player in producing and selling choline chloride in the PRC.</i>	328.7	30.3%
2	Company F	The company specialisedly produces three main high-qualified products which are choline chloride, threonine, and vitamin B2.	285.0	26.2%
3	Company H	The company focuses on producing choline chloride with its products sold to Asia, Europe and Africa.	200.5	18.5%
4	Company G	The company is now a key manufacturer and supplier of choline chloride for international companies and has established over 10 representative offices in Asia, Europe, South America and the U.S.	105.6	9.7%
5	Company M	The company mainly focuses its business on the manufacturing of choline chloride.	85.0	7.8%
	Top 5		1,004.8	92.5%
	Total		1,086.5	100.0%

Source: Frost & Sullivan

Ranking of polyurethane market in the PRC

As one of the significant synthetic materials in the world, the polyurethane market in the PRC is embracing huge demands from the end-application market, which has attracted a huge number of players entering the polyurethane market in the recent few years. The polyurethane market in the PRC in 2018 was quite fragmented, dispersed by thousands of small-sized companies focusing on the production of a single product category while a few large players who have already formed economic scale, with the capacity to manufacture product portfolio including polyether, MDI and other polyurethane related products. Our Group was one of the earliest companies in the PRC to sell chemicals manufactured by third party manufacturers, in particular, polyurethane materials.

INDUSTRY OVERVIEW

In 2018, the top five polyurethane manufacturers in the PRC contributed approximately 25.8% to the overall polyurethane market in the PRC, and our Group ranked fourth.

Ranking	Company name	Brief introduction	Total revenue in polyurethane, 2018 (RMB million)	Market share, 2018
1	Company C	The company produces polyurethane series products, petrochemical products, functioning materials of water-based coatings and the specialty chemicals.	30,951.0	20.9%
2	Company J	The company manufactures large-scale chemical products, such as fertiliser and TDI.	3,949.6	2.7%
3	Company K	The company is mainly engaged in providing polyether series of products.	1,545.4	1.0%
4	The Group	Our Group is a leading player in producing and selling polyurethane in the PRC.	881.6	0.6%
5	Company L	Main business segments of the company include polyurethane related products and other chemicals.	773.9	0.5%
	Top 5		38,101.4	25.8%
	Total		147,825.5	100%

Source: Frost & Sullivan

Note: Total revenue includes domestic sales and export sales.

Key entry barriers to the integrated chemical services market in the PRC

- **Considerable capital investment**

Production techniques for pharmaceutical intermediates are more complicated, while at the same time the standards required for the production of pharmaceutical intermediates are comparatively more stringent. Thus, large amounts of capital are needed to invest in the research and development of upgraded production technology to support product innovation, as well as in the upgrading of equipment to guarantee that the manufacturing process is compliant with increasingly stringent standards and regulations under the related authorities. It may be challenging for new entrants who lack adequate capital support to sustain continuous investment in techniques and equipment.

- **Environmental compliance**

The process of manufacturing chemical products may, to some extent, cause industrial pollution such as the release of chemical waste and sewage, which may further lead to negative influences on the ecological environment. Thus, chemical products manufacturers are required to fulfil corporate social responsibilities by conducting a series of measures such as lowering energy consumption, raising production efficiency, implementing comprehensive sewage disposal systems and so forth. Players and new entrants who cannot take effective measures to control pollution or afford the costs of pollution treatment may sustain great regulatory pressure and be driven out of the market.

- **Market reputation**

Chemical intermediates manufacturers tend to approach customers from various industries and establish long-term relationships with downstream customers. Product quality and stability are the main factors that customers take into consideration when evaluating chemical products suppliers. It usually takes a certain period of time for customers to evaluate product performance before making their final decisions. Thus, when chemical products suppliers have gained recognition from their customers, their cooperative relationships with customers improve in line with their market reputation, which further makes it difficult for new entrants to get access to abundant customer resources.

INDUSTRY OVERVIEW

Competitive advantages of the Group

- ***Efficient supply chain***

In order to better serve customers, the Group has set up more than 10 representative offices and over 60 distribution centres nationwide. Furthermore, the Group also established branch offices in foreign countries such as India, Russia, Vietnam, U.S. and Ukraine to communicate with local customers in a more effective way. To be more specific, the Group owns two expertised logistics companies who are certified in transporting hazardous chemicals in the PRC and has also set up warehouses across the country for the storage of chemical products to ensure adequate inventory.

- ***Wide customer base***

Benefiting from the branch offices set up nationwide and overseas, the Group has therefore had the opportunities to approach various domestic customer groups from different industries, which gradually increases and diversifies the Group's customer base. Customers of the Group include but are not limited to companies engaging in husbandry of livestock pharmaceutical companies, plastics manufacturers, household appliances manufacturers and so forth from more than 50 countries with number of customers of our Group exceeding 4,300 in 2018. Such wide customer base has strengthened the market position of the Group in the integrated service market of applied chemical products while at the same time improves its industrial reputation which is advantageous for the Group to further tap into overseas markets.

OVERVIEW OF CHEMICALS MARKET IN VIETNAM

Introduction of applied chemical products market in Vietnam

In Vietnam, applied chemical products include chloride derivatives, bromide derivatives, feed additives, polyurethane, biofuels such as cashew nut shell oil and cardanol, and iodine derivatives. Among these iodine derivatives are the main applied chemical intermediates. Major characteristics of applied chemical products market in Vietnam are limited R&D ability, low labour cost and sufficient foreign direct investment. In terms of R&D ability, Vietnam is inferior due to underdeveloped R&D methodology and insufficient investment in R&D. Many global chemical conglomerates have set up subsidiaries in Vietnam because of low labour costs and looser environmental compliance requirements.

Introduction of cashew cardanol

Cashew nut shell oil and cardanol are two major biofuel products that are produced through contemporary biological processes that can be derived directly from plants (i.e. energy crops), or indirectly from agricultural, commercial, domestic, and/or industrial wastes. Other than Cambodia, which is the primary country for corncob, Vietnam is the primary country for corn and cashew nut cultivation, as well as cashew cardanol production, in Southeast Asia.

Market size analysis

Market size of cashew cardanol market in Vietnam

As the primary country for corn and cashew nut cultivation, as well as cashew nut shell cake production in Southeast Asia, Vietnam has witnessed a revenue increase in the cashew cardanol from VND404.4 billion in 2014 to VND625.8 billion in 2018 at a CAGR of 11.5%. The revenue from cashew cardanol market in Vietnam is expected to reach around VND897.2 billion in 2023 from approximately VND625.8 billion in 2018 at a CAGR of 7.5%.

Vietnam is one of the most important production areas for cashew nuts. Local supply of cashew cardanol surpasses domestic demand and a large amount of cashew cardanol is exported to other countries. Especially, the PRC imports a large proportion of Vietnam's cashew cardanol products.

INDUSTRY OVERVIEW

Key driver for chemicals market in Vietnam

- ***Less strict environmental compliance requirements***

Developed countries often have strict environmental protection requirements, which inevitably raise local applied chemical products players' compliance costs. Although awareness of environmental protection is rising in Southeast Asia, environmental regulation is still relatively lenient. With the benefit of saving a considerable amount of compliance costs, many global chemical conglomerates have set up subsidiaries and plants in Southeast Asia countries such as Vietnam, bringing sufficient capital into the Southeast Asia's applied chemical products market.

Market trend of applied chemical products market in Vietnam

- ***More globalised selling channels of applied chemical intermediates products***

Applied chemical products manufacturers in Southeast Asia tend to explore more globalised selling channels of applied chemical products due to geographic advantages and governmental supports. With convenient selling channels through ocean, chemical products will enter foreign market with low transportation costs. Besides, some Southeast Asian countries such as Vietnam grant local applied chemical products manufacturers certain percentage of tax exemption for exported products, further encouraging them to promote global sales.

REGULATORY OVERVIEW

PRC LAWS AND REGULATIONS

Our business operation in the PRC shall be widely supervised and managed by the PRC government and governed by relevant laws, regulations, industrial policies and government regulatory policies. This section summarises the main laws, regulations which impact key aspects of our business.

Laws and Regulations Relating to the Chemistry Industry in China

Production Safety

The Production Safety Law

The *Production Safety Law of the PRC* (《中華人民共和國安全生產法》)(the “**Production Safety Law**”) was promulgated by the Standing Committee of the National People’s Congress (the “NPCSC”) on 29 June 2002 and came into effect on 1 November 2002 and revised on 27 August 2009 and 31 August 2014 respectively and provided that enterprises engaged in production activities in the PRC are required to: (1) comply with the *Production Safety Law* and relevant laws and regulations on production safety, (2) strengthen managerial control over production safety, (3) establish and improve the safe production responsibility system and rules and regulations on safety production, (4) improve working conditions at production sites, and (5) promote the building of standardisation on safety production to raise the safety level and to ensure workplace safety at production sites.

Pursuant to the *Production Safety Law*, the production, operation, transportation, storage and use of any hazardous substances or the disposal of abandoned hazardous substances shall, according to the provisions of the relevant laws and regulations, national standards and industrial standards, be subject to the approval as well as the supervision and administration of relevant administrative departments. The major person in charge of an enterprise shall undertake the overall responsibility for the safety in production. Enterprises shall provide education and training to employees on safety in production. They shall also provide employees with articles of labour protection which meet the national or industrial standards, and supervise and guide employees to wear and use of these articles according to instructions.

Safety Production Licence

Pursuant to the *Regulations on Safety Production Licence* (《安全生產許可證條例》)(the “**Regulations on Safety Production Licence**”), which were promulgated by the State Council on 13 January 2004 and amended on 18 July 2013 and 29 July 2014, the PRC government implements the production safety licencing system to the enterprises engaged in mining, construction, production of hazardous chemicals, fireworks and crackers, and civil use explosive articles. No enterprise may engage in such manufacturing activities without a safety production licence.

The department of work safety supervision and administration under the State Council shall be in charge of the issuance and administration of safety production licence for enterprises which are subject to the administration of the central authority and engage in the non-coal mining, production of hazardous chemicals, fireworks and crackers. The provincial departments of work safety supervision and administration are in charge of the issuance and administration of safety production license for enterprises which engage in non-coal mining, the production of hazardous chemicals, fireworks and crackers except for the aforesaid.

Production and Operation in relation to Hazardous Chemicals

General Regulations on Safe Management of Hazardous Chemicals

Certain products of us are listed in the *Catalogue of Hazardous Chemicals (2015) of China* (《危險化學品目錄(2015年版)》)(the “**Catalogue**”), which was promulgated by the State Administration of Work Safety (the “SAWS”) on 27 February 2015, and are categorised as hazardous chemicals. Enterprises that produce, sell, use, operate, transport productions listed in the *Catalogue* shall abide by relevant laws and regulations in relation to the hazardous chemicals.

REGULATORY OVERVIEW

The *Regulations on Safe Management of Hazardous Chemical Materials* (《危險化學品安全管理條例》)(the “**Hazardous Chemical Regulations**”), which were promulgated by the State Council on 26 January 2002 and revised on 2 March 2011 and 7 December 2013 respectively, provide administrative and supervisory rules for the safe production, storage, use, operation and transportation of hazardous chemicals/hazardous chemical materials, which include hyper-toxic and other hazardous chemicals that are toxic, corrosive, explosive, flammable or accelerative, and which damage human health, facilities or the environment.

The PRC government exerts strict control over and adopts an examination and approval system of the manufacture and operation (including trading) of hazardous chemicals. Without proper examination and approval, no enterprise or individual is allowed to produce hazardous chemicals. The construction and expansion of hazardous chemicals manufacturing facilities/projects shall be in accordance with *Hazardous Chemical Regulations*. Enterprises engaging in the production, operation and transportation of hazardous chemicals must, prior to the commencement of production, operation and transportation, obtain relevant licence for hazardous chemicals. The safety conditions of newly built, reconstructed and expanded construction projects for the production of hazardous chemicals is subject to the examination of the safety supervision regulatory authority.

The enterprises that produce hazardous chemicals shall provide technical specifications for the safety of chemicals in full accord with hazardous chemicals manufactured by them, and shall affix or hang the safety signs for hazardous chemicals on the packing (including external packaging) in full accord with hazardous chemicals in the packing materials. The packing of hazardous chemicals shall accord with laws, administrative regulations and rules, and satisfy the requirements of the national standards and industrial standards. The packaging material and containers of hazardous chemicals, and the models, specifications, methods and unit quality (weight) shall be adapted to the nature and product usage of the packaged hazardous chemicals.

The major person in charge of enterprises that manufacture, store, use, operate or transport the hazardous chemicals shall take overall responsibilities for the safety management of their hazardous chemicals. The hazardous chemical enterprises shall have the safety conditions required by laws and administrative regulations and national standards and industrial standards, establish and improve regulations on safety administration and position-based safety responsibility system, and provide employees with education on safety and law as well as technical training for their positions.

The enterprises that manufacture hazardous chemicals shall entrust institutes, with qualifications in accordance with national requirements, to conduct safety evaluation on their own production safety conditions once every three years and provide safety evaluation report. The safety evaluation report shall include a proposal to make rectification and improvement against the safety issues incurred from production safety conditions.

Safety Production Licence of Hazardous Chemical Production

Pursuant to the *Measures for the Implementation of Work Safety Licences of Hazardous Chemicals Production Enterprises (2015 Amendment)*(《危險化學品生產企業安全生產許可證實施辦法》), which were formulated in accordance with the *Regulations on Safety Production Licence*, and were promulgated by the SAWS and State Administration of Coal Mine Safety and came into effect on 17 May 2004 and amended by the SAWS on 5 August 2011 and 27 May 2015 and 6 March 2017 respectively, hazardous chemical production enterprises must obtain the safety production licence for hazardous chemicals. The local work safety authorities at the provincial level are responsible for the issuance and administration of the safety production licence for hazardous chemicals for enterprises within its administrative regions except central enterprises and their directly controlled enterprise headquarters involved in the production of hazardous chemicals. The aforesaid measures further provide conditions, requirements and process in relation to the application for the safety production licence of hazardous chemical production.

REGULATORY OVERVIEW

Operating Licence of Hazardous Chemicals

Pursuant to the *Measures for the Administration of the Operating Licence of Hazardous Chemicals* (《危險化學品經營許可證管理辦法》), which were promulgated by the SAWS on 27 May 2015 and came into effect on 1 July 2015, enterprises engaging in the operation (including trading) of hazardous chemicals shall obtain an operation licence of hazardous chemicals before its commencement of such business operation. The aforesaid measures further provide conditions, requirements and process in relation to the application for the operation licence of hazardous chemicals.

Registration of Hazardous Chemicals

Pursuant to the *Administrative Measures for the Registration of Hazardous Chemicals* (《危險化學品登記管理辦法》), which were promulgated by the SAWS on 1 July 2012 and came into effect on 1 August 2012, enterprises engage in the production or importation of any chemical listed in the Catalogue of Hazardous Chemicals shall register with the competent work safety administration authorities prior to the inspection and acceptance for the completion of construction or the first importation activity.

Regulations on the Safety Supervision of Construction Project involving Hazardous Chemical

The *Measures for the Safety Supervision and Administrative of Hazardous Chemical Construction Projects* (《危險化學品建設項目安全監督管理辦法》), which were promulgated by the SAWS on 30 January 2012 and came into effect on 1 April 2012, and revised on 27 May 2015, provide that projects for the construction, renovation and expansion of facilities used in the production of hazardous chemicals, as well as projects which generate hazardous chemicals (including hazardous chemical pipeline construction projects), are subject to inspections, supervision and administration by competent regulatory authorities. Such projects must not commence construction or operation without first completing the safety review and the acceptance of the completed safety facilities.

Regulations related to Feed and Feed Additives

The *Regulations on the Management of Feeds and Feed Additive* (《飼料和飼料添加劑管理條例》), which were promulgated by the State Council and came into effect on 29 May 1999, and last amended and came into effect on 1 March 2017 provide administrative and supervisory rules for the research developing, production, operation and use of feed, the industrially processed or manufactured products that are consumed by animals, including single feed, additive premixes, concentrated feeds, formula feeds and concentrate supplements, and feed additives, the small or micro quantities of substances that are added in the course of processing, manufacturing or using feed, including nutritional feed additives and general feed additives. Enterprises engaging in the production of feed or feed additives must, prior to the commencement of production, obtain production licences for feed or feed additives.

The PRC government encourages the research and development of new feed and feed additives. New feed or feed additives, before putting into production, are subject to examination and approval of the competent administrative department of agriculture of the State Council.

As part of the implementation of the *Regulation on the Management of Feeds and Feed Additives* (《飼料和飼料添加劑管理條例》), the Ministry of Agriculture has promulgated the *Measures for the Administration of Production Licences for Feed Additives and Additive Pre-mix Feeds* (《飼料添加劑和添加劑預混合飼料生產許可證管理方法》) on 1 July 2004 and the *Measures for the Management of Production Licences for Feeds and Feed Additives* (《飼料和飼料添加劑生產許可證管理辦法》) on 31 December 2013, in which the conditions and requirements for enterprises engaging in production of feed, feed additives, or additive pre-mix feeds acquiring relevant production licences are stipulated.

To produce feeds and feeds additives in the PRC, the enterprise shall obtain relevant feed additive production licence (飼料添加劑生產許可證) or additive pre-mix feed production licence (添加劑預混合飼料生產許可證) and product approval numbers for relevant feed additive or additive pre-mix feed it intends to produce before its production. Requirements for production of feed and feed additives include having relevant facility and equipment, employees for technology and quality inspection, in compliance with relevant safety hygiene standards, etc.

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Pursuant to the Measures for the Management of Product Approval Numbers for Feed Additives and Additive Pre-mix Feed (《飼料添加劑和添加劑預混合飼料產品批准文號管理辦法》), approval numbers in respect of feed additive or additive pre-mix feed product to be manufactured by relevant enterprise shall be obtained before such manufacturing. To obtain such approval numbers, certain materials including the product formula and the standards and inspection for product quality, a self-inspection report for major constituent of the product, etc. shall be submitted.

Laws and Regulations relating to the Pilot Plan for the Marketing Authorisation Holder System

Under the authorisation of the NPCSC, the State Council promulgated the *Plan for the Pilot Program of the system of the Holders of Drug Marketing Licences* (《藥品上市許可持有人制度試點方案》) on 26 May 2016, which provides a detailed pilot plan for the marketing authorisation holder system (the “**MAH System**”) for drugs in 10 provinces (including Jiangsu provinces, where our MAH operation are located) in the PRC. On 6 July 2016, the China Food and Drug Administration (the “**CFDA**”) promulgated the *Notice of the China Food and Drug Administration on Effectively Conducting the Pilot Program of the Drug Marketing Authorisation Holder System* (《國家食品藥品監管總局關於做好藥品上市許可持有人制度試點有關工作的通知》), in which the process in relation to the application for participating in the MAH System and become holder of drug registrations are further stipulated.

Under the MAH System, domestic drug research and development institutions and individuals in the piloted regions are eligible, upon application, to be holders of drug registrations without having to become drug manufacturers and acquiring drug manufacturing licence and GMP certifications, provided that their contract manufactures are licensed and GMP-certified, and are located within the piloted regions. Drugs qualified for the MAH System are: (1) new drugs (including Category 1 and 2 drugs under the *Reform Plan for Registration Category of Chemical Medicine* (《化學藥品註冊分類改革工作方案》)(the “**Reform Plan**”) approved after the implementation of the MAH System; (2) generic drugs approved as Category 3 or 4 drugs under the Reform Plan; (3) previously approved generics that have passed the equivalence assessments against originator drugs; and (4) previously approved drugs whose licences were held by drug manufactures originally located within the pilot regions, but have been moved out of the piloted regions due to corporate mergers or other reasons.

Pursuant to the *Notice on Matters Relating to Promotion of the Pilot Program for the Drug Marketing Authorisation Holder System* (《國家食品藥品監督管理總局關於推進藥品上市許可持有人制度試點工作有關事項的通知》)(the “**Notice**”), which was promulgated by the CFDA on 15 August 2017, holders of drug registrations (1) shall be responsible for managing the whole manufacturing and marketing chain and the whole life cycle of drugs and assume the full legal liability for pre-clinical drug study, clinical trials, manufacturing, marketing and distribution and adverse drug reaction monitoring etc.; (2) may entrust more than one pharmaceutical manufacturing enterprises with drug manufacturing licence to conduct manufacturing in the manner of uniformity in prescription, techniques and quality; and (3) may sell such drugs on its own or by entrusting drug manufacturers that manufacture drugs on their behalf or drug operators with a drug operation licence.

The *Notice* requires to accelerate the examination and approval process of drugs that satisfy the conditions listed in the *Opinions of the CFDA on Clearing the Backlog of Drug Registration Application and Performing Prioritised Review and Approval* (《國家食品藥品監管總局關於解決藥品注冊申請積壓實行優先審評審批的意見》).

REGULATORY OVERVIEW

Laws and Regulations Relating to the Environmental Protection in China

General Regulations Concerning Environmental Protection

The *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》)(the “**Environmental Protection Law**”), promulgated by the NPCSC on 26 December 1989, last amended on 24 April 2014 and came into effect on 1 January 2015, establishes the legal framework of the environmental protection in the PRC. Pursuant to the *Environmental Protection Law*, the competent department of environmental protection administration under the State Council shall conduct unified supervision and management of the environmental protection work throughout the country, and establish the national standards for environment quality and discharge of pollutants. The competent departments of environmental protection administration of the local governments at or above the county level shall conduct unified supervision and management of the environmental protection work within areas under their jurisdiction.

Pursuant to the *Environmental Protection Law*, enterprises discharging pollutants shall establish an environmental protection accountability system to identify the responsibilities of their persons in charge and relevant staff, and shall adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation generated in the course of production, construction or other activities. Enterprises, public institutions and other producers and business operators discharging pollutants shall pay pollution fees in accordance with relevant national regulations.

Prevention and Control of Pollutants

The *Atmospheric Pollution Prevention and Control Law of the PRC* (《中華人民共和國大氣污染防治法》), which was promulgated by the NPCSC on 5 September 1987, last amended on 29 August 2015 and came into effect on 1 January 2016, the *Water Pollution Prevention and Control Law of the PRC* (《中華人民共和國水污染防治法》), which was promulgated by the NPCSC on 11 May 1984, last amended on 27 June 2017, and come into force on 1 January 2018, the *Law of the PRC on Prevention and Control of Environmental Noise Pollution* (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the NPCSC on 29 October 1996 and came into effect on 1 March 1997, and the *Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste* (《中華人民共和國固體廢物污染環境防治法》), which was promulgated by the NPCSC on 30 October 1995, last amended and came into effect on 7 November 2016, respectively specify the administrative regulations on the prevention and control of pollution caused by atmosphere, water, noise and solid waste in order to protect and improve the environment, safeguard the public health and promote the sustainable development of economy and society.

Environmental Protection for Construction Projects

The *Law of the PRC on Appraising of Environment Impacts* (《中華人民共和國環境影響評價法》)(the “*Law on Appraising of Environment Impacts*”), which was promulgated by the NPCSC on 28 October 2002, last amended on 2 July 2016 and effective from 1 September 2016, provides specific regulations on the environmental protection for planning and construction projects. According to the *Law on Appraising of Environment Impacts*, units responsible for the construction projects shall submit the environmental impact reports to the competent administrative department of environmental protection for examination and approval in accordance with the regulations of the State Council. The construction units shall not commence the construction before the environmental impact appraisal documents of the construction projects having been examined by the examination and approving department or approved by such departments after examination according to laws.

The *Administrative Regulations on Environmental Protection for Construction Project* (《建設項目環境保護管理條例》), which was promulgated by the State Council on 29 November 1998, last amended by the State Council on 16 July 2017 and came into effect on 1 October 2017, simplifies the requirements and process for the approval of the environmental protection for construction projects.

REGULATORY OVERVIEW

Laws and Regulations in Relation to our Subsidiaries in the PRC

General Laws Concerning Corporate in the PRC

The *Company Law of the PRC* (《中華人民共和國公司法》) (the “**Company Law**”) was promulgated by the NPCSC on 29 December 1993, last amended and came into effect on 26 October 2018. The *Company Law* is the basic law that generally regulates the establishment, operation and management of corporate entities in the PRC.

Save for the *Company Law*, the foreign invested enterprises, including the wholly foreign owned enterprises, shall also abide by, where relevant, the *Law of the PRC on Sino-Foreign Equity Joint Ventures* (《中華人民共和國中外合資企業經營法》) and *Implementation Rules of the PRC on Sino-Foreign Equity Joint Ventures* (《中華人民共和國中外合資企業經營法實施條例》), or the *Law of the PRC on Foreign-funded Enterprises* (《中華人民共和國外資企業法》) and the *Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法實施細則》).

Regulations Concerning Foreign Investment

Catalogue for the Guidance of Foreign Investment Industries

The *Catalogue for Guidance of Foreign Investment Industries* (《外商投資產業指導目錄》) (the “**Catalogue for Guidance**”), which was last amended by National Development and Reform Commission (the “**NDRC**”) and the Ministry of Commerce (the “**MOC**”, its predecessor the “**MOFCOM**”) on 28 June 2017 came into effect on 28 July 2017, provides the access restrictions on foreign investment in various industries of the PRC, and classifies the foreign investment industries into two categories, (1) the Catalogue of Encouraged Foreign Investment Industries, and (2) Special Access Administrative Measures for Foreign Investment (Negative List of Foreign Investment Access). Among which, the Special Access Administrative Measures for Foreign Investment (Negative List of Foreign Investment Access) is further subdivided into Catalogue of Restricted Foreign Investment Industries and Catalogue of Prohibited Foreign Investment Industries. Those not classified into Special Access Administrative Measures for Foreign Investment (Negative List of Foreign Investment Access) are permitted foreign investment industries.

Our business operation in the PRC are not included in the Special Access Administrative Measures for Foreign Investment (Negative List of Foreign Investment Access).

Merger and Acquisition of Domestic Enterprises by Foreign Investors

The merger and acquisition of domestic non-foreign-invested enterprise (the “**domestic enterprise**”) by foreign investors shall be governed by the *Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》) (the “**Circular No.10**”), which was issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation of the PRC (the “**SAT**”), the Administration for Industry and Commerce of the PRC (the “**AIC**”), the China Securities Regulatory Commission (the “**CSRC**”) and the State Administration of Foreign Exchange (the “**SAFE**”) on 8 August 2006, came into effect on 8 September 2006 and last amended by the MOFCOM on 22 June 2009.

Pursuant to the *Circular No.10*, the merger and acquisition of domestic enterprises by foreign investors includes: (1) the purchase of the equity interests of shareholders of a domestic enterprise or subscription of new equity in a domestic enterprise via an increase of registered capital by foreign investors, thereby converting it into a foreign-invested enterprise; (2) the establishment of a foreign-invested enterprise by foreign investors that purchase and operate the assets of a domestic enterprise by the agreement of that enterprise; or (3) the purchase of assets of a domestic enterprise by agreement and investment with those assets by foreign investors to establish a foreign-invested enterprise to operate the assets.

REGULATORY OVERVIEW

The merger and acquisition of domestic enterprises by foreign investors shall comply with requirements on qualification of investors by the PRC laws, administrative regulations and rules, as well as industry, land and environmental protection policies and priced on the basis of the result of the evaluation of the equity interest to be transferred or of the assets to be sold conducted by the asset evaluation institution.

Laws and Regulations in Relation to Foreign Exchange

General Provisions Concerning Foreign Exchange Administration

Pursuant to the *Regulation of the PRC on the Management of Foreign Exchanges* (《外匯管理條例》), as amended in August 2008, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside the PRC, unless SAFE's prior approval is obtained and prior registration with SAFE is made.

In May 2013, SAFE promulgated the *Circular of the SAFE on Printing and Distributing the Administrative Provision on Foreign Exchange in Domestic Direct Investment by Foreign Investors and Relevant Supporting Documents* (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange.

Circular No. 37

According to the *Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles* (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》)(the “**Circular No.37**”), which was promulgated by SAFE and came into effect on 4 July 2014, domestic residents shall apply for registration of foreign exchange for offshore investment before making contributions to special purpose vehicles with domestic and overseas legal assets or equities. Domestic residents that have made contributions to special purpose vehicles with domestic and overseas legal assets or equities without the required registration of foreign exchange for offshore investment prior to the implementation of *Circular No. 37* shall issue a letter of explanation to SAFE containing specific reasons. SAFE shall make a post-registration following the principles of legality and rationality, and impose administrative penalties in case of suspected violation of foreign exchange control regulations.

Laws and Regulations on Taxation

Enterprise Income Tax

Pursuant to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》)(the “**Enterprise Income Tax Law**”), which came into effect on 1 January 2008 and amended on 24 February 2017 and the *Regulation on the Implementation of the Enterprise Income Tax Law of PRC* (《中華人民共和國企業所得稅法實施條例》)(the “**Regulations of Enterprise Income Tax Law**”), which came into effect on 1 January 2008, enterprise income taxpayers, which refers to enterprises (including resident enterprises and non-resident enterprises) and other organisations in the territory of the PRC (for purpose of this section, do not include the laws of Hong Kong, Macau and Taiwan) that obtain income within the PRC, shall pay enterprise income tax in accordance with relevant PRC regulations.

Enterprise Income Tax for PRC Resident Enterprises

A resident enterprise, which refers to an enterprise that is established in the territory of the PRC in accordance with the PRC laws and regulations, or that is established outside of the PRC but has actual management office within the PRC, shall pay enterprise income tax at the rate of 25% for its income derived from both within and outside the PRC.

REGULATORY OVERVIEW

Pursuant to the *Administrative Measures for the Accreditation of High-tech Enterprises* (《高新技術企業認定管理辦法》), which were promulgated on 14 April 2008 and revised on 29 January 2016, an enterprise, which satisfies all conditions as follows, shall be accredited as a high-tech enterprise and entitled to enjoy tax incentives as of the year in which the certificate of high-tech enterprises was granted: (1) the enterprise has been established for at least one year when applying for accreditation of high-tech enterprise, (2) the enterprise shall own intellectual property rights of technologies which are technically crucial to their key products (services) by such means as independent research and development, transfer, donation or merger, (3) the number of scientific and technical personnel engaged in research and development as well as relevant technology innovation activities shall account for at least 10% of the total number of employees of the enterprise for the current year and other conditions stipulated thereunder.

Pursuant to the Circular of the SAT on the Issues Concerning Implementation of the Preferential Income Tax for High-Tech Enterprises (《國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知》), which was promulgated on 22 April 2009 and came into effect on 1 January 2008, the enterprises which are accredited as high-tech enterprises may apply for preferential enterprise income tax at a rate of 15% from the year of accreditation as high-tech enterprises.

Enterprise Income Tax for Non PRC Resident Enterprises

Unless recognised as a PRC resident in accordance with the *Notice of the SAT on Issues regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Resident Enterprises on the basis of De facto Management Bodies* (《國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), which was promulgated by the SAT on 22 April 2009 and came into effect on 1 January 2008 and applies to foreign enterprises controlled by a PRC enterprise or a PRC enterprise group, a non-resident enterprise refers to an enterprise that is established outside of the PRC in accordance with laws and regulations of foreign jurisdictions and without an actual management office within the PRC.

For a non-resident enterprise that has institutions or establishments in the PRC, it shall pay enterprise income tax at the rate of 25% for the income derived from the PRC and obtained by its institutions or establishments, and the income incurred outside of the PRC which has connection with its institutions or establishments. For a non-resident enterprise that has no institutions or establishments in the PRC but has income derived from the PRC, or has institutions or establishments in the PRC but the income derived from the PRC has no connection with its institutions or establishments in the PRC, it shall pay enterprise income tax at the rate of 10% for the income derived from the PRC.

Where there is any difference between a tax treaty concluded by and between the government of the PRC and a foreign government and the *Enterprise Income Tax Law*, the treaty shall prevail.

Special Provisions on Enterprise Income Tax for Dividend Distributions

Pursuant to the *Circular of the SAT on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties* (《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, if a resident of counterparties to any tax treaties who directly owns a certain percentage or more (generally 25% or 10%) of the capital of the PRC resident that pays dividends to it, dividends obtained by such resident may be taxed at a tax rate specified in the tax agreement, provided all of the following requirements are satisfied: (1) such fiscal resident who obtains dividends should be a company as provided in the tax agreement; (2) shareholder's equity interest and voting shares of the PRC resident company directly owned by such fiscal resident reaches a specified percentage; and (3) the capital of the PRC resident company directly owned by such fiscal resident, at any time during the 12 months prior to the acquisition of the dividends, reaches a percentage specified in the tax agreement.

Furthermore, pursuant to the *Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements* (《非居民納稅人享受稅收協定待遇管理辦法》), which was promulgated by the SAT on 27 August 2015 which became effective on 1 November 2015, any non-resident taxpayer qualified to enjoy any treaty treatment may be entitled to the treaty treatment when filing a tax declaration or making a withholding declaration through a withholding agent, subject to the subsequent administration by tax authorities.

REGULATORY OVERVIEW

Pursuant to the *Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income Taxes* (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 and its several protocols, a 5% withholding tax rate applies to dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise, provided that such Hong Kong resident enterprise directly holds at least 25% of the equity interests of the PRC resident enterprise; a 10% withholding tax rate applies to dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise if such Hong Kong resident enterprise holds less than 25% of the equity interests of the PRC resident enterprise.

Value-added Tax

According to the *Interim Regulation of PRC on Value-Added Tax* (《中華人民共和國增值稅暫行條例》), which were promulgated by the State Council on 5 November 2008, and last amended and came into effect on 19 November 2017, and the *Implementing Regulations for the Implementation of 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》), which were promulgated on 10 November 2008, and last amended by the Ministry of Finance on 28 October 2011 and came into effect on 1 November 2011, all units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the import of goods within the territory of the PRC are taxpayers of value-added tax.

Pursuant to the *Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax* (《關於全面推開營業稅改徵增值稅試點的通知》), which promulgated on 23 March, 2016 and as amended on 11 July, 2017 and 25 December, 2017 respectively, upon approval of the State Council, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as of 1 May, 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

Pursuant to the *Circular of the MOF and the State Administration of Taxation on Adjusting Value-added Tax Rates* (《財政部、稅務總局關於調整增值稅稅率的通知》) promulgated on 4 April, 2018 and came into effect on May 1, 2018, by MOF and State Administration of Taxation, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

Urban Maintenance, Construction Tax and Educational Surcharges

According to the *Provisional Regulations of the PRC on City Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》), which were promulgated in 1985 and amended by the State Council on 8 January 2011, the *Notice of the State Council concerning the Unification of the Urban Construction and Maintenance Tax and Educational Surcharge System of Domestic-funded Enterprises, Foreign-funded Enterprises and Citizen* (《國務院關於統一內外資企業和個人城市維護建設稅和教育附加制度的通知》), which was promulgated by the State Council on 18 October 2010 and came into effect on 1 December 2010, and the *Notice of the SAT concerning the Collection of Urban Construction and Maintenance Tax* (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which was promulgated by the State Council on 12 March 1994 and came into effect on 1 January 1994, any units or individuals that shall pay the consumption tax, VAT and business tax shall pay the urban construction and maintenance tax. The amount of the urban construction and maintenance tax shall be determined as per the consumption, value-added tax and business tax paid by the taxpayer, and paid together with the consumption tax, VAT and business tax. The rate of the urban construction and maintenance tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town.

According to the *Provisional Regulations on Collection of Educational Surcharges* (《徵收教育費附加的暫行規定》), which were promulgated by the State Council on 28 April 1986 and amended on 8 January 2011, all the units and individuals that pay the consumption tax, VAT and business tax shall pay the educational surcharges. The rate of the educational surcharges shall be 3% of the VAT, business tax and consumption tax actually paid by the units or individuals, and shall be paid together with the VAT, business tax and consumption tax.

REGULATORY OVERVIEW

Special Tax Adjustment for Transfer Pricing

Pursuant to the Enterprise Income Tax Law (the “**EIT Law**”), the Regulation on the Implementation of the EIT Law and the Measures for the Implementation of Special Tax Adjustment (For Trial Implementation) (《特別納稅調整實施辦法(試行)》), the “**STA Rules**”) promulgated by the State Administration of Taxation of the PRC (the “**SAT**”) on 8 January 2009 and came into effect on 1 January 2008, transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by a same entities are regarded as related party transactions and shall be in conformity with the arm’s length principle. In the event that taxable revenues or income of the enterprise are decreased due to inconformity the arm’s length principle, relevant tax authorities may initiate investigations and make transfer pricing adjustments following certain procedures (i.e., provided in the Announcement on Issuing the Measures for Administration of Adjustments under Special Tax Investigation and Mutual Consultation Procedures (《特別納稅調查調整及相互協商程序管理辦法》)) and impose additional tax based on a re-decided a taxable income and charge an additional interest under the provisions promulgated by the State Council.

Pursuant to the aforementioned laws and regulations and the Announcement of the SAT on Matters Concerning Improving the Administration of Related Party Transaction Reporting and Contemporaneous Documentation (《國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告》) promulgated by the SAT and came into effect on 29 June 2016, enterprises entering into related party transactions shall submit an annual related party transaction report and a further contemporaneous documents report to the relevant tax authority if certain threshold on the amount of related party transactions are met.

Pursuant to the EIT Law, enterprises may file with relevant tax authority its pricing principles and computation approaches for related party transactions and enter into an advance pricing arrangement in respect of the transfer pricing. Procedures and requirements for the advance pricing arrangement are stipulated in the Announcement of the SAT on the Issues Concerning Improving the Administration of Advance Pricing Arrangements (《國家稅務總局關於完善預約定價安排管理有關事項的公告》).

Laws and Regulations in Relation to Labour Protection

Labour Protection and Labour Contract

Pursuant to the *Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》), which was promulgated by the NPCSC on 29 June 2007, amended on 28 December 2012 and came into effect on 1 July 2013, and the *Labour Law of the PRC* (《中華人民共和國勞動法》), which was promulgated by the NPCSC on 5 July 1994, amended and came into effect on 27 August 2009, an employment relationship will be deemed to have been established from the date when the employees begin to work for the employer. The establishment of the employment relationship between the employer and employee requires the conclusion of a written Labour contract. Employees are entitled to rights including equal opportunities for employment, selection of occupation, salaries, remuneration, rest, vacations, Labour safety, health guarantee, social insurance, welfare, etc. When an employer hires an employee, it shall in good faith inform the employee of work contents, working conditions, workplace, occupational hazards, production safety conditions, Labour compensation and other matters which the employee requests to be informed about. The employer and employee shall fully perform their respective obligations in accordance with the Labour contract. The employer shall not provide the Labour remuneration lower than the minimum salary standard of the place where the employer is located. The employer shall pay their employees Labour compensation on time and in full in accordance with the Labour contracts and national regulations. Employers shall strictly implement the work quota standards and may not compel or in a disguised manner compel employees to work overtime. At the time of revocation or termination of a Labour contract, the employer shall issue a proof of revocation or termination of the Labour contract and, within 15 days, carry out the procedures for the transfer of the employee’s file and social insurance account.

REGULATORY OVERVIEW

Pursuant to the *Employment Promotion Law of PRC* (《中華人民共和國就業促進法》), which was promulgated by the NPCSC on 30 August 2007 and amended on 24 April 2015, when recruiting personnel, an employer shall provide equal opportunities and fair conditions for employment, and shall not discriminate against anyone in this respect. The State guarantees that women enjoy equal right to work as men. During recruitment, the employer shall not refuse to employ women or raise recruitment standards for females by using gender as an excuse, unless there are national regulations. It shall not have such provisions as restricting female workers from getting married or bearing a child included in the Labour contract. It shall give appropriate considerations to the persons of ethnic minorities in accordance with law, and shall not discriminate against disabled persons. It shall not refuse to employ a person with a pretext that he is a pathogen carrier of an infectious disease. No discriminating restrictions may be placed on the rural workers who go to cities for employment. Enterprises shall provide vocational skill training and further education training. The administrative departments at and above the county level shall implement the policies for promotion of employment.

Pursuant to the *Law of the PRC on Prevention and Control of Occupational Diseases* (《中華人民共和國職業病防治法》), which was promulgated on 27 October 2001 and latest amended on 2 July 2016, occupational diseases refer to the diseases suffered by employees of an enterprise, a public institution, an individual economic organisation, or other kinds of employers due to their exposure to toxic or hazardous substances such as dust and radioactive substances in occupational activities. Employees have the right of occupational health protection in accordance with laws and regulations. Employers shall create the working environment and conditions conforming to the national standard of occupational health and requirements, and shall take measures to ensure that Labourers receive occupational health protection. Employers shall establish and improve the responsibility system for the prevention and treatment of occupational diseases, intensify the management on the prevention and treatment of the same, enhance the ability to prevent and treat the same, and assume responsibilities arisen from the hazard of occupational diseases taken place therein.

Social Securities and Housing Provident Funds

Pursuant to the *Law of the PRC on Social Insurance Law* (《中華人民共和國社會保險法》), the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》), the *Interim Measures on Registration of Social Insurance* (《社會保險登記管理暫行辦法》), the *Provisional Measures on Employee Maternity Insurance of Enterprises* (《企業職工生育保險試行辦法》), the *Regulation on Work-Related Injury Insurance* (《工傷保險條例》), the *Regulations on Unemployment Insurance* (《失業保險條例》), the *Decision of the State Council on Setting up Basic Medical Insurance System of Staff Members and workers in Cities and Towns* (《國務院關於建立城鎮職工基本醫療保險制度的決定》) and the *Regulation on the Administration of Housing Accumulation Funds* (《住房公積金管理條例》), enterprises in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing provident fund and other welfare plans.

Pursuant to the Plan for the Reform of the State and Local Tax Collection and Administration System (《國稅地稅徵管體制改革方案》) promulgated by the Central Committee of the Communist Party of China and General Office of the State Council and came into effect on 20 July, 2018, power of collecting social insurance premiums shall be authorised to tax authorities after the combination of state and local tax authorities by the end of 2018.

Pursuant to the Urgent Notice of the Ministry of Human Resources and Social Security of the PRC (the “MOHRSS”) on Implementing the Essence of the Executive Meeting of the State Council and Stabilising the Collection of Social Insurance Premiums (《人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated and came into effect on 21 September, 2018, while new policies in respect of appropriately reducing the social insurance contributions born by enterprises and ensuring the overall burden of social insurance contributions born by enterprises not to be increased are making and to be promulgated by the MOHRSS and relevant authorities, current policies on collection of social insurance premiums shall remain unchanged and campaigns on pursuing of unpaid social insurance premiums shall be prohibited before the reform on social insurance collection authorities is in place.

REGULATORY OVERVIEW

Laws and Regulations in Relation to Intellectual Rights

Patent

Pursuant to the *Patent Law of the PRC* (《中華人民共和國專利法》), which was promulgated in 1984 and amended in 1992, 2000 and 2008, and the *Rules for the Implementation of Patent Law of PRC* (《中華人民共和國專利法實施細則》), which was promulgated in 2001 and amended in 2002 and 2010, enterprises may apply for intellectual property rights of inventions, utility models or appearance designs. The duration of a patent right for inventions is 20 years and the duration of a patent right for utility models and appearance designs is 10 years, all commencing from the application date. Except otherwise provided in the PRC Patent Law, any enterprise or individual shall not exploit any patent without the permission of the patentee.

Trademarks

According to the *Trademark Law of The PRC* (《中華人民共和國商標法》), which was promulgated in 1982 and the last amended on 30 August 2013, and the *Implementing Rules of the Trademark Law of the PRC* (《中華人民共和國商標法實施條例》), which was promulgated in 2002 and amended on 29 April 2014, any individual, legal entity or other organisation that intends 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. The duration of a trademark right is 10 years, commencing from date of approval for registration. Conducts that shall constitute an infringement of the exclusive right to use a registered trademark include but not limited to: using a trademark that is identical with or similar to a registered trademark on the same or similar goods without the permit of the trademark registrant, selling goods that violate the exclusive right to use a registered trademark, etc.

VIETNAMESE LAWS AND REGULATIONS

Set forth below is a summary of the applicable laws, rules, regulations, government and industry policies and requirements in Vietnam. This summary does not purport to be a complete description of all the laws and regulations, which are applicable to our business and operations in Vietnam,

Investment Procedures

Under the Law on Investment of 2005, in order to register an investment project and establish an enterprises with 100% foreign invested capital, the foreign investors must register with the competent authority to obtain an **investment certificate**. The investment certificate covered both investment registration contents and enterprise registration contents of the enterprises with 100% foreign invested capital.

From 1 July 2015 up to the Latest Practicable Date, the investment certificates under the Law on Investment of 2005 still have its effectiveness until they are expired or are re-registered to be replaced by **investment registration certificates** under the Law on Investment 2014. The investment registration certificates will cover only investment registration contents while enterprise registration contents shall be recorded in enterprise registration certificates of economic organisations with foreign invested capital.

Under the applicable laws on investment, after foreign investors have fully discharged their financial obligations to the Vietnamese government (including payment of taxes, statutory fees and other amounts as provided by laws), they are permitted to remit the followings abroad: their profits derived from business activities, payments received from the provision of technology and services and from intellectual property, the principal of and any interest on foreign loans, invested capital and proceeds from the liquidation of investments, and other sums of money and assets lawfully owned by the investors. When the foreign investors have lawful revenue coming from activities of foreign direct investment in Vietnam, the foreign investors can decide to use it for reinvestment or remittance abroad. Where the above-mentioned revenue is denominated in Vietnam Dong, the foreign investors can buy foreign currency at commercial banks in Vietnam for remittance abroad. There is no withholding tax on the remittance abroad of the dividends or profit distribution under the prevailing regulations of Vietnam. Before dividends may be remitted abroad, however, all taxes and financial obligations to the Vietnamese government related to the dividends must be fully discharged.

REGULATORY OVERVIEW

According to prevailing laws on enterprises, a single-member limited liability company under ownership of a legal entity, for example GHW (Vietnam) Chemicals, shall apply one of the two following organisational structures: (1) president of company, director/general director, and controller; or (2) members' council, director/general director, and controller. A members' council must include from three to seven members. GHW (Vietnam) Chemicals and GHW (Vietnam) have applied the organisational structure (1).

Land Law

The Land Law of 2013 taking effect from 1 July 2014 promulgates, amongst others, the regime of land use, the rights and obligations of land users in Vietnam.

By law, all land belongs to the people of Vietnam and is administered by the Vietnamese Government. Private freehold ownership is not available in Vietnam, but land users have statutory rights to use land and are granted with land use right certificates. Rights to use land is classified and categorised by reference to different types of land use and types of land user.

A foreign invested enterprise can use land and have its rights to use land by way of:

- (a) leasing (or sub-leasing) from the State or industrial zone developers; or
- (b) receiving land allocation from the State for residential development; or
- (c) entering into a joint venture company with a Vietnamese party who contributed its capital by using land use rights; or
- (d) taking an assignment of a licensed project from other investors or of an property from others, which is enclosed with land use rights assignment.

Labour and Employment

The Labour Code of 2012 taking effect from 1 May 2013 regulates, among others, the rights, obligations, and responsibilities of employers and employees.

(a) Labour contract

A labour contract can only be one of the following types: (a) an indefinite term labour contract; (b) a definite term labour contract between 12 months and 36 months; and (c) a seasonal or specific job labour contract with a term of less than 12 months. A signed labour contract can be terminated in various circumstances.

(b) Internal Labour Regulations

Employers who employ 10 or more employees must have internal labour regulations in writing (“**ILRs**”). The contents of the ILRs must not be contrary to the laws on labour or other relevant laws. The ILRs must contain the information about working hours and rest breaks, order in the workplace, occupational health and safety in the workplace, protection of assets, trade secrets and confidentiality of technology and intellectual property of the employer, conduct by employees constituting a breach of labour discipline and penalties imposed on those breaches and liabilities for damages.

REGULATORY OVERVIEW

(c) Occupational health and safety

The employers and employees are subject to various statutory requirements to ensure occupational health and safety at the workplace, and additionally the employees must comply with the regulations on occupational health and safety at the workplace issued by the employers. All types of machinery, equipment and materials with strict requirements for labour safety as detailed by the Vietnamese government from time to time must be tested and verified prior to being commissioned for use, and must be periodically tested and verified by an organisation conducting technical labour safety testing and verification. Employers must provide employees who work in dangerous or toxic environment with sufficient personal protective equipment and facilities which are up to quality of standards as provided by the relevant laws, and the employees must use such equipment and facilities during work in accordance with the regulations of the Ministry of Labour, War Invalids and Social Affairs of the Vietnamese government.

The employers must hold training classes on occupational health and safety for the employees, apprentices and trainees when they are recruited and when work is assigned to them. The employers also must arrange periodic health checks for employees as required under the labour code. In addition, the employers are obliged to: (i) ensure that the workplace meets the requirements on space, airiness, dust, steam, toxic gas and other harmful factors as prescribed in relevant technical regulations; (ii) ensure safe and hygienic working conditions for machines, equipment and workshops as required by the promulgated or applied national technical regulations or standards on occupational safety and hygiene at workplace; (iii) check and evaluate dangerous and harmful factors at the workplace in order to put forward measures to avert and minimise dangers and harms and improve working conditions and healthcare for employees; (iv) examine and maintain machines, equipment, workshops and warehouses on a periodic basis; (v) display signboards of instructions regarding occupational safety and hygiene covering operation of machines, equipment and workplaces at easy-to-read and visible locations at the workplace; and (vi) obtain an opinion from the organisation representing the labour collective at the grassroots level when formulating and implementing plans on activities ensuring occupational safety and hygiene.

(d) Expatriates

To lawfully work in Vietnam, amongst other conditions, an expatriate is required to be issued with a work permit, except for case of being exempted from work permit subject to the confirmation by the local labour authority or exceptional cases, before such expatriate starts working in Vietnam. A work permit or a confirmation on work permit exemption is valid for a maximum two years and subject to renewal.

Based on the issued work permit, the employer and the expatriate can officially enter into a labour contract. Such signed labour contract has to be filed with the competent labour management authority at provincial level within five business days from the date of execution.

(e) Statutory insurance

Under the laws on insurance, Vietnamese employees working under indefinite-term labour contracts, the labour contracts for the definite term or the seasonal labour contract or the labour contract with a specific job with the term of full three months or more and the employer are subject to the statutory social insurance, labour accident, occupational disease insurance and unemployment insurance. For the employees (including Vietnamese and foreign employees) working under the indefinite-term labour contracts or the labour contracts with the term of full three months or more, they are subject to the health insurance. Vietnamese employees working under the labour contract with the definite-term of full one month to less than three months shall be covered by the social insurance and labour accident, occupational disease insurance in accordance with the Vietnamese government's regulations from 1 January 2018 onwards; and foreign employees working in Vietnam with work permits or practicing certificates or practicing licences granted by the competent Vietnam agencies and under the labour contract with the indefinite-term and definite term of full one year or more shall be covered by the social insurance in accordance with the government's regulations from 1 December 2018 onwards.

REGULATORY OVERVIEW

As the case may be, the employees shall be entitled to the regimes stipulated under the laws on social insurance, labour accident and occupational insurance, unemployment insurance and health insurance.

In the event that the employees who are ineligible to participate in statutory insurances, the employer must pay such employees, in addition to their wages for work, a sum of money equivalent to the amount of contribution which would be paid for statutory insurances if the employee had been eligible simultaneously with wage payments.

Under the current laws, up to the Latest Practicable Date, the contribution rates of the statutory insurances are provided as follows:

Subject	Social Insurance	Health insurance	Unemployment insurance	Labour accident, occupational disease insurance
In case of Vietnamese employees				
Employer	17%	3%	1%	0.5%
Employee	8%	1.5%	1%	0%
In case of foreign employees				
Employer	3% (from 1 December 2018) and 17% (from 1 January 2022)	3%	0%	0.5% (from 1 December 2018)
Employee	8% (from 1 January 2022)	1.5%	0%	0%

The wage as basis of contributing the above compulsory insurance premiums includes monthly wage rate for the work or position of employment plus wage-based allowances and other additional benefits (if any).

Foreign Exchange Control

An enterprise with foreign investment like each of GHW (Vietnam) and GHW (Vietnam) Chemicals must open a direct investment capital account (“**DICA**”) at one credit institution licensed to operate in Vietnam. Payment of investment capital, remittance of principal investment capital, profit, foreign loans and other lawful revenue must be conducted via this DICA. The DICA currency shall be the currency of capital contribution into the foreign-invested enterprises.

Any foreign loan (with offshore lenders) with a term of more than 12 months (from the disbursement date) must be registered with the State Bank of Vietnam.

Taxation

Under the prevailing laws on taxation, during their operation and business activities, GHW (Vietnam) and GHW (Vietnam) Chemicals shall be mainly subject to following taxes: (i) Corporate Income Tax (“**CIT**”); (ii) Personal Income Tax (“**PIT**”); (iii) Business Licence Tax (“**BLT**”); (iv) import and export tax; (v) natural resources tax (including non- agricultural land use tax and environmental protection tax); and (vi) Value-Added Tax (“**VAT**”), etc.

(a) With respect to CIT

In general, CIT is the tax imposed on the income earned by any organisation conducting activities of production or business in goods and services. CIT will be imposed on the income earned by Vietnamese enterprises during their business operation. Under the Law on CIT, enterprises with a total annual turnover in the immediate preceding year of no more than VND20,000,000,000 are subject to the tax rate of 20%. Other enterprises with a total annual turnover in the immediately preceding year of more than VND20,000,000,000 shall be subject to the tax rate of 22% until 31 December 2015, after that the tax rate will be lowered to 20% from 1 January 2016 onwards.

REGULATORY OVERVIEW

In order to comply with the CIT obligations, enterprises which are subject to CIT have to pay on a quarterly and annually basis and conduct CIT finalisation at the end of each tax year.

(b) With respect to PIT

Any individual resident with taxable income (as defined in the law on PIT) arises either within or outside the territory of Vietnam, or any non-resident individual with taxable income arises within the territory of Vietnam, is subject to PIT.

GHW (Vietnam) and GHW (Vietnam) Chemicals as income-paying entities will be responsible to withhold, declare and pay PIT (if any) to the Vietnam government treasury on behalf of their employees on a monthly or quarterly basis and will conduct tax finalisation of all types of taxable income it paid to the employee by the end of each tax period.

(c) With respect to BLT

All enterprises operating businesses in Vietnam are subject to BLT which is paid on an annual basis. This tax will range from VND1,000,000 to VND3,000,000 subject to the registered charter capital of the enterprises. From 1 January 2017 onwards, such tax is range from VND2,000,000 to VND 3,000,000 subject to the registered charter capital of the enterprises. GHW (Vietnam) and GHW (Vietnam) Chemicals are currently subject to VND3,000,000 BLT and VND2,000,000 BLT, respectively.

(d) With respect to import and export tax

Most goods imported/exported across the borders of Vietnam, or which were brought from the domestic market into non-tariff zones or from non-tariff zones into the domestic market are subject to import and export tax. Exceptions to this include goods in transit, goods exported abroad from a non-tariff zone (including export processing enterprise in industrial zone), goods imported from foreign countries into non-tariff areas for use in non-tariff areas only, and goods passing from one non-tariff zone to another.

Import and export tax declarations are required upon registration of customs declarations with the customs offices.

Export tax

Prior to 1 September 2016, export tax must be paid within 30 days of registration of customs declarations. Since 1 September 2016, export tax has to be paid before customs clearance or release.

Import tax

Prior to 1 September 2016, for imported goods being consumer goods, the import tax must be fully paid before the receipt of goods; and for imported goods being supplies and raw materials for the production of export goods, the time limit for tax payment shall be 275 days from the date the taxpayers register customs declarations. Since 1 September 2016, import tax has to be paid before customs clearance or release.

(e) With respect to non-agricultural land use tax

Under the laws, non-agricultural production and business land including land for construction of industrial parks which are industrial clusters, industrial parks, export-processing zones and other production and business zones etc. are subject to non-agricultural land use tax.

REGULATORY OVERVIEW

In case an enterprise sub-leases the land from the industrial park developer, it is not clear on who will be the taxpayer, the industrial park developer or land sub-lessee because they are both land users. To resolve this issue, the General Tax Department of Vietnamese government issued an official letter guiding that the industrial park developer is only obliged to declare and pay non-agricultural land use tax for the land area that has not been leased to the sub-lessees while the land sub-lessee who is issued with the land use right certificate must declare and pay non-agricultural land use tax.

The non-agricultural land use tax will be paid once or twice a year (subject to the taxpayer's sole option) but its due payment time is no later than 31 December of each year.

(f) With respect to VAT

Pursuant to the Law on VAT, generally goods and services arising in the processes of manufacturing, business and consumption in Vietnam shall be subject to VAT, except for some objects stipulated under the Law on VAT. Accordingly, the goods forwarded through Vietnam's territory; goods temporarily imported or temporarily exported, raw materials imported for manufacturing or export processing under contracts with foreign partners and the goods and services traded between a foreign party and a party located in a non-tariff zone, or among parties located in non-tariff zones are not subject to VAT.

Chemical Production and Trading

Companies engaging in chemical production and trading are required to make annual reports on their chemical production and trading activities in each relevant year and submit such reports to the Vietnamese government before 15 January of the succeeding year. During trading and production operation, chemical companies must fully comply with the legal conditions to ensure safety for employees, community health and environment regarding chemical management and safety, such as: (i) conditions of factories, warehouse; (ii) conditions of technology, equipment, tools and packages; (iii) conditions of chemical storage and transport; and (iv) conditions of chemical extraction and packaging.

For production and importation activities, chemical companies must classify and label chemicals, take responsibility for results of chemical classification and information shown on chemical labels. Accordingly, chemical production and importation companies are required to classify its produced and imported chemicals according to rules and technical guidance of GHS from Rev. 2 (2007) onwards on hazardous materials, health hazard and environmental hazard. During the classification progress, in case chemicals produced and imported contain one or some hazardous substances with content equal to or higher than the statutory levels prescribed in the Government's decree, chemical production and importation companies must prepare a safety data sheets, which must be written in Vietnamese and under the standard form.

By law, managers, heads and deputy heads of departments in charge of chemical production and trading as well as some directly relevant personnel had to be provided with training courses on chemical safety organised by the Vietnamese government or specialised professional training organisation/trainer, and be granted the training certificate on techniques of chemical safety having effective term of two years as from the issuance date.

Furthermore, if produced and traded chemicals fall into the lists of conditional industrial chemicals, hazardous chemicals, declared chemicals, restricted industrial chemicals, chemicals must be prepared measures on prevention of and response to chemical emergencies, chemicals must be licensed for transport, chemical companies shall apply appropriate and necessary certificates, licences, approvals from the Vietnamese government's agencies.

Environment Protection

Pursuant to the current law on environmental protection, subject to contents, characteristics and scales of specific projects, the investor must make and apply reports on the assessment of environmental impact or the environmental protection plan to the competent authority.

REGULATORY OVERVIEW

According to the law on environmental protection 2014, the certificates and licences issued under the law on environmental protection 2005 will remain effective. However, under the law on environmental protection 2014 and its guiding regulations, if there are changes in size, capacity, technology or other changes that make the environmental protection works unable to solve new environmental problems, it is required to re-make the assessment of environmental impact.

In case an enterprise has also generated hazardous waste at its location, it has to conduct the legal procedures for obtaining the “register of owner of hazardous waste generator” and sign a contract to transfer hazardous waste with organisations or individuals having an appropriate licence in case of failure of self-reuse, recycling, co-treatment, treatment or recovery of energy from hazardous waste at the location.

SANCTIONS LAWS AND REGULATIONS

Our legal advisers as to sanctions laws have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out in entirety the laws and regulations relating to the United States, the United Nations, the European Union and Australian sanctions.

United States

Treasury Regulations

The U.S. Department of the Treasury, Office of Foreign Assets Control (“**OFAC**”) administers economic and trade sanctions against certain countries, entities, and individuals. These sanctions are enforceable against all U.S. persons. The regulations typically define a U.S. person as any U.S. citizen, permanent resident alien, entity organised under the laws of the U.S. or any jurisdiction within the U.S. (including foreign branches), or any person in the U.S.

OFAC’s sanctions programs can apply to substantially all economic activities in the case of Cuba, Crimea, Sudan, Iran, Syria and North Korea. Alternatively, the U.S. government imposes more limited sanctions against certain other countries. OFAC also prohibits virtually all business dealings with persons and entities listed on the agency’s Specially Designated Nationals and Blocked Persons List (“**SDN List**”). Additionally, most sanctions programs prohibit U.S. persons from facilitating transactions with sanctioned countries.

Violations of OFAC administered economic sanctions programs are subject to stringent criminal and/or civil sanctions.

Set forth below is a summary of the United States sanctions regimes in relation to certain Sanctioned Countries in which our customers are located:

Sanctions Related to Egypt and Tunisia

The U.S. did not impose any country-specific sanctions against Egypt and Tunisia during the Track Record Period.

Sanctions Related to Lebanon

On 1 August 2007, President Bush issued Executive Order (“**EO**”) 13441 that blocks, with certain exceptions, all property and interests in property of persons undermining the sovereignty of Lebanon or its democratic processes and institutions that are in the U.S., that come within the U.S., or that come within the possession or control of any U.S. person. The prohibitions include, but are not limited, to (i) the making of any contribution or provision of funds, goods, or services by, to, or for the benefit of any person whose property and interests in property are blocked pursuant to the order, and (ii) the receipt of any contribution or provision of funds, goods, or services from any such person.

REGULATORY OVERVIEW

Sanctions Related to Syria

The Syria sanctions program implemented by OFAC began in 2004 when EO 13338 was issued to address the Government of Syria's policies in supporting terrorism, continuing its occupation of Lebanon, pursuing weapons of mass destruction and missile programs, and undermining U.S. and international efforts to stabilise Iraq. Current Syria sanctions (1) block the property and interests in property of the Government of Syria, (2) block the property and interests in property of persons listed on the SDN List, or that are determined by the Secretary of the Treasury in consultation with the Secretary of State, to meet the criteria described in EO 13338, EO 13399, EO 13460, EO 13572, EO 13573, EO 13582 or EO 13606, (3) prohibit transactions or dealings with foreign persons that are determined by the Secretary of the Treasury, in consultation with the Secretary of State, to meet the criteria described in EO 13608, and (4) prohibit certain transactions with respect to Syria pursuant to EO 13582.

Under EO 13582, all property and interests in property of the Government of Syria, which includes its agencies, instrumentalities, and controlled entities, which are in the U.S. or within the possession or control of U.S. persons, are blocked.

EO 13582 also prohibits the following:

- (1) New investment in Syria by a U.S. person, wherever located;
- (2) The direct or indirect exportation, re-exportation, sale, or supply of any services to Syria from the U.S. or by a U.S. person, wherever located;
- (3) The importation into the U.S. of petroleum or petroleum products of Syrian origin;
- (4) Any transaction or dealing by a U.S. person, wherever located, in or related to petroleum or petroleum products of Syrian origin; and
- (5) Any approval, financing, facilitation, or guarantee by a U.S. person, wherever located, of a transaction by a foreign person where the transaction by that foreign person would be prohibited if performed by a U.S. person or within the U.S.

Sanctions Related to Sudan

On 6 October 2017, the U.S. government announced its decision to revoke the economic sanctions imposed upon Sudan since November 1997 through the Sudanese Sanctions Regulations (“SSR”). Contemporaneous with the announcement, OFAC issued new General License A to authorise certain exports and re-exports pursuant to the Trade Sanctions Reform and Export Enhancement Act of 2000 (“TSRA”).

Effective 12 October 2017, sections 1 and 2 of EO 13067 and all of EO 13412 were revoked. Sections 1 and 2 of EO 13067 and EO 13412 blocked the property of the Government of Sudan and generally prohibited U.S. persons from engaging in transactions with Sudan and the Government of Sudan. As a result of the revocation of these sanctions provisions, effective 12 October 2017, U.S. persons are no longer prohibited from engaging in transactions that were previously prohibited under the SSR. Pursuant to TSRA, an OFAC licence is required for certain exports and re-exports to Sudan of agricultural commodities, medicine, and medical devices as a result of Sudan's inclusion on the State Sponsors of Terrorism List.

Sanctions Related to Venezuela

The U.S. government maintains targeted, list-based sanctions related to Venezuela. The Venezuela Sanctions Regulations were issued in July 2015 to implement the Venezuela Defense of Human Rights and Civil Society Act of 2014 and EO 13692. EO 13692 authorises OFAC to designate current or former officials of the Government of Venezuela and others undermining democracy in Venezuela as SDNs.

REGULATORY OVERVIEW

On 24 August 2017, President Trump issued EO 13808 which significantly expands the existing Venezuela sanctions regime, imposing U.S. sectoral sanctions. EO 13808 prohibits “U.S. Persons” (i.e., entities organised under U.S. laws and their non-U.S. branches; individuals and entities physically located in the U.S.; and U.S. citizens and permanent resident aliens, wherever located or employed) from engaging in any transactions related to, providing financing for, or otherwise dealing in the following:

- (1) New debt with a maturity of greater than 90 days of Petróleos de Venezuela S.A. (“PdVSA”);
- (2) New debt with a maturity of greater than 30 days (other than the debt of PdVSA, which is subject to the 90 day limit discussed above) or new equity of the Government of Venezuela (including any political subdivision, agency, or instrumentality thereof such as the Central Bank of Venezuela and PdVSA as well as any person owned or controlled by, or acting for or on behalf of, the Government of Venezuela);
- (3) Bonds issued by the Government of Venezuela prior to the effective date of the EO; and
- (4) Dividend payments or other distributions of profits to the Government of Venezuela from any entity owned or controlled, directly or indirectly, by the Government of Venezuela.

U.S. Persons are also prohibited under the EO from purchasing, directly or indirectly, securities from the Government of Venezuela, other than securities qualifying as new debt not targeted by the above provisions of the EO because the debt has a maturity of less than or equal to 90 days (for PdVSA) or 30 days (for the Government of Venezuela).

Sanctions Related to Belarus

The U.S. maintains sanctions against Belarus, blocking property of certain persons undermining democratic processes or institutions in Belarus. The prohibitions consist of (i) making any contribution or provision of funds, goods, or services by, to, or for the benefit of any person listed in or designated pursuant to EO 13405, and (ii) the receipt of any contribution or provision of funds, goods, or services from any such person.

Sanctions Related to Ukraine/Russia

The Ukraine/Russia-related sanctions program implemented by the OFAC began on 6 March 2014, when President Obama, in EO 13660, declared a national emergency to deal with the threat posed by the actions and policies of certain persons who had undermined democratic processes and institutions in Ukraine; threatened the peace, security, stability, sovereignty, and territorial integrity of Ukraine; and contributed to the misappropriation of Ukraine’s assets. In further response to the actions and policies of the Government of the Russian Federation, including the purported annexation of the Crimea region of Ukraine, the President issued three subsequent executive orders that expanded the scope of the national emergency declared in EO 13660. Together, these orders authorise, among other things, the imposition of sanctions against persons responsible for or complicit in certain activities with respect to Ukraine; against officials of the Government of the Russian Federation; against persons operating in the arms or related material sector of the Russian Federation; and against individuals and entities operating in the Crimea region of Ukraine. EO 13662 also authorises the imposition of sanctions on certain entities operating in specified sectors of the Russian Federation economy. Finally, EO 13685 also prohibits the importation or exportation of goods, services, or technology to or from the Crimea region of Ukraine, as well as new investment in the Crimea region of Ukraine by a U.S. person, wherever located.

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United Nations

The United Nations Security Council can impose mandatory non-military sanctions under Chapter VII of the United Nations Charter in furtherance of its mission to maintain or restore international peace and security. While the substance of the relevant Security Council resolutions varies, all of the following countries are currently subject to at least some restrictions on the supply of arms and related material. Additional restrictions, including travel restrictions and asset freezes applicable to named individuals, also apply: Central African Republic, Cote d'Ivoire (Ivory Coast), Congo (Democratic Republic of the Congo), Eritrea, Guinea-Bissau, Iraq, Liberia, Libya, North Korea, Somalia, South Sudan, Sudan, Yemen. Lebanon is currently subject to restrictions on individuals involved in the killing of former Prime Minister Rafiq Hariri.

European Union

Sanctions are part of the European Union's Common Foreign and Security Policy ("CFSP"). In member states of the European Union (the "**EU Member States**"), most economic sanctions are imposed through European Union law which has direct effect under the domestic law of the respective EU Member States. All nationals of EU Member States and legal entities who are within, incorporated or constituted under the laws of, or which undertake activities within the territory of EU Member States, must comply with both sanctions legislation of the European Union (the "**EU Sanctions**") and, where appropriate, domestic economic sanctions that are in force.

EU imposes sanctions and embargoes to further its CFSP objectives, and Article 215 of the Treaty on the Functioning of the European Union ("**TFEU**") provides a legal basis for the interruption or reduction, in part or completely, of the EU's economic and financial relations with one or more third countries. In addition to the EU Sanctions, sanctions and embargoes may be put in place by the Organisation for Security and Co-operation in Europe, which can also impose national arms embargoes.

The measures imposed by the EU Sanctions may include the following:

- (1) embargoes on exporting or supplying arms and associated technical assistance, training and financing;
- (2) a ban on exporting equipment that might be used for internal repression;
- (3) economic sanctions on individuals in government, government bodies and associated companies, or terrorist groups and individuals associated with those groups;
- (4) travel bans on named individuals; and
- (5) bans on imports of raw materials or goods from the sanctions target.

Australia

In Australia, sanctions are implemented primarily by the Charter of the United Nations Act 1945 and the Autonomous Sanctions Act 2011 and through regulations made under these Acts.

General sanctions

Sanctions implemented in Australia generally involve preventing the following:

- (a) supply of export goods, such as arms and related material and other goods which could contribute to weapons of mass destruction programs;
- (b) provision of services such as technical training, advice, services or assistance related to the supply, manufacture, maintenance or use of specific goods, which are usually services that are related to goods specified above;

REGULATORY OVERVIEW

- (c) certain financial transactions and public financial assistance for trade or investment with a sanctioned country; and
- (d) travel for certain individuals.

Australia currently implements sanctions in respect of Central African Republic, Democratic Republic of Congo, Crimea and Sevastopol, People's Republic of Korea, Eritrea, Former Yugoslavia, Guinea-Bissau, Iran, ISIL (Da'esh), Al-Qaida, Iraq, Lebanon, Libya, Myanmar, Russia, Somalia, South Sudan, Sudan, Syria, The Taliban, Ukraine, Yemen and Zimbabwe. The nature and effect of these sanction regimes varies between the sanctioned countries.

Application of sanction laws

Australian sanctions laws apply broadly, including to activities:

- (a) in Australia;
- (b) by Australian citizens anywhere in the world;
- (c) by companies incorporated overseas that are owned or controlled by Australians or persons in Australia; and/or
- (d) on board Australian-flagged vessels and aircraft.

Offences

Australian sanction laws establish serious criminal offences for contravening a sanctions measure or a condition of a sanctions permit. An offence is committed if our Company engages in conduct that contravenes a sanction law or a condition of authorisation.

Relevantly, offences are punishable for bodies corporate by a fine the greater of 10,000 penalty units (AUD1.8 million as of 31 July 2015) or three times the value of the transaction. These offences are strict liability offences for bodies corporate, meaning that it is not necessary to prove any fault element (intent, knowledge, recklessness or negligence) for a body corporate to be found guilty. It is, however, a defence for bodies corporate to show they took reasonable precautions and exercised due diligence to prevent or avoid any contravention from occurring.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR CORPORATE HISTORY

We have an operating history of over 20 years since the establishment of GHW Chemicals in the PRC in 1995 by Mr. Yin, the founder of our Group, to engage in selling applied chemical intermediates produced by third party manufacturers.

In 1998, we expanded into the pharmaceutical industry by establishing Xinnuo Pharmaceutical in the PRC and we also established our first logistics company, Tianyu Transportation, in the PRC in 1999. We began to manufacture our own branded products of animal nutrition chemicals such as choline chloride, pharmaceutical intermediates such as iodine derivatives and polyurethane materials such as polymer polyether in 2004, 2008 and 2012, respectively. Currently, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, and our production plant in Binh Duong Province, Vietnam also commenced production in 2016.

During the Track Record Period, we mainly sold our products in the PRC and also established an extensive global sales network for exporting our products to over 50 overseas countries such as Vietnam, Russia, Ukraine, India, the United States and other European countries. In order to further expand our customer base, we have established subsidiaries overseas including the United States, Canada, Slovakia, India, Russia, Ukraine and Mexico, to exploit direct sales market in North America, the European Union, India and the Commonwealth of Independent States. Such comprehensive product mix enables us to cater for our diverse customer base and capitalise on future business opportunities from potential customers.

BUSINESS MILESTONES

The following table summarises the major milestones for our evolution into the present scale of operations:

Year	Event
1995	GHW Chemicals was established in the PRC.
1998	Xinnuo Pharmaceutical was established, marking the expansion of our Group into the field of pharmaceutical product and intermediates.
2003	Havay Feeds was established to expand into the production industry.
2008	GHW International SCM was established. Began to manufacture our own pharmaceutical intermediates iodine derivatives.
2010	Havay Group was established which eventually owned a number of independent intellectual property rights in relation to choline chloride production technologies.
2012	Polyurethane materials was put into production, marking the first step in tapping into the polyurethane production industry.
2013	Began to export polyurethane materials.
2014	Awarded funding from the Ministry of Environment Protection of the PRC for a research, development and promotion project in relation to alternative technology for consumption of ozone-depleting substances by the polyurethane foam industry.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Event
2016	<p>Awarded New and Advanced Technology Enterprise* (高新技術企業) and Professional, specialised and New Small and Medium Enterprise in Shandong Province* (“山東省專精特新中小企業”).</p> <p>Our Group’s production base in Vietnam commenced operations.</p>
2017	<p>Successfully completed the construction of our production line for isooctanoic acid.</p>

OUR CORPORATE DEVELOPMENT

Our Group has 26 subsidiaries in 13 different jurisdictions for strategic purposes to cover different domestic and overseas markets. We underwent the Reorganisation in contemplation of the Global Offering, further details of which are set out in the paragraph headed “Reorganisation” in this section.

Our Group

The following table sets out information of our Company and our subsidiaries as at the Latest Practicable Date:

Entity	Place of incorporation	Date of incorporation/ establishment	Date of commencement of business	Principal activities
Our Company	Cayman Islands	25 April 2018	N/A	Investment holding
GOHI Int’L	BVI	28 May 2018	N/A	Investment holding
GHW Holdings	Hong Kong	25 June 2018	N/A	Investment holding
GHW International SCM	PRC	18 November 2008	18 November 2008	Production and sales of chemicals and distribution of chemical products by third party manufactures
GHW International (HK)	Hong Kong	6 August 2008	6 August 2008	Investment holding and sale of self-manufactured chemicals and chemicals manufactured by third party manufacturers
GHW Chemicals	PRC	25 October 1995	25 October 1995	Production and import and export of chemicals
Havay Group	PRC	9 November 2010	9 November 2010	Sale of chemical products
Hanshang Weisou	PRC	14 January 2016	14 January 2016	E-commerce
Haijinsha International	PRC	30 March 2012	30 March 2012	Wholesale of dangerous chemical products
GHW Investment	PRC	13 January 2005	13 January 2005	Investment holding
Nuowei Trading	PRC	17 May 2013	17 May 2013	Wholesale of chemicals
Jinruntai Chemicals	PRC	16 February 2011	16 February 2011	Sale of chemicals

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Entity	Place of incorporation	Date of incorporation/ establishment	Date of commencement of business	Principal activities
GHW Trading	PRC	22 January 2010	22 January 2010	Import and export of goods and technology
Tianyu Transportation	PRC	7 May 1999	7 May 1999	Transportation of goods and dangerous chemicals
Xinnuo Pharmaceutical	PRC	5 January 1998	5 January 1998	Sale and import and export of pharmaceutical products
Yueda Logistics	PRC	24 October 2016	24 October 2016	Logistics
Havay Feeds	PRC	23 July 2003	23 July 2003	Production and sale of feeds additives
Havay Industry	Canada	23 September 2015	23 September 2015	Marketing and sale of chemical products
GHW USA	U.S.	17 March 2015	17 March 2015	Purchase and distribution of chemicals
GHW Eurochemicals	Slovakia	1 January 2014	1 January 2014	Trading of chemicals
GHW (Vietnam)	Vietnam	23 July 2013	15 March 2016	Chemicals production
GHW (Vietnam) Chemicals	Vietnam	7 May 2014	7 May 2014	Trading of chemicals
Goldray International	Seychelles	7 January 2016	7 January 2016	Investment holding
Nuovomondo Chemicals	India	25 March 2011	25 March 2011	Import and export of organic and inorganic chemical products
Ukrhimformacia	Ukraine	27 April 2006	27 April 2006	Trading of chemical products
Star International	Russia	26 March 2007	26 March 2007	Wholesale of chemical products
GHW Mexico	Mexico	10 September 2018	10 September 2018	Trading of chemical products

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2018 with an initial authorised share capital of U.S.\$50,000 divided into 50,000,000 Shares of U.S.\$0.001 each. On the date of incorporation, our Company allotted and issued one share of a par value of U.S.\$0.001 each for cash at par to the initial third party subscriber and such share was then transferred to Commonwealth B Limited on the same date, and further allotted and issued 4,999,999, 2,519,220 and 2,480,780 shares of a par value of U.S.\$0.001 each, credited as fully paid at par, to Commonwealth B Limited (being a company which is ultimately beneficially owned as to 80% by Mr. Yin and 20% by his spouse, Ms. Wu Hailing, who was one of the initial shareholders of GHW Investment and holds the Shares with Mr. Yin indirectly through Commonwealth B Limited for the purpose of matrimonial planning), Commonwealth Happy Elephant Limited and Commonwealth GHW Limited, respectively. On 3 January 2019, the authorised share capital of our Company was increased to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each. Details of the changes of our Company's share capital are set out "Statutory and General Information – A. Further information about our Group – Changes in the share capital of our Company" under Appendix IV to this prospectus. Upon completion of the Reorganisation and immediately prior to completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), both Mr. Yin and Ms. Wu Hailing (both of which being a group of our Controlling Shareholders upon Listing) will indirectly hold an aggregate of approximately 73.3391% of the issued share capital of our Company; and Mr. Yin, Ms. Wang Wei and Mr. Pan Bing (all of which being a group of our Controlling Shareholders upon Listing) will indirectly hold an aggregate of approximately 73.7522% of the issued share capital of our Company.

GOHI Int’L

GOHI Int’L was incorporated in the BVI with limited liability on 28 May 2018 with 50,000 authorised shares with a par value of U.S.\$1 each. As at the date of its incorporation, GOHI Int’L allotted and issued 10,000 shares, credited as fully paid at par, to our Company as the initial subscriber. The shareholding of GOHI Int’L has remained unchanged since its incorporation. GOHI Int’L is an intermediate holding company directly wholly-owned by our Company, and holds the entire issued share capital of GHW Holdings and GHW International (HK).

GHW Holdings

GHW Holdings was incorporated in Hong Kong with limited liability on 25 June 2018. As at the date of its incorporation, GHW Holdings allotted and issued one share, credited as fully paid, to GOHI Int’L as the initial subscriber. The shareholding of GHW Holdings has remained unchanged since its incorporation. GHW Holdings is an intermediate holding company directly wholly-owned by GOHI Int’L, and holds all the equity interests in GHW International SCM.

GHW International SCM

GHW International SCM was established in the PRC with limited liability on 18 November 2008. At the time of its establishment, GHW International SCM had a registered capital of RMB22,000,000, among which RMB20 million was contributed by Hanhe Enterprises and RMB2 million was contributed by GHW Investment. As at 1 January 2017, Mr. Yin Yanbin, through himself or companies controlled by him, held approximately 67.2820% of the equity interests in GHW International SCM. Under the Measures for the Administration of the Takeover of Listing Companies promulgated by the China Securities Regulatory Commission, spouses are deemed to be persons acting in concert. As such, Ms. Wu Hailing was deemed to be person acting in concert with Mr. Yin in respect of the ownership of the equity interests in GHW International SCM. As at 1 January 2017, Ms. Wang Wei, through herself, and Mr. Pan Bing, through himself, held approximately 0.4382% and 0.1095% of the equity interests in GHW International SCM, respectively. Subsequent to various equity transfers and upon completion of the Reorganisation, GHW International SCM has become wholly-owned by GHW Holdings since 31 July 2018. GHW International SCM holds all the equity interests in GHW Chemicals and Havay Group.

In September 2011, pursuant to a board resolution of GHW International SCM (the “**Subscription Resolution**”), employees of the Group and certain external parties were invited to subscribe for shares of GHW International SCM for a consideration of RMB2.5 per share (the “**Subscription Plan**”). In the same year, 72 employees and one Independent Third Party subscribed for approximately 70.68 million shares of GHW International SCM, representing approximately 18% of the equity interests in GHW International SCM.

Between 2011 and 2018, various changes in the equity shareholdings of GHW International SCM took place through transfer of shares between the then shareholders and the new subscribers of GHW International SCM, including certain transfers pursuant to the Subscription Plan.

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In June 2014, the then five representatives of our Group's overseas operations, namely Messrs. Wang Hui, Vijay Dayaljibhai Galodhara, Rahul Pachpute, Serhii Fomin and Iryna Tsaryuk (collectively the “**Overseas Subscribers**”) became shareholders of GHW International SCM as a result of the transfer of an aggregate of 1,053,333 shares of GHW International SCM, representing 1.445% of the equity interests in GHW International SCM, for an aggregate consideration of approximately RMB2,638,000 with reference to the Subscription Plan (the “**Subscription Sum**”).

For administrative convenience mainly with respect to the registration and transfer of shares for foreign shareholders, Mr. Yin and the Overseas Subscribers agreed that the aforementioned equity interests of the Overseas Subscribers remained registered in the name of Mr. Yin at the material time and were to be held in trust by Mr. Yin and that the Subscription Sum was agreed as settled at the time of the transfer (the “**Overseas Subscribers Trust**”). The unwinding of the trust and the cash repayment of the Subscription Sum, together with payment of any other costs associated with the trust arrangement shall be performed at a later time when appropriate. Since June 2014, the Overseas Subscribers have been entitled to all shareholders' rights and obligations via the trust arrangement.

In April 2018, in view of the proposed Listing and as part of the Reorganisation, Mr. Yin and the Overseas Subscribers unwound the aforementioned trust and repayment in cash in the sum of U.S.\$500,000, which was determined by the parties considering, among others, the Subscription Sum, the time cost of funds, and related expenses for performing the transfer of the relevant shares as part of the Reorganisation. The aforementioned unwinding arrangement was executed in two steps: (1) on 19 March 2018, Hanhe Enterprises (being a company owned as to 89.53% by Hanhe Investment, which in turn is owned as to 80.1151% by Mr. Yin) entered into a share transfer agreement with Commonwealth Armyfeibear to transfer 1.445% of the equity interest in GHW International SCM to Commonwealth Armyfeibear (being a company owned by the Overseas Subscribers and held as to 84%, 4%, 4%, 4% and 4% respectively by Messrs. Wang Hui, Vijay Dayaljibhai Galodhara, Rahul Pachpute, Serhii Fomin and Iryna Tsaryuk) for a consideration of U.S.\$250,000 which was settled in cash in June 2018; and (2) on 5 July 2018, Commonwealth Happy Elephant Limited transferred 144,000 Old Shares, representing 1.44% of the issued share capital of our Company, to Commonwealth Feibear Limited for a consideration of U.S.\$250,000, which will be settled by Commonwealth Feibear Limited in cash on or before the Listing (please refer to Steps 5 and 9 of the Reorganisation below for further details). Our PRC Legal Advisers are of the view that the aforementioned payment arrangement is legal and valid and the Overseas Subscribers Trust does not contravene any PRC law, rule and regulation.

GHW Chemicals

GHW Chemicals was established in the PRC with limited liability on 25 October 1995. At the time of its establishment, GHW Chemicals had a registered capital of RMB4,050,000, which was contributed by a total of 22 individual shareholders. Subsequent to various share transfers, GHW Chemicals became wholly-owned by Hanhe Enterprises on 26 December 2006.

On 5 December 2008, Hanhe Enterprises transferred all the equity interests in GHW Chemicals to GHW International SCM for a consideration of RMB15,000,000, which was determined with reference to the registered capital of GHW Chemicals. Such transfer was properly and legally completed and since then, GHW Chemicals has become a wholly-owned subsidiary of GHW International SCM. GHW Chemicals holds the equity interests in the following companies of our Group:

(1) *Hanshang Weisou*

Hanshang Weisou was established in the PRC with limited liability on 14 January 2016. At the time of its establishment, Hanshang Weisou had a registered capital of RMB1,000,000, which was wholly contributed by GHW Investment. On 29 February 2016, GHW Investment transferred all the equity interests in Hanshang Weisou to GHW Chemicals for a consideration of

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RMB1,000,000. Subsequently on 26 May 2016, GHW Chemicals transferred all the equity interests in Hanshang Weisou to Mr. Yang Shaoliang, an Independent Third Party, for a consideration of RMB1,000,000, which was determined with reference to the registered capital of Hanshang Weisou. Such transfer was properly and legally completed, and was effected for the enjoyment of several government subsidies by Hanshang Weisou, since such subsidies were offered by the PRC government to companies owned by individuals with credentials in relation to high and new technology in the PRC. On 17 November 2016, due to the uncertainty about the grant of such subsidies, Mr. Yang Shaoliang transferred all the equity interests in Hanshang Weisou to GHW Chemicals for a consideration of RMB1,000,000, which was determined with reference to the registered capital of Hanshang Weisou. Such transfer was properly and legally completed. Upon completion of such transfer, Hanshang Weisou has become wholly-owned by GHW Chemicals.

(2) *Haijinsha International*

Haijinsha International was established in the PRC with limited liability on 30 March 2012. At the time of its establishment, Haijinsha International had a registered capital of RMB2,000,000, which was wholly contributed by GHW Investment. On 29 August 2012, GHW Investment transferred all its equity interests in Haijinsha International to GHW Chemicals for a consideration of RMB2,000,000 and since then, Haijinsha International has become wholly-owned by GHW Chemicals.

(3) *GHW Investment*

GHW Investment was established in the PRC with limited liability on 13 January 2005. At the time of its establishment, GHW Investment had a registered capital of RMB10,000,000, among which RMB7,000,000 was contributed by Ms. Wu Hailing, being the spouse of Mr. Yin, and RMB3,000,000 by Mr. Chen Zhaohui.

Subsequent to various share transfers and as at 9 November 2010, GHW Investment was wholly-owned by Organic Chemicals Co.. On 13 August 2012, Organic Chemicals Co. transferred all its equity interests in GHW Investment to GHW International SCM for a consideration of RMB10,000,000, which was determined with reference to the registered capital of GHW Investment. Such transfer was properly and legally completed.

On 25 March 2016, GHW International SCM transferred all its equity interests in GHW Investment to GHW Chemicals for a consideration of RMB10,000,000. Upon completion of such transfer, GHW Investment has become wholly-owned by GHW Chemicals and holds all the equity interests in the following companies of our Group:

(a) *Nuowei Trading*

Nuowei Trading was established in the PRC with limited liability on 17 May 2013. At the time of its establishment, Nuowei Trading had a registered capital of RMB1,000,000, which was wholly contributed by GHW Investment. Nuowei Trading has been wholly-owned by GHW Investment since its establishment.

(b) *Jinruntai Chemicals*

Jinruntai Chemicals was established in the PRC with limited liability on 16 February 2011. At the time of its establishment, Jinruntai Chemicals had a registered capital of RMB1,000,000, which was wholly contributed by Shandong Taida Chemicals Co., Ltd.* (山東泰達化工有限公司), being a then subsidiary of GHW International SCM deregistered in December 2012 due to its cessation of business. On 4 July 2012, Shandong Taida Chemicals

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Co., Ltd* (山東泰達化工有限公司) transferred all its equity interests in Jinruntai Chemicals to GHW Investment for a consideration of RMB1,000,000, which was determined with reference to the registered capital of Jinruntai Chemicals. Such transfer was properly and legally completed. Upon completion of such transfer, Jinruntai Chemicals has become wholly-owned by GHW Investment.

(c) GHW Trading

GHW Trading was established in the PRC with limited liability on 22 January 2010. At the time of its establishment, GHW Trading had a registered capital of RMB500,000, which was wholly contributed by Nanjing Shuaida Chemicals Co., Ltd* (南京率達化工有限公司), an Independent Third Party. On 7 May 2010, Nanjing Shuaida Chemicals Co., Ltd* (南京率達化工有限公司) transferred all its equity interests in GHW Trading to Tianyu Transportation for a consideration of RMB500,000 which was determined with reference to the registered capital of GHW Trading. Such transfer was properly and legally completed.

Subsequent to a capital increase and on 8 November 2012, Tianyu Transportation transferred all its equity interests in GHW Trading to GHW Investment for a consideration of RMB2,000,000 and upon completion of such transfer, GHW Trading has become wholly-owned by GHW Investment.

(d) Tianyu Transportation

Tianyu Transportation was established in the PRC with limited liability on 7 May 1999. At the time of its establishment, Tianyu Transportation had a registered capital of RMB300,000, among which RMB200,000 was contributed by Mr. Zhang Shijun, RMB50,000 by Mr. Bai Chuanlin and RMB50,000 by Mr. Ao Yulin, all being Independent Third Parties. Subsequent to various share transfers and a capital increase, as at 26 October 2010, Tianyu Transportation was wholly-owned by Organic Chemicals Co.. On 15 August 2012, Organic Chemicals Co. transferred all its equity interests in Tianyu Transportation to GHW Investment for a consideration of RMB3,000,000, which was determined with reference to the registered capital of Tianyu Transportation. Such transfer was properly and legally completed. Upon completion of such transfer, Tianyu Transportation has become wholly-owned by GHW Investment.

GHW International (HK)

GHW International (HK) was incorporated in Hong Kong with limited liability on 6 August 2008. As at the date of its incorporation, GHW International (HK) allotted and issued 800,000 shares, credited as fully paid, to GHW Chemicals as the initial subscriber. Upon completion of the Reorganisation and since 15 November 2018, GHW International (HK) has become wholly-owned by GOHI Int'L.

GHW International (HK) holds the equity interests in the following companies of our Group:

(a) Goldray International

Goldray International was incorporated in Seychelles with limited liability on 7 January 2016. At the time of its incorporation, the authorised share capital of Goldray International was U.S.\$50,000 divided into 50,000 ordinary shares of U.S.\$1.00 each. From its incorporation, to 3 April 2018, the legal title of 91% and 9% of the issued share capital of Goldray International was held by two Independent Third Parties, namely, Mr. Chen Yankang and Mr. Tang Jianping, respectively, in trust for GHW International (HK). Our Directors

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have been advised that under Seychellois law and in accordance with the register of beneficial owners of Goldray International, Mr. Chen Yankang and Mr. Tang Jianping, who were the former registered members of the shares in Goldray International, were holding the same since its incorporation as nominees on behalf of GHW International HK up to 3 April 2018. On 4 April 2018, Mr. Chen Yankang and Mr. Tang Jianping transferred the legal title of 91% and 9%, respectively, of the issued share capital of Goldray International to GHW International (HK). Such transfers were properly and legally completed. Since then, Goldray International has become legally wholly-owned by GHW International (HK), the beneficial interests of which are ultimately controlled by Mr. Yin.

Goldray International holds interests in the following companies of our Group:

(i) Ukrhimformacia

Ukrhimformacia was incorporated in Ukraine with limited liability on 27 April 2006. At the time of its incorporation, Ukrhimformacia had an initial charter capital of U.S.\$7,000, and 100% of its share rights was owned by Golden Join International (Hong Kong) Limited, an Independent Third Party. Subsequent to various share transfers and as at 17 December 2009, Ukrhimformacia was held as to 83.0565% by Golden Join International (Hong Kong) Limited and 16.9435% by Mr. Sun Gexin, a then employee of Ukrhimformacia who held approximately 0.16% equity interests in GHW International SCM as at 18 August 2013. On 17 December 2010, Golden Join International (Hong Kong) Limited transferred all its 83.0565% share rights in Ukrhimformacia to GHW International (HK) for a consideration of U.S.\$500,000, which was determined with reference to the nominal value of the shares. Such transfer was properly and legally completed. Subsequent to various share transfers and capital changes, Ukrhimformacia was held as to 88.98% by GHW International (HK) and 11.02% by Ms. Sun Xiaoxiao, the daughter of Mr. Sun Gexin as at 15 May 2014. On 27 May 2014, Ms. Sun Xiaoxiao transferred all her 11.02% share rights in Ukrhimformacia to GHW International (HK) for a consideration of UAH807,860.40 (equivalent to approximately U.S.\$102,000), which was determined with reference to the nominal value of the shares. Such transfer was properly and legally completed.

On 29 November 2016, GHW International (HK) transferred all its share rights in Ukrhimformacia to Goldray International. Upon completion of such transfer, Ukrhimformacia has become wholly-owned by Goldray International.

(ii) Nuovomondo Chemicals

Nuovomondo Chemicals was incorporated in India as a private limited company on 25 March 2011. At the time of its incorporation, Nuovomondo Chemicals had an authorised and fully paid-up share capital of INR100,000 (equivalent to approximately U.S.\$1,387) divided into 10,000 equity shares of INR10 (equivalent to approximately U.S.\$0.14) each. The share capital of Nuovomondo Chemicals was owned as to 50% by Mr. Dinesh Kumar Shukla and 50% by Mr. Shyam Charan Shukla, both being Independent Third Parties, who subsequently transferred all their shares to Mr. Vijay Dayaljibhai Galodhara and Mr. Rahul Ramdas Pachpute respectively, both being shareholders of Commonwealth Feibear Limited, on 26 March 2011. On 14 December 2013, Mr. Rahul Ramdas Pachpute transferred his 49.99% issued share capital in Nuovomondo Chemicals to GHW International (HK) and the remaining 0.01% to Mr. Yin (who held such shares as a nominee of GHW International (HK)) for a total consideration of INR50,400 (equivalent to approximately U.S.\$701), which was determined with reference to the fair market value of the shares at the time of transfer.

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Such transfers were properly and legally completed. On the same date, Mr. Vijay Dayalji bhai Galodhara also transferred his 50% issued share capital in Nuovomondo Chemicals to GHW International (HK) for a consideration of INR50,400 (equivalent to approximately U.S.\$701), which was determined with reference to the fair market value of the shares at the time of transfer. Such transfer was properly and legally completed.

On 10 May 2016, GHW International (HK) transferred its 99.99% issued share capital in Nuovomondo Chemicals to Goldray International and Mr. Yin transferred his 0.01% issued share capital to Ms. Wang Wei who held such shares as a nominee for Goldray International. Upon completion of such transfers, Nuovomondo Chemicals has been held as to 99.99% by Goldray International and 0.01% by Ms. Wang Wei as nominee for Goldray International.

(iii) Star International

Star International was incorporated in Russia with limited liability on 26 March 2007. At the time of its incorporation, Star International had an initial share capital of RUB10,000 (equivalent to approximately U.S.\$150), with Mr. Sun Gexin, a then employee of Ukrhimformacia, and Ukrhimformacia as initial subscribers. On 10 December 2012, Mr. Sun Gexin ceased to hold any share in Star International upon withdrawal notice. On 31 May 2013, GHW International (HK) subscribed for 99.0% of the issued share capital in Star International as a result of which Star International was held as to 99.0% by GHW International (HK) and 1% by Ukrhimformacia. Subsequent to various capital increases, the share capital of Star International was increased up to RUB2,281,591.00 (equivalent to approximately U.S.\$34,338), being the current amount of the share capital. Subsequent to various share transfers and upon completion of the Reorganisation, Star International has been owned as to 99% by Goldray International and 1% by GHW International (HK) since 2 November 2018.

(iv) GHW Mexico

GHW Mexico was incorporated in Mexico on 10 September 2018. At the time of its incorporation, GHW Mexico had an authorised capital of MXN\$10,000.00 (equivalent to approximately U.S.\$493.6), and was held as to 10% by Mr. Ricardo Diaz Niño and 90% by Mr. Diego Alejandro López Ramírez, both Independent Third Parties, as initial partners. On 1 October 2018, GHW International (HK) and Goldray International subscribed for a total of MXN\$934,983.00 (equivalent to approximately U.S.\$46,144) in the capital of GHW Mexico, of which 90% thereof was subscribed and paid by GHW International (HK) and the remaining 10% by Goldray International (the “**Capital Increase**”). Simultaneous with the Capital Increase, the initial partners, Mr. Ricardo Diaz Niño and Mr. Diego Alejandro López Ramírez (the “**Outgoing Partners**”), agreed to exit GHW Mexico as partners thereof in exchange for the repayment of their initial equity contributions into GHW Mexico. As a result of the foregoing, in addition to the subscriptions under the Capital Increase, GHW International (HK) and Goldray International also acquired 90% and 10%, respectively, of the equity interests of the Outgoing Partners for a total consideration of MXN\$10,000.00 (equivalent to approximately U.S.\$493.6), which was determined with reference to the initial equity contributions by the Outgoing Partners. Such transfers were properly and legally completed. Therefore, since 1 October 2018, GHW Mexico has been held as to 90% by GHW International (HK) and 10% by Goldray International.

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(b) Havay Industry

Havay Industry was incorporated in British Columbia, Canada with limited liability on 23 September 2015. At the time of its incorporation, (a) the authorised share structure of Havay Industry consisted of no maximum common shares without par value, without special rights or restrictions and no maximum preferred shares without par value, with special rights or restrictions; (b) Havay Industry had an issued share capital of CAD\$1,000 (equivalent to approximately U.S.\$746) divided into 1,000 common shares with CAD\$1.00 (equivalent to approximately U.S.\$0.746) per share; and (c) the entire issued share capital of Havay Industry was wholly-owned by Mr. Yin who held the legal title of the same in trust for GHW International (HK). On 30 April 2017, Mr. Yin transferred the legal title of 92% of the issued share capital of Havay Industry to Ms. Wang Wei, who also held the legal title of such shares in trust for GHW International (HK). Our Directors have been advised that under the law of British Columbia, Canada, the beneficial shareholder of Havay Industry has been GHW International (HK) from 23 September 2015, being the date of incorporation, up to 12 November 2018.

On 12 November 2018, Mr. Yin and Ms. Wang Wei transferred the legal title of 8% and 92%, respectively, of the issued share capital of Havay Industry to GHW International (HK) and since then, Havay Industry has become wholly-owned, both legally and beneficially, by GHW International (HK).

(c) GHW USA

GHW USA was formed in the State of Texas, the U.S. as a limited liability company on 17 March 2015. At the time of its formation, the capital contribution of GHW USA was U.S.\$20,000, and was wholly-owned by GHW International (HK). GHW USA has been wholly-owned by GHW International (HK) since its formation.

(d) GHW Eurochemicals

GHW Eurochemicals was incorporated in Slovakia with limited liability on 1 January 2014 with a registered capital of EUR5,000 (equivalent to approximately U.S.\$5,662) and was wholly contributed by GHW International (HK). GHW Eurochemicals has been wholly-owned by GHW International (HK) since its incorporation.

(e) GHW (Vietnam) Chemicals

GHW (Vietnam) Chemicals was established in Vietnam with limited liability on 7 May 2014. At the time of its establishment, both the registered investment capital and the investment contribution capital of GHW (Vietnam) Chemicals were VND6,300,000,000 (equivalent to approximately U.S.\$300,000), and the investment contribution capital was wholly contributed by GHW International SCM. GHW (Vietnam) Chemicals has a charter capital of VND6,300,000,000 (equivalent to approximately U.S.\$300,000). Upon completion of the transfer of the entire equity interests in GHW (Vietnam) Chemicals to GHW International (HK) as part of the Reorganisation, GHW (Vietnam) Chemicals became wholly-owned by GHW International (HK) in June 2019.

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(f) GHW (Vietnam)

GHW (Vietnam) was established in Vietnam with limited liability on 23 July 2013. At the time of its establishment, GHW (Vietnam) had a registered investment capital of VND73,500,000,000 (equivalent to approximately U.S.\$3,500,000), an investment contribution capital of VND21,000,000,000 (equivalent to approximately U.S.\$1,000,000) wholly contributed by GHW International SCM. GHW (Vietnam) has a charter capital of VND110,804,981,389 (equivalent to approximately U.S.\$5,000,000).

On 21 July 2017, GHW International (HK) acquired 80% of the equity interests in GHW (Vietnam) through capital subscription, upon completion of which GHW (Vietnam) was held as to 80% by GHW International (HK) and 20% by GHW International SCM. Upon completion of the transfer of 20% equity interests in GHW (Vietnam) to GHW International (HK) as part of the Reorganisation, GHW (Vietnam) has become wholly-owned by GHW International (HK) since December 2018.

On 12 September 2019, GHW International (HK) additionally contributed into the capital of GHW (Vietnam). Accordingly, the charter capital of GHW (Vietnam) was increased up to VND226,711,381,389 (equivalent to approximately U.S.\$10,000,000). The registered investment capital was increased up to VND226,711,381,389 (equivalent to approximately U.S.\$10,000,000), in which the investment contribution capital was VND226,711,381,389 equivalent to approximately U.S.\$10,000,000.

Havay Group

Havay Group was established in the PRC with limited liability on 9 November 2010. At the time of its establishment, Havay Group had a registered capital of RMB5,000,000, which was wholly contributed by Havay Feeds.

Prior to 28 September 2017, Havay Group was owned as to 70% by Organic Chemicals Co. and 30% by GHW International SCM. Organic Chemicals Co. has ceased operations since 2011 and its revenue was mainly rental income generated by letting out of idle property which was not used by the Group in its operations. As such, due to the different business focus of Organic Chemicals Co. and to streamline the operations of our Group, Organic Chemicals Co. was carved from our Group upon completion of Step 1 and Step 2 of the Reorganisation set out below. For the years ended 31 December 2016 and ended 31 December 2017, during which Organic Chemicals Co. was a subsidiary of our Group, Organic Chemicals Co. recorded a net profit of approximately RMB6.0 million and a net loss of approximately RMB1.0 million, respectively.

Subsequent to various share transfers, Havay Group has become wholly-owned by GHW International SCM since 28 September 2017. Havay Group holds the equity interests in the following companies of our Group:

(1) *Xinnuo Pharmaceutical*

Xinnuo Pharmaceutical was established in the PRC with limited liability on 5 January 1998. At the time of its establishment, Xinnuo Pharmaceutical had a registered capital of RMB3,000,000, among which RMB1,530,000 was contributed by China Pharmaceutical Foreign Trade Co., Ltd* (中國醫藥對外貿易總公司), an Independent Third Party, RMB735,000 by Hanhe Enterprises and RMB735,000 by Jiangsu Province Pharmaceutical Co., Ltd.* (江蘇省醫藥總公司), an Independent Third Party.

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On 17 December 2007, China Pharmaceutical Foreign Trade Co., Ltd* (中國醫藥對外貿易總公司) and Jiangsu Province Pharmaceutical Co., Ltd* (江蘇省醫藥總公司) transferred all their equity interests, representing 51% and 24.5%, respectively, of the equity interests in Xinnuo Pharmaceutical, to Hanhe Enterprises for a consideration of RMB1,530,000 and RMB735,000, respectively, which were both determined with reference to the registered capital of Xinnuo Pharmaceutical. Such transfers were properly and legally completed.

On 11 December 2008, Hanhe Enterprises transferred the entire equity interests in Xinnuo Pharmaceutical to GHW International SCM for a consideration of RMB3,000,000, which was determined with reference to the registered capital of Xinnuo Pharmaceutical. Such transfer was properly and legally completed.

Subsequent to a capital increase and on 13 November 2015, GHW International SCM transferred its entire equity interests in Xinnuo Pharmaceutical to Havay Group for a consideration of RMB10,000,000. Upon completion of such transfer, Xinnuo Pharmaceutical has become wholly-owned by Havay Group.

(2) *Yueda Logistics*

Yueda Logistics was established in the PRC with limited liability on 24 October 2016. At the time of its establishment, Yueda Logistics had an initial registered capital of RMB5,000,000, which was wholly contributed by Havay Group. Yueda Logistics has been wholly-owned by Havay Group since its establishment.

(3) *Havay Feeds*

Havay Feeds was established in the PRC with limited liability on 23 July 2003. At the time of its establishment, Havay Feeds had an initial registered capital of RMB10,000,000, among which RMB4,000,000 was contributed by Hanhe Enterprises and RMB6,000,000 was contributed by Havay Industry Inc., being a deregistered company established by Ms. Wu Hailing, the spouse of Mr. Yin.

On 23 April 2004, Havay Industry Inc. transferred its 30% equity interests in Havay Feeds to Hanhe Enterprises for a consideration of RMB3,000,000, which was determined with reference to the registered capital of Havay Feeds. On 2 April 2010, Hanhe Enterprises and Havay Industry Inc. transferred 70% and 30%, respectively, of the equity interests in Havay Feeds to GHW International SCM and Golden Join International (Hong Kong) Limited, an Independent Third Party, respectively, for a consideration of RMB7,000,000 and RMB3,000,000, respectively, which were both determined with reference to the registered capital of Havay Feeds. Such transfers were properly and legally completed.

On 7 September 2012, GHW International SCM transferred its 70% equity interests in Havay Feeds to Havay Group for a consideration of RMB7,000,000. On the same date, Golden Join International (Hong Kong) Limited transferred its 30% equity interests in Havay Feeds to GHW International (HK) for a consideration of RMB3,540,000, which was based on a valuation report prepared by an independent valuer with reference to the net asset value of Havay Feeds as at 30 November 2011. Such transfer was properly and legally completed.

Subsequent to various share transfers, Havay Feeds has been owned as to 70% by Havay Group and 30% by GHW International (HK) since 29 March 2016.

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- (5) The minority shareholders of GHW International SCM (the “GHW Minority Shareholders”) and their respective shareholding are set forth below:

Name of shareholder	Shareholding	Name of shareholder	Shareholding
1. Chen Chao (陳超)	0.1095%	19. Shen Haibin (沈海濱)	0.1095%
2. Chen Hua (陳華)	1.2597%	20. Shen Jie (沈杰)	0.0164%
3. Chen Shun (陳舜)	0.1643%	21. Shen Weidong (沈瑋東)	0.0137%
4. Chen Yiqin (陳毅勤)	0.1095%	22. Sun Guibin (孫桂彬)	0.7394%
5. Dai Yue (戴岳)	0.2739%	23. Sun Hong (孫虹)	0.1095%
6. Diao Cheng (刁騁)	0.1643%	24. Tian Miao (田淼)	0.0110%
7. Fu Jun (付俊)	0.2739%	25. Wang Hua (王華)	0.0822%
8. Gao Qiang (高強)	0.1643%	26. Wang Wei (王煒)	0.4382%
9. He Qingfeng (何青峰)	0.0876%	27. Xiong Ziguang (熊自國)	0.1534%
10. Jiang Hong (蔣紅)	0.1095%	28. Xu Zhengwei (許正偉)	0.0548%
11. Li Chen (李琛)	0.2739%	29. Yang Xueyun (楊雪芸)	0.0110%
12. Li Qinghua (李慶華)	0.5477%	30. Yao Haiyan (姚海燕)	0.1095%
13. Liang Bin (梁斌)	0.0630%	31. Yin Yanbin (尹燕濱)	3.4916%
14. Liu Jing (劉靜)	0.0822%	32. Zhang Xunlin (張訓林)	0.0789%
15. Liu Yang (劉洋)	0.0137%	33. Zhao Jun (趙俊)	0.0274%
16. Liu Zhenhe (劉振河)	0.0274%	34. Zhou Chunnian (周春年)	2.9483%
17. Ni Mingqiang (倪明強)	0.4382%	35. Zhou Yunfeng (周雲峰)	0.5477%
18. Pan Bing (潘冰)	0.1095%	36. Zhuang Zhaohui (莊朝輝)	6.8203%
		Total:	20.0348%

The Reorganisation involves the following steps:

Step 1 – Transfer of 70% of the equity interest in Havay Group to GHW International SCM

On 28 September 2017, Organic Chemicals Co. (which was then owned as to 86.3846% by GHW International SCM, 7.4337% by Hanhe Enterprises, 3.6436% by the Trade Union of Organic Chemicals Co., an Independent Third Party, and 2.5381% by a total of 14 individuals, all of whom are Independent Third Parties) transferred 70% of the equity interest in Havay Group to GHW International SCM for a consideration of RMB35 million, which was based on a valuation report prepared by an independent valuer with reference to the net asset value of Havay Group as at 30 June 2017, and properly and legally settled by GHW International SCM in cash in September 2017.

Immediately upon the completion of the aforesaid transfer, Organic Chemicals Co. ceased to hold any equity interest in Havay Group, which has since then become directly wholly-owned by GHW International SCM.

Step 2 – Transfer of 86.3846% of the equity interest in Organic Chemicals Co. to Hanhe Enterprises

On 31 October 2017, GHW International SCM transferred 86.3846% of the equity interest in Organic Chemicals Co. to Hanhe Enterprises for a consideration of RMB55 million, which was based on a valuation report prepared by an independent valuer with reference to the net asset value of Organic Chemicals Co. as at 30 September 2017, and properly and legally settled by Hanhe Enterprises in cash in October 2017.

Immediately upon the completion of the aforesaid transfer, GHW International SCM ceased to hold any equity interest in Organic Chemicals Co.

Organic Chemical Co. has ceased operations since 2011 and its revenue was mainly rental income generated by letting out of idle property which was not used by our Group in our operations. As such, due to the different business focus of Organic Chemicals Co. and to streamline the operations of our Group, the above Step 1 and Step 2 were implemented to carve out Organic Chemicals Co. from our Group. For the years ended 31 December 2016 and ended 31 December 2017, during which Organic Chemicals Co. was a subsidiary of our Group, Organic Chemicals Co. recorded a net profit of approximately RMB6.0 million and a net loss of approximately RMB1.0 million, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Step 3 – Transfer of 20.0348% of the equity interest in GHW International SCM to Hanhe Enterprises

On 30 November 2017, the former minority shareholders of GHW International SCM transferred 20.0348% of the equity interest in GHW International SCM to Hanhe Enterprises for a consideration of RMB27,800,420, which was based on a valuation report prepared by an independent valuer with reference to the net asset value of GHW International SCM as at 31 October 2017, and properly and legally settled by Hanhe Enterprises in cash in December 2018. The details of such transfer are set forth in the table below:

	Name of shareholder	Shareholding		Name of shareholder	Shareholding
1.	Chen Chao (陳超)	0.1095%	19.	Shen Haibin (沈海濱)	0.1095%
2.	Chen Hua (陳華)	1.2597%	20.	Shen Jie (沈杰)	0.0164%
3.	Chen Shun (陳舜)	0.1643%	21.	Shen Weidong (沈瑋東)	0.0137%
4.	Chen Yiqin (陳毅勤)	0.1095%	22.	Sun Guibin (孫桂彬)	0.7394%
5.	Dai Yue (戴岳)	0.2739%	23.	Sun Hong (孫虹)	0.1095%
6.	Diao Cheng (刁騁)	0.1643%	24.	Tian Miao (田淼)	0.0110%
7.	Fu Jun (付俊)	0.2739%	25.	Wang Hua (王華)	0.0822%
8.	Gao Qiang (高強)	0.1643%	26.	Wang Wei (王煒)	0.4382%
9.	He Qingfeng (何青峰)	0.0876%	27.	Xiong Ziguo (熊自國)	0.1534%
10.	Jiang Hong (蔣紅)	0.1095%	28.	Xu Zhengwei (許正偉)	0.0548%
11.	Li Chen (李琛)	0.2739%	29.	Yang Xueyun (楊雪芸)	0.0110%
12.	Li Qinghua (李慶華)	0.5477%	30.	Yao Haiyan (姚海燕)	0.1095%
13.	Liang Bin (梁斌)	0.0630%	31.	Yin Yanbin (尹燕濱)	3.4916%
14.	Liu Jing (劉靜)	0.0822%	32.	Zhang Xunlin (張訓林)	0.0789%
15.	Liu Yang (劉洋)	0.0137%	33.	Zhao Jun (趙俊)	0.0274%
16.	Liu Zhenhe (劉振河)	0.0274%	34.	Zhou Chunnian (周春年)	2.9483%
17.	Ni Mingqiang (倪明強)	0.4382%	35.	Zhou Yunfeng (周雲峰)	0.5477%
18.	Pan Bing (潘冰)	0.1095%	36.	Zhuang Zhaohui (莊朝輝)	6.8203%
				Total:	<u>20.0348%</u>

Immediately upon the completion of the aforesaid transfer, GHW International SCM was directly held as to 97.2614% and 2.7386% by Hanhe Enterprises and Hanhe Investment, respectively.

Step 4 – Transfer of the legal title of the entire issued share capital of Goldray International to GHW International (HK)

On 4 April 2018, for the purpose of trust unwinding, Mr. Chen Yankang and Mr. Tang Jianping, both as trustees who held the shares in Goldray International in trust for GHW International (HK), transferred the legal title of 91% and 9%, respectively, of the issued share capital of Goldray International to GHW International (HK).

Immediately upon the completion of the aforesaid transfers, Goldray International became legally wholly-owned by GHW International (HK), the beneficial interests of which are beneficially controlled by Mr. Yin.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Step 5 – Transfer of 1.445% of the equity interest in GHW International SCM to Commonwealth Armyfeibear

On 23 April 2018, Hanhe Enterprises transferred 1.445% of the equity interest in GHW International SCM to Commonwealth Armyfeibear (being a company owned by five overseas employees of our Group, namely Wang Hui, Vijay Dayaljibhai Galodhara, Rahul Pachpute, Serhii Fomin and Iryna Tsaryuk (collectively the “**Overseas Employees**”)) for a consideration of U.S.\$250,000, which was properly and legally settled by Commonwealth Armyfeibear in cash in June 2018.

Immediately upon the completion of the aforesaid transfer, GHW International SCM became a Sino-foreign joint venture and was directly held as to 95.8164%, 2.7386% and 1.445% by Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear, respectively.

Step 6 – Incorporation of our Company

On 25 April 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of U.S.\$50,000.00 divided into 50,000,000 shares of a par value of U.S.\$0.001 each. As at the date of its incorporation, our Company allotted and issued one share of a par value of U.S.\$0.001 each for cash at par to the initial third party subscriber and such share was then transferred to Commonwealth B Limited on the same date, and further allotted and issued 4,999,999, 2,519,220 and 2,480,780 shares of a par value of U.S.\$0.001 each, credited as fully paid at par, to Commonwealth B Limited, Commonwealth Happy Elephant Limited and Commonwealth GHW Limited, respectively. The 10,000,000 shares of a par value of U.S.\$0.001 each as mentioned in this paragraph are collectively referred to as the “**Old Shares**”.

Immediately upon the completion of the aforesaid allotment and issue of the Old Shares, our Company was directly held as to 50%, 25.1922% and 24.8078% by Commonwealth B Limited, Commonwealth Happy Elephant Limited and Commonwealth GHW Limited, respectively.

Step 7 – Incorporation of GOHI Int’L

On 28 May 2018, GOHI Int’L was incorporated in the BVI with an authorised share capital of U.S.\$50,000 divided into 50,000 shares with a par value of U.S.\$1 each. As at the date of incorporation, GOHI Int’L allotted and issued 10,000 shares, credited as fully paid at par, to our Company as the initial subscriber.

Step 8 – Incorporation of GHW Holdings

On 25 June 2018, GHW Holdings was incorporated in Hong Kong. As at the date of its incorporation, GHW Holdings allotted and issued one share of HK\$1, credited as fully paid, to GOHI Int’L as the initial subscriber.

Step 9 – Transfer of 1.44% of the issued share capital of our Company to Commonwealth Feibear Limited

On 5 July 2018, Commonwealth Happy Elephant Limited transferred 144,000 Old Shares, representing 1.44% of the issued share capital of our Company, to Commonwealth Feibear Limited (being a company owned by the Overseas Employees) for a consideration of U.S.\$250,000, which will be settled by Commonwealth Feibear Limited in cash on or before the Listing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Immediately upon the completion of the aforesaid transfer, our Company was directly held as to 50%, 23.7552%, 24.8078% and 1.44% by Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively.

Step 10 – Transfer of the entire equity interest in GHW International SCM to GHW Holdings

On 31 July 2018, Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear transferred the entire equity interest in GHW International SCM to GHW Holdings for a consideration of RMB73,031,800, which was based on a valuation report prepared by an independent valuer with reference to the net asset value of GHW International SCM as at 31 December 2017, and will be settled by GHW Holdings in cash on or before the Listing.

Immediately upon the completion of the aforesaid transfers, GHW International SCM became an indirect wholly-owned subsidiary of our Company.

Step 11 – Incorporation of GHW Mexico

On 10 September 2018, GHW Mexico was incorporated in Mexico with an authorised capital of MXN\$10,000.00 (equivalent to approximately U.S.\$493.6). As at the date of incorporation, GHW Mexico was held as to 10% by Mr. Ricardo Diaz Niño and 90% by Mr. Diego Alejandro López Ramírez, both Independent Third Parties, as initial partners.

Step 12 – Transfer of 1% of the issued share capital of Star International to GHW International (HK)

On 2 November 2018, Goldray International transferred 1% of the issued share capital of Star International to GHW International (HK) for a consideration of RUB22,815.91, which was based on the share capital of Star International, and will be settled by GHW International (HK) in cash on or before the Listing.

Immediately upon the completion of the aforesaid transfer, Star International was directly held as to 99% and 1% by Goldray International and GHW International (HK), respectively.

Step 13 – Transfer of the legal title of the entire issued share capital of Havay Industry to GHW International (HK)

On 12 November 2018, for the purpose of trust unwinding, Ms. Wang Wei and Mr. Yin, both as trustees who held the shares in Havay Industry in trust for GHW International (HK), transferred the legal title of 92% and 8%, respectively, of the issued share capital of Havay Industry to GHW International (HK).

Immediately upon the completion of the aforesaid transfers, Havay Industry became wholly-owned, both legally and beneficially, by GHW International (HK).

Step 14 – Transfer of the entire issued share capital of GHW International (HK) to GOHI Int’L

On 15 November 2018, GHW Chemicals transferred the entire issued share capital of GHW International (HK) to GOHI Int’L for a consideration of U.S.\$3,600,000, which was based on the amount of investment made by GHW Chemicals in GHW International (HK), and settled by GOHI Int’L through current accounts in November 2018.

Immediately upon the completion of the aforesaid transfer, GHW International (HK) became directly wholly-owned by GOHI Int’L.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Step 15 – Transfer of 20% of the issued share capital of GHW (Vietnam) to GHW International (HK)

In December 2018, GHW International SCM transferred 20% of the issued share capital of GHW (Vietnam) to GHW International (HK) for a consideration of U.S.\$1,000,000, which was based on the par value of the charter capital of GHW (Vietnam), and settled by GHW International (HK) through current accounts in December 2018.

Immediately upon the completion of the aforesaid transfer, GHW (Vietnam) became directly wholly-owned by GHW International (HK).

Step 16 – Redenomination of the Old Shares

On 3 January 2019, for the purpose of redenomination of shares of our Company from U.S.\$ to HK\$, (a) our Company increased the authorised share capital by HK\$100,000,000 divided into 10,000,000,000 Shares of a par value of HK\$0.01 each; (b) allotted and issued 500,000 Shares of a par value of HK\$0.01 each, 237,522 Shares of a par value of HK\$0.01 each, 248,078 Shares of a par value of HK\$0.01 and 14,400 Shares of a par value of HK\$0.01 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively, for an aggregate price of U.S.\$10,000 (the “**Subscription Price**”); (c) repurchased all the Old Shares for an aggregate price of U.S.\$10,000, which was offset against the Subscription Price; (d) cancelled all the Old Shares following the repurchase and diminished the authorised but unissued share capital of our Company by the cancellation of all the 50,000,000 unissued shares of a par value of U.S.\$0.001 each in the share capital of our Company, and the authorised share capital of our Company became HK\$100,000,000 divided into 10,000,000,000 Shares of a par value of HK\$0.01 each.

Step 17 – Transfer of the entire issued share capital of GHW (Vietnam) Chemicals to GHW International (HK)

In June 2019, GHW International SCM transferred the entire issued share capital of GHW (Vietnam) Chemicals to GHW International (HK) for a consideration with reference to the par value of its charter capital.

Immediately upon the completion of the aforesaid transfer, GHW (Vietnam) Chemicals became directly wholly-owned by GHW International (HK).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

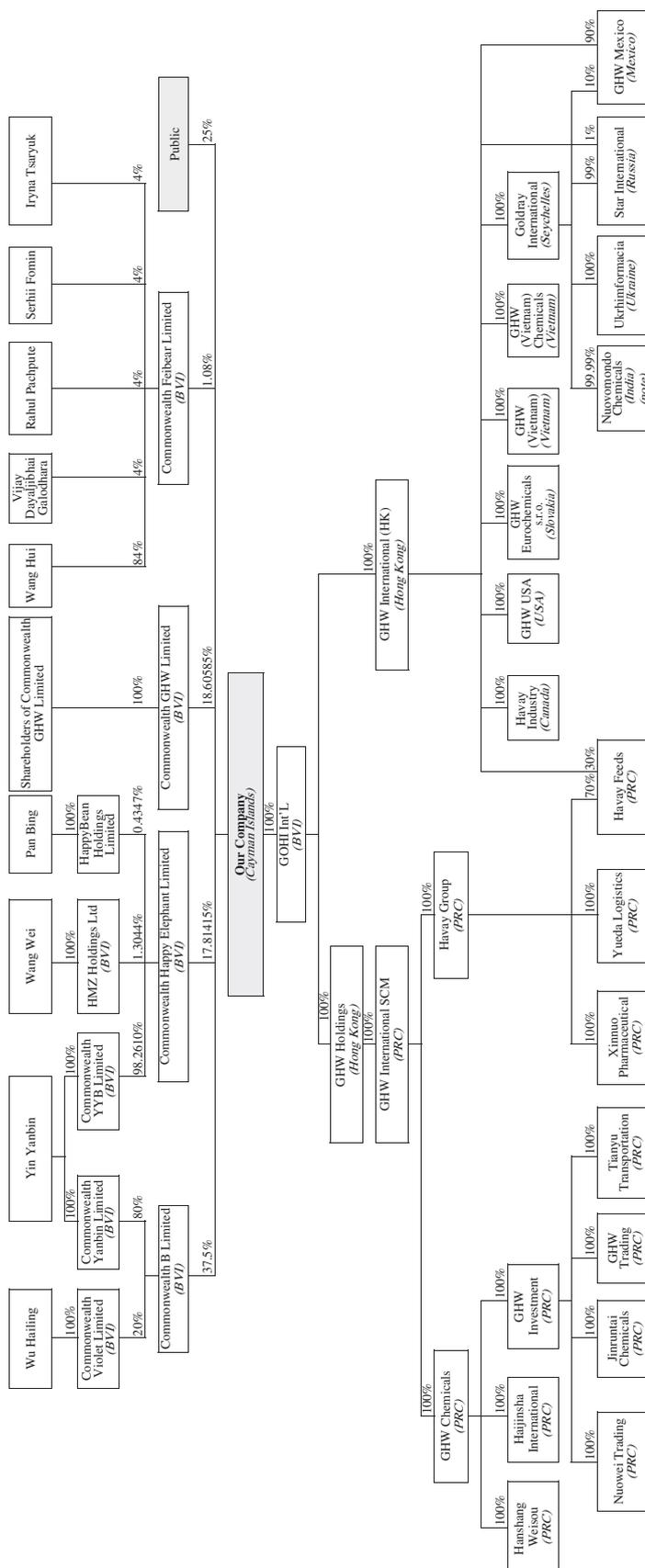
Notes:

- (1) Nuovomondo Chemicals was held as to 0.01% by Ms. Wang Wei as a nominee for Goldray International and as to 99.99% by Goldray International.
- (2) The shareholders of Commonwealth GHW Limited and their respective shareholding are set forth below:

	Name of shareholder	Shareholding
1.	Chen Chao (陳超)	0.4414%
2.	Chen Shun (陳舜)	0.6623%
3.	Chen Yiqin (陳毅勤)	0.4414%
4.	Faith Focus Trading Enterprise Ltd. (being a company wholly-owned by Fu Jun (付俊))	1.1041%
5.	G&Z Golden Pond Limited (being a company wholly-owned by Zhou Yunfeng (周雲峰))	1.7664%
6.	Gao Qiang (高強)	0.6623%
7.	He Qingfeng (何青峰)	0.3531%
8.	Hoppycom Limited (being a company wholly-owned by Dai Yue (戴岳))	1.1041%
9.	JFL Holding Limited (being a company wholly-owned by Zhuang Zhaohui (莊朝暉))	16.9350%
10.	Jiang Hong (蔣紅)	0.4414%
11.	L&C Service Ltd (being a company wholly-owned by Chen Hua (陳華))	4.4155%
12.	Li Chen (李琛)	1.1041%
13.	Liang Bin (梁斌)	0.2540%
14.	Liu Jing (劉靜)	0.3313%
15.	Liu Yang (劉洋)	0.0552%
16.	Liu Zhenhe (劉振河)	0.1104%
17.	New View C&S Limited (being a company wholly-owned by Chen Zhaohui (陳朝暉))	28.2367%
18.	Ni Mingqiang (倪明強)	1.7664%
19.	Professor Tiger Limited (being a company wholly-owned by Li Qinghua (李慶華))	2.2078%
20.	Shen Haibin (沈海濱)	0.4414%
21.	Shen Jie (沈傑)	0.0661%
22.	Shen Weidong (沈瑋東)	0.0552%
23.	Smartz Limited (being a company wholly-owned by Zhou Chunnian (周春年))	6.6233%
24.	Sun Hong (孫虹)	0.4414%
25.	Tian Miao (田淼)	0.0443%
26.	Uniwit Holdings Limited (being a company wholly-owned by Sun Guibin (孫桂彬))	2.9805%
27.	Wang Hua (王華)	0.3313%
28.	Wangderlust Service Limited (being a company wholly-owned by Diao Cheng (刁聘))	0.6623%
29.	Xiong Ziguo (熊自國)	0.6184%
30.	Xu Shirong (徐世榮)	24.2077%
31.	Xu Zhengwei (許正偉)	0.2209%
32.	Yang Xueyun (楊雪芸)	0.0443%
33.	Yao Haiyan (姚海燕)	0.4414%
34.	Zhang Xunlin (張訓林)	0.3180%
35.	Zhao Jun (趙俊)	0.1104%
	Total:	100%

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after completion of the Global Offering and Capitalisation Issue (assuming that the Over-allotment Option and the options under the Share Option Scheme are not exercised) is set out below:



Note: Nuovomondo Chemicals was held as to 0.01% by Ms. Wang Wei as a nominee for Goldray International and as to 99.99% by Goldray International.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

PRC LEGAL COMPLIANCE

M&A Rules

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於國外投資者併購境內企業的規定》)(the “**M&A Rules**”) jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006, effective as of 8 September 2006 and amended on 22 June 2009, the M&A Rules are applicable when a foreign investor (a) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (b) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (c) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (d) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign invested enterprise. According to Article 11 of the M&A Rules, where a domestic individual person intends to take his/her related domestic company in the name of an offshore company which he/she lawfully establishes or controls, the takeover, or a connected acquisition, shall be subject to the examination and approval of the Ministry of Commerce of the PRC (the “**MOC**”). The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

Our PRC Legal Adviser is of the opinion that unless new laws and regulations are enacted by or new provisions or interpretations on the M&A Rules are published by the MOC and/or CSRC in the future, prior MOC and/or CSRC approval for this offering is not required because (a) the CSRC currently has not issued any definitive rule or interpretation concerning whether offerings akin to this offering are subject to the M&A Rules; (b) the foreign investor, i.e. Commonwealth Armyfeibear, was not established or controlled by Mr. Yin Yanbin and as such the relevant acquisition from it does not constitute “connected acquisition” within the meaning of the M&A Rules; and (c) when GHW Holdings Limited acquired the interests in GHW International SCM, GHW International SCM was a sino-foreign joint venture, therefore the acquisitions do not subject to the M&A Rules.

SAFE Circular 37

In 2014, the State Administration of Foreign Exchange, or SAFE, promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents to register with local branches of SAFE before he/she contributes assets or equity interests in an offshore special purpose vehicle that is established by him/her or in which the equity interest, including operation rights, beneficiary rights or decision-making rights, is held by him/her for the purpose of overseas investment and financing. The term “PRC residents” under SAFE Circular 37 is defined as the PRC citizens holding PRC identity cards or non-PRC citizens habitually residing in the PRC due to economic interests.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SAFE Circular 37 further requires amendment to the initial registration in the event of any changes with respect to the basic information of or any significant changes with respect to the special purpose vehicle, including, among other things, a change of overseas special purpose vehicle's PRC resident shareholders, increase or reduction of special purpose vehicle's capital, share transfer or swap, and merger or division.

Failure to comply with these registrations may result in penalties.

Pursuant to the SAFE Circular on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment, promulgated by the SAFE and came into effect on 1 June, 2015, the registrations under SAFE Circular 37 shall be with local commercial banks where the assets or interest of the PRC residents are located.

Our PRC legal adviser advises that all the existing PRC individual Shareholders had completed the SAFE registration procedure pursuant to the requirements of SAFE Circular 37 and relevant implementation rules.

BUSINESS

OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States. With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales of our self-manufactured chemicals accounted for approximately 32.9%, 38.3%, 53.0% and 56.5% of our total revenue, respectively, while sales of chemicals produced by third party manufacturers accounted for approximately 66.5%, 61.2%, 46.4% and 43.0% of our total revenue, respectively.

We have an operating history of over 20 years when the founder of our Group, Mr. Yin, established GHW Chemicals in the PRC in 1995, with a business focus of selling applied chemical intermediates produced by third party manufacturers. In 1998, we expanded into the pharmaceutical industry by establishing Xinnuo Pharmaceutical in the PRC and we also established our first logistics company, Tianyu Transportation in the PRC in 1999. We began to manufacture our own branded products of animal nutrition chemicals such as choline chloride, pharmaceutical intermediates such as iodine derivatives and polyurethane materials such as polymer polyether since 2004, 2008 and 2012, respectively. As at the Latest Practicable Date, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province and one production plant in Binh Duong Province, Vietnam. We also intend to establish a new production plant in the western region from our Tai'an Production Plant at the Taian Daiyue Chemical Industrial Park (泰安岱岳化工產業園) as part of our expansion plan. For details, please refer to the paragraph head "Business – Production – Expansion Plan" in this prospectus.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our total revenue was approximately RMB1,606.8 million, RMB2,179.0 million, RMB2,152.9 million and RMB935.3 million, respectively, while our profit for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were approximately RMB20.8 million, RMB79.4 million, RMB74.3 million and RMB16.8 million, respectively.

According to Frost & Sullivan, we ranked the first and the second largest seller in choline chloride in terms of sales revenue in the PRC and in the global market in 2018, accounting for approximately 30.3% and 16.8% of the market share in the PRC and the global market, respectively. We were also the fourth largest seller of polyurethane materials in terms of sales revenue in the PRC in 2018. In addition, our Group ranked 46th globally in terms of revenue in the global chemical sales market in 2018, with a recorded total revenue of approximately RMB2,152.9 million.

Our business operation consists of four principal business segments which include (i) polyurethane materials, (ii) animal nutrition chemicals, (iii) fine chemicals and (iv) pharmaceutical products and intermediates. Polyurethane materials are widely used in cushion foams, interior components and other lightweight automotive parts to foster fuel and energy savings. The high demand for lightweight, durable and thermal insulation materials from end-use industries such as furniture, construction, electronics and appliances, automotive, footwear and packaging, has driven the growth of the polyurethane market in the PRC in recent years and the trend is likely to continue according to Frost & Sullivan. The two major products under our animal nutrition chemicals segment are additives commonly used in feeds for poultry and livestock, which are crucial to the downstream animal husbandry industries. Choline chloride is a complex vitamin which is added as an important nutrient in animal feeds for the acceleration of animal growth as well as a clay stabiliser used in oil and gas drilling and hydraulic fracturing while betaine can be used as dietary feeding attractants which have important physiological functions within the animal bodies and improves the growth and survival rate of fish, poultry, swine and other animals. According to Frost & Sullivan, pharmaceuticals and agrochemicals industries are the major consumers of the fine chemicals products in the PRC. Under our fine chemicals segment, we mainly procure our products such as carboxylic acids, solvents, resins, and oleochemicals from third party manufacturers for onward selling to our customers. Carboxylic acids are widely used in the synthesis of dyes, production of lubricants, flavours and fragrances while solvents are used in the production of cosmetics, feed

BUSINESS

additives, paint and synthesis of dyes. The major use of resins and oleochemicals involve the production of cosmetics, emulsifiers and lubricants. We produce our own products of isooctanoic acid and diethyl sulfate at our Tai'an Production Plant, which are mainly used for paint drier, fungicide, preservative and pharmaceutical raw materials, and synthesis of dyes, pesticides and pharmaceutical intermediates, respectively. We also produce and sell our own pharmaceutical intermediates which are chemical compounds used in the production of active pharmaceutical ingredients, such as iodine and iodine derivatives as well as selling pharmaceutical products sourced from third party manufacturers such as cefpodoxime dispersible tablets.

During the Track Record Period, the majority of our revenue was derived from our polyurethane materials segment, accounted for approximately 45.3%, 50.0%, 40.9% and 35.5%, respectively, while the animal nutrition chemicals segment accounted for approximately 20.3%, 24.6%, 32.6% and 29.8%, respectively. For the six months ended 30 June 2019, our product portfolio comprised more than 70 products in total under our four principal business segments, among which approximately 56.5% and 43.0% of our revenue were derived from our self-manufactured products and products sourced from third party manufacturers, respectively. During the Track Record Period, we mainly sold our products in the PRC and have also established an extensive global sales network for selling our products to over 50 overseas countries such as Vietnam, Russia, Ukraine, India, the United States and other European countries. In order to further expand our customer base, we have established subsidiaries in various overseas countries including the United States, Canada, Slovakia, India, Russia, Ukraine and Mexico to exploit direct sales market in the North America, the European Union, India and the Commonwealth of Independent States.

In recognition of our market position, safety production, research and development and compliance with environmental standards, we were accredited as the “Pioneering Enterprise in Safety Production*” (安全生產先進企業) and “New and Advanced Technology Enterprise*” (高新技術企業) in 2016, and “Science Progress Award – Second Class*” (科技進步二等獎) in 2018. For details of our awards, please refer to the paragraph headed “Awards and Accreditations” in this section.

COMPETITIVE STRENGTHS

Technological innovation is one of the major focus of the Group. While investing in research and development for enhancing our ability to develop new products and improving existing products, we also emphasise on environmental protection to ensure sustainable development in the long run. Relying on our current integrated data operation platform and global resources allocation advantages, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of solutions across various stages of our supply chain. We believe that our success and potential for future growth are attributable to the following competitive strengths:

We are an applied chemical intermediates provider in the integrated service market, with headquarters in the PRC, offering a comprehensive product portfolio with a wide range of applications and a full spectrum of solutions across various stages of our supply chain through our extensive global operation and sales network

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States. With headquarters in the PRC, we offer a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services. Through our integrated chemical services across various stages of our supply chain, we have developed a strong customer base in the PRC and international presence in the overseas countries. In addition, we have developed an integrated data operation platform which comprises our ERP system, OA system, production process control system and we have launched our e-commerce platform in August 2019 which connects to our ERP system, as well as a mobile application of our OA system, the details of which is further particularised in the paragraph headed “Business Strategies” in this section. We believe our Group’s full-serviced online platform for our customers with the existing functions and the aforesaid upgrade further strengthens and improves our market position.

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We offer a comprehensive product portfolio, covering applied chemicals with a wide range of applications. Our self-manufactured products, including animal nutrition chemicals, polyurethane materials such as construction materials which can be used as thermal insulation, furnitures and automotive interiors, pharmaceutical intermediates widely used in the medical industry and some fine chemicals which can be used for synthesis of dye, were marketed under the trade names of “Havay (漢威)” and “GHW (金海威)”. For the six months ended 30 June 2019, our product portfolio comprised more than 70 products in total under the segments for polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates, among which approximately 56.5% and 43.0% of our revenue were generated from sales of products manufactured by us and products sourced from third party suppliers, respectively. The comprehensive product mix of our self-manufactured products and the sales of products manufactured by well-known third party manufacturers complement each other to cater for a diverse customer base. The breadth of our products allows us to capitalise on the opportunities offered by different segments of the applied chemicals and the growth trends in different industries. We have the flexibility to adjust our product mix and production planning based on the conditions and development of the industries of our downstream customers.

We believe that our vision of technological innovation, together with our competitive advantages including products and production methods development capabilities, global resources allocation capabilities, well-established logistics network, convenient integrated data operation platform and online services platform, will allow us to offer our global customers with comprehensive products efficiently at lower costs. This provides us a competitive advantage over ordinary local manufacturers or trading companies with no global resources allocation capabilities. We believe that the aforesaid competitive advantage will create a certain level of entry barrier on new entrants in the market and at the same time, increase the market share of our Group among the global applied chemical intermediates integrated chemical services market.

We have an established reputation and a long operating history in the PRC applied chemical intermediates industry

We are one of the largest applied chemical intermediates providers in the PRC in terms of sales revenue of animal nutrition chemicals and polyurethane materials. According to Frost & Sullivan, we ranked the first and the fourth among all sellers of choline chloride and polyurethane materials, respectively, in the PRC in terms of sales revenue in 2018. We also ranked the second among all sellers of choline chloride globally, in terms of the sales revenue in 2018. Our sales revenue for polyurethane materials and animal nutrition chemicals had reached approximately RMB881.6 million and RMB702.7 million, respectively, for the year ended 31 December 2018 and approximately RMB331.9 million and RMB278.9 million, respectively, for the six months ended 30 June 2019. In recognition of our market position, safety production and research and development achievement, we were granted various accreditations including “Pioneering Enterprise in Safety Production*” (安全生產先進企業) and “New and Advanced Technology Enterprise*” (高新技術企業) in 2016, and “Science Progress Award – Second Class*” (科技進步二等獎) in 2018. For details of our awards, please refer to the paragraph headed “Awards and Accreditations” in this section. We believe our well-established position in the PRC has been supported by our track record of offering products with high quality and diverse range which can consistently meet our customers’ requirements and has enabled us to build longstanding relationships with existing customers and attract new customers.

In addition, we have been operating in the industry since 1995 focusing on the sale of applied chemical intermediates produced by third party manufacturers and began manufacturing our own branded products of animal nutrition chemicals such as choline chloride and pharmaceutical intermediates such as iodine derivatives, since 2004 and 2008, respectively. According to Frost & Sullivan, we were one of the earliest companies in the PRC to sell chemicals manufactured by third party manufacturers, in particular, polyurethane materials. As such, we believe we were a pioneer in the industry for the sale of polyurethane materials in the PRC. We also started to manufacture our own branded products of polyurethane materials such as polymer polyether and modified MDI since 2012 and 2015, respectively. Throughout the years, we have acquired in-depth experience and understanding of the market trends and the production operation and technologies. Leveraging on such experience in the industry and the aforesaid competitive advantage, we expect that that we are able to give our customers an overall confidence in our ability to provide better quality products compared to our competitors and thus maintain a leading market position.

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We believe that our strong abilities to respond to customers' feedback on our products are crucial to our on-going business development. By understanding our customers' preference and the current market trend through such market information, we are able to further improve our product quality and identify the high demand products which would be profitable to our business in the market in a timely manner. In particular, we identified that there had been an increasing demand for diethyl sulfate from our customers. We then developed the production technology for production of diethyl sulfate on our own and launched the sale of our self-manufactured diethyl sulfate in 2015 to meet the increasing customers' demand. In addition, before our customers place their orders with our sales department, we provide them with proactive advice and professional technical guidance on the application of our products according to their specific needs and their intended application and usage of our products. As such, we are capable of designing and providing tailor-made products which accommodate different needs of our customers. For example, we adjusted the raw materials ratio during the production process of polymer polyether to modify its chemical properties to adapt to different needs and application of our customers' products. We also actively seek our customers' feedback on the application and quality of our chemical products. All customers' feedback is collected and directed to our sales department, which would then discuss internally with our production department, research and development centre and quality control department, in order to adjust our product formulas for resolving any quality and application issues encountered by our customers. We believe that our strong capabilities to provide timely response and effective solutions to our customers' feedback have strengthened our business relationship with our customers and enhanced their loyalty.

Our strong product development capabilities also enable us to maintain competitive edge in the industry. With the support of our development on production methods and equipment, the in-depth product knowledge of our production department as well as the instant market responses received by our sales department, we are able to maintain our continuous innovation and develop industry-leading products and production processes which allow us to optimise product quality while lowering our costs of production. Led by an experienced management team with skilled personnel, we are currently operating a well-equipped research and development centre in Tai'an, Shandong Province to carry out research and development projects and having our own in-house quality control testing centre for monitoring the quality of our products. All these factors have contributed to our success and competitiveness in the applied chemical intermediates industry.

We have established long standing relationships with our suppliers which allow for production and procurement at lower costs and a strong and diversified customer base

We have long standing relationships of more than five years with some of our five largest suppliers. We believe that our suppliers have developed a good understanding of our business which allows them to better meet our needs and requirements. By ensuring that we have a stable supply of raw materials and chemicals from third party manufacturers with high production quality and capabilities for sale, we are able to enhance our customers' confidence in our products and maintain high standard of our products so as to maintain competitive edge in the market. For further details, please refer to the paragraph headed "Suppliers" in this section.

Our large scale production and procurement of chemicals has also resulted in lower costs for procurement of raw materials and chemicals manufactured by third party manufacturers. For example, according to Frost & Sullivan, the production volume of choline chloride in the PRC was approximately 360,600 tonnes in 2018, of which we produced approximately 96,790 tonnes, representing a market share of approximately 26.8%. As such, we need to purchase our raw materials in bulk to support such large scale of production. As a result of our large demand and the ability to purchase in bulk for the raw materials as well as chemicals manufactured by third party manufacturers, we have a better bargaining power against our upstream suppliers to ask for a lower purchase price.

In addition, we are constantly striving to maintain customer relationships and provide our customers with quality integrated products and supply chain oriented services. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we have a strong and diverse customer base of not less than 3,900, 4,400, 4,300 and 2,800 customers, respectively, which includes large-scale national feed additives and livestock manufacturers, some of which generated revenue of more than RMB25 billion or had branches in various provinces of the PRC, automotive interior manufacturers with a registered capital of more than RMB600 million, pharmaceutical companies with a registered capital of more than RMB130 million and leading international corporations holding pivotal positions in their respective markets. We have also maintained a high level of customer loyalty and solid

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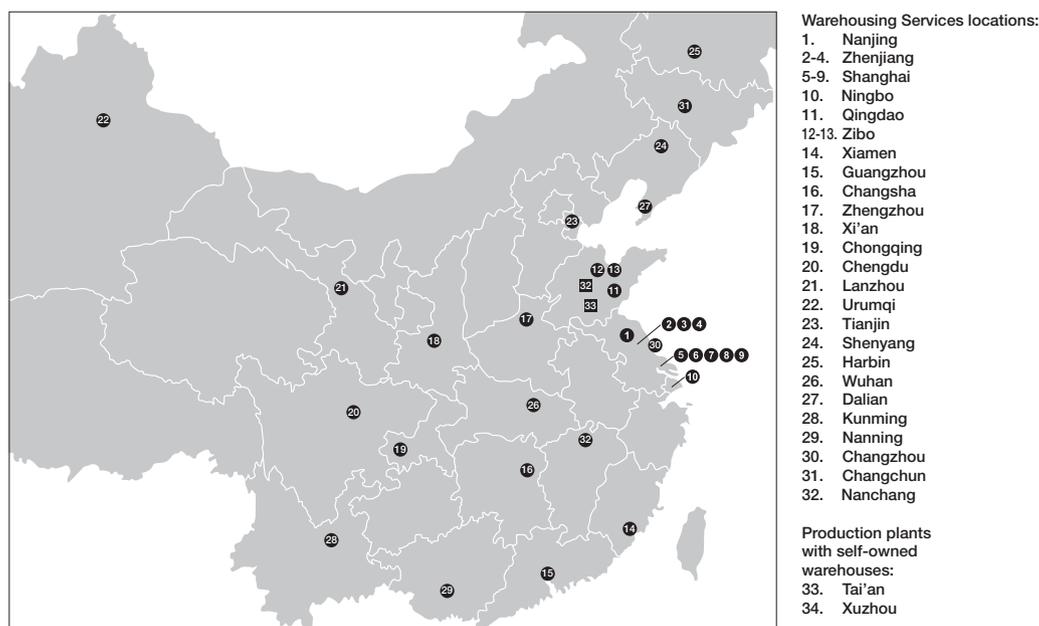
relationship with our major customers. As at the Latest Practicable Date, we have established relationships for more than five years with some of our five largest customers of the Track Record Period. We believe that we can further promote our market reputation through the sales of our products to some of the well-known customers globally.

We have a well-positioned production centre, strong logistics system and sales network with international presence to ensure delivery of our products in a timely and cost-efficient manner which facilitate sales to customers of all scales globally

Our production plants in the PRC are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province. The production plant in Tai'an is near Qingdao port and Tai'an railway station. The close proximity of the plant with the road and marine transportation network has reduced the transportation time and therefore enables us to deliver our products to our customers of all scales in the PRC and other countries in a timely and cost-efficient manner. In respect of our production plant in Xuzhou, since it is geographically close to East China including Jiangsu, Shanghai and Zhejiang, we are able to capture demand of these markets and compete with other chemical manufacturers in terms of shorter delivery time and lower transportation costs.

As at the Latest Practicable Date, we have two self-owned warehouses and have engaged third party services providers for warehousing service in respect of 32 warehouses across different cities of the PRC. In addition, we have self-owned vehicles which have obtained road transport operation permits from the relevant road transport management offices and had well-established relationship with various logistics companies for delivery of our products. As such, we would be able to cater the delivery orders of our products on time to both small or medium sized customers who may order smaller quantity of products and large-scale customers with relatively larger quantity of purchase orders at the same time at lower transportation costs.

The map below sets forth the locations of our production plants and the warehouses in the PRC as at the Latest Practicable Date:



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We also have a production plant in Binh Duong Province, Vietnam which commenced production in 2016. We believe that the establishment of the Vietnam Production Plant has expanded our geographical footprint and capability to serve our overseas customers better, especially those in countries such as the U.S., India and South Korea which impose anti-dumping duties or tariffs on products imported from the PRC. Such anti-dumping duties, which are payable by importers when the products enter these relevant countries, effectively increase the prices of products imported from the PRC and put the manufacturers in the PRC at a disadvantage to manufacturers in other countries. Tariffs imposed by the U.S. in 2018 and 2019 also increase the price of products originating in the PRC and prevent them from entering the U.S. Since similar anti-dumping duties and tariff barriers are not imposed by the said overseas countries on our products imported from Vietnam, we believe that the establishment of the Vietnam Production Plant has enabled us to meet the needs of our customers around the world by exporting our products to these overseas markets at a more competitive price and avoiding the obstacles of tariff barriers, therefore provide us an advantage over the manufacturers which produce and export their products from the PRC only. In addition, according to Frost & Sullivan, Cambodia is a primary country for the production of corn, in which the corncob acts as a carrier for the production of choline chloride. We believe that the establishment of the Vietnam Production Plant allows us to purchase corn for production of better quality products with lower transportation costs because of the geographical proximity of Vietnam with the corn suppliers in Cambodia.

We have leased three warehouses across different cities of Vietnam, including Binh Duong Province and Bac Ninh Province, which enable us to cater the delivery order of our products to overseas customers with shorter delivery time and lower transportation costs.

Besides, we have established subsidiaries in various overseas countries including the United States, Canada, Slovakia, India, Russia, Ukraine and Mexico, employing local employees to exploit direct sales market in North America, the European Union, India and the Commonwealth of Independent States. We leased or engaged third party services providers for warehousing services in respect of various warehouses in some of these countries which facilitate us to provide more convenient services for the local customers through the localised operation of our overseas subsidiaries. Through our continuous efforts of maintaining customers' relationship and offering comprehensive products with high quality, during the Track Record Period, we have generated revenue from sales to more than 50 countries. We believe that we are able to facilitate sales to customers of all scales globally with our well-positioned production centres, strong logistics system and sales network with international presence.

We emphasise on the importance of environmental protection by developing environmentally friendly production processes and strictly complying with environmental standards

As a fast-growing chemical manufacturer, we have developed production processes that comply with the applicable national and local standards in environmental protection in all material respects. We are able to minimise pollutions during our production processes by using environmentally friendly new equipment and production methods, some of which we have obtained patents for. We have also made use of clean energy such as natural gas and steaming as well as renewable energy such as biofuel as our major types of energy source. Various by-products created from our production processes have also been recycled for usage in other chemicals production processes. For example, sulfuric acid created from the production process of diethyl sulfate can be used for manufacturing isooctanoic acid. All these factors have enabled our production to comply with the applicable and increasingly stringent national and local standards in environmental protection.

During the Track Record Period, we adopted a higher environmental standard than the minimum requirements by the applicable laws. This allows us to be better positioned to cope with the increasingly stringent national and local environmental protection standards and less susceptible compared to our competitors who may be ordered by the relevant government authorities to cease production until the new requirements by the law can be complied with. For details of the implementation of our environmental measures, please refer to the paragraph headed "Environmental and Safety Regulations" in this section. In recognition of our effort on pollution control during production processes, we were granted "Science Progress Award – Second Class*" (科技進步二等獎) by the China Petroleum and Chemical Industry Association (中國石油和化學工業聯會) in November 2018. During the Track Record Period, there were no material incidents caused by any historical non-compliance of our Group with environmental laws and regulations. As at the Latest Practicable Date, we had not received any notifications or warnings and had not been subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations that could have a material adverse effect on our

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production. We believe that our dedication to research and development on equipment and methods to reduce pollution during our production processes has allowed us to enhance our reputation as one of the established chemicals manufacturers in the industry.

By integrating environmental protection as part of our operating philosophy, we anticipate that the demand for our products will further increase in light of the increasing focus on the implementation of environmental protection policies by the PRC government. Therefore, we are confident that our chemical products will continue to maintain or gain market share in the PRC and overseas market.

We have strong research and products development capabilities with a track record of developing new production methods or equipment to enhance our product quality, optimise our production efficiency and cater our customers' needs

We believe that our continuous dedication to research and development is important to maintaining our current market position. Our team in the research and development centre continues to improve our existing products or production processes based on our customers' expectations through understanding and anticipating the market demand. We have optimised our production processes for certain products including choline chloride, betaine, polyurethane materials, potassium iodide, diethyl sulfate and isooctanoic acid through our research and development efforts. As at the Latest Practicable Date, we have obtained 50 patents relating to our production equipment and methods used in the chemical production processes of these products. In particular, we have obtained patents in respect of the method for production of choline chloride using peanut shells as the carrier, the method for production of diethyl sulfate, the equipment for production and drying of choline chloride, the equipment in the production process of polyurethane materials and the equipment used in the production of potassium iodide. In addition, we have undertaken leading research and development projects on the synthesis of hydriodic acid, potassium iodide and diethyl sulfate in the PRC, respectively, and we have obtained certifications in respect of their production methods from the Tai'an Science and Technology Bureau in November 2014 in terms of product quality, safety and environmental friendliness.

Our research and development centre in Tai'an, Shandong Province has been accredited by the Chinese National Accreditation Service for Conformity Assessment for its competence of testing and calibration. We have also received certain quality standard accreditation from certification bodies such as HSL Certification Services in relation to our production management systems. For details, please refer to the paragraphs headed "Quality Control" in this section and "Statutory and General Information – B. Further Information About Our Business – 2. Intellectual property rights" set out in Appendix IV to this prospectus.

We have also set up a laboratory in our research and development centre and intend to establish a pilot plant to carry out development tests and pilot production, respectively. With the well-rounded research and development setup to work through the comprehensive and integrated process from prototype development, pilot production to formal production on our own, we believe that we are able to save the resources and shorten the development time required, streamline the design and knowledge transfer and lower the risks involved in switching from different manufacturing equipment, tools and personnel during the production processes, which in turn significantly differentiates us from some of our competitors in the PRC.

With these new and advanced equipment and self-innovated production methods, we believe that we are able to enhance our product quality and improve the efficiency of our production processes from time to time to save energy, maintain a higher yield of our products and lower costs during the production processes.

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We have an integrated data operation platform for our operational efficiency and effective inventory control

We believe our success is attributable to the integrated data operation platform which has enhanced our operational efficiency and effective inventory control. We have been using the ERP system in our operations since January 2001. Given that our ERP system enables us to enhance management across certain key components in our operations, including inventory management, preparation of draft sales agreements based on customer orders, tracking of product delivery and generation of operational records to compile financial statements, it allows our departments to coordinate with one another to achieve a smooth process in every stage of our supply chain and eventually promote our efficiency. Since the ERP system provides information on the latest operational data such as sales data and inventory level of our warehouses in both the PRC and Vietnam within a short period of time, our management is able to prepare accurate forecasts and make informed decisions in terms of costs control and estimates, lead time, production planning and inventory control. The database in our ERP system records every sales transaction in the PRC (save for the sales of pharmaceutical products which are logged under the designated system as complied with the *Good Supply Practice (GSP)*(藥品經營質量管理規範), which is the national standard for regulating pharmaceutical distribution activities in the PRC). We believe that this enables us to keep track of the latest market trend and perform analysis on pricing trend, production lead time and individual sales performance which allow us to make responsive management decision to optimise the production flow and boost productivity and profitability.

As an integral part of our integrated data operation platform, we have enhanced our workplace efficiency with the use of our OA system which was launched in April 2007. Our OA system facilitates the sharing and management of internal information of our Group through internal communications, information release, business management and information integration functions. Through the OA system, we can achieve efficient operation and group collaboration work by real-time tracking and monitoring of office activities among multiple positions, departments and regions. Our OA system assists us in managing our human resources, enables our management to approve the expense requests made by different departments and facilitates the communication among the staff in all of our places of operations. We also adopt the production process control system which enables us to obtain data from our production processes and closely monitor the product quality, thus facilitating information management of the production processes and improving the efficiency of production management. Moreover, an e-commerce platform connected to our ERP system, as well as a mobile application of our OA system, have been launched in August 2019, which are the enhanced upgrade of our integrated data operation platform. This mobile application contains a real-time tracking function of the order status by our staff which further improves business efficiency. For more details, please refer to the paragraph headed “Integrated Data Operation Platform” in this section.

Leveraging the advanced integrated data operation platform, we believe that we can operate efficiently to deliver reliable and responsive services to our customers, identify improvement in our products timely and continuously enhance our product quality with our strong data analysing capabilities.

We have a strong and experienced team of management and staff with in-depth knowledge of applied chemical intermediates industry

Our success is attributable to our strong and stable management team that possesses extensive management skills, operational experience and industry experience in the applied chemical intermediates industry. They lead the Company to explore and develop the continuous innovation in technology research and development, business model, management system and other aspects. Our management team and key operational personnel are led by our executive Directors, Mr. Yin, Mr. Chen Zhaohui and Mr. Zhuang Zhaohui, each has over 20 years of industry experience. Furthermore, our key operational personnel such as Mr. Zhou Chunnian, Mr. Chen Hua, Mr. Sun Guibin and our members of senior management such as Ms. Jiang Hong and Mr. Diao Cheng, have been with us for approximately 20 years on average. We believe that their long-term involvement in our business and in-depth knowledge of the applied chemical intermediate industry had given us a competitive edge over other players in the industry. For more details of the experience of our management team, please refer to the section headed “Directors and Senior Management” in this prospectus.

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We believe that our success and growth also depend on our ability to attract and retain experienced employees at all levels. Other than the aforesaid senior management members, as at the Latest Practicable Date, approximately 4.5% of our PRC employees have been with us for more than 15 years, 6.1% of our PRC employees have been with us for 10 to 15 years and 29.0% of our PRC employees have been with us for five to 10 years. We also have a professional and sizeable sales team of 77 sales and marketing staff in the PRC who have extensive understanding of market trends and build up solid customers' relationship with our existing and potential customers. We believe that the operational stability and experience of our team are important to further enhance our growth and continuous business development.

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We intend to continue to strengthen and grow our current market and industry position while maximising shareholder value. To achieve our goals, we intend to pursue the following principal strategies:

Enrich our product portfolio and expand our supply chain vertically in order to capture new market opportunities

We believe that our success is driven by our ability to adapt swiftly to the market demand and seamlessly cater the customers' needs. To capitalise on the market opportunities, we intend to enrich our product portfolio to increase our profitability while continuing to enhance the quality of our existing products and production technologies. We plan to construct a new production plant in the western region from the Tai'an Production Plant in Tai'an, Shangdong Province, on the Construction Land with a site area of approximately 137 mu (亩) and the New Production Plant is expected to have a total gross floor area of approximately 49,652 sq.m., which will be used for (i) the production of trimethylamine, the key raw material for the production of choline chloride and betaine, and (ii) the construction of a pilot plant for manufacturing various pharmaceutical intermediates, including methyl iodide, IPBC and moxifloxacin side chain. We intend to apply approximately 17.2%, or HK\$16.6 million, of the total estimated net proceeds from the Global Offering, on the initial establishment of the New Production Plant.

According to Frost & Sullivan, we were the largest market player in choline chloride in terms of sales revenue in the PRC in 2018 and we ranked the second among all the sellers of choline chloride globally in 2018, accounting for approximately 16.8% of the global market share. In addition, the total number of choline chloride customers of the Group have increased from approximately 760 as at 31 December 2016 to approximately 980 as at 31 December 2018 and reached more than 1,000 customers as at 30 June 2019, which has already exceeded the total number of our choline chloride customers in the full year of 2018. In view of such demand, we plan to expand our supply chain vertically to produce 98% anhydrous trimethylamine, which is one of the principal raw materials of choline chloride and betaine, at our New Production Plant. 98% anhydrous trimethylamine is the form of trimethylamine with almost the highest purity. We plan to apply approximately 60.4%, or HK\$58.2 million, of the total estimated net proceeds from the Global Offering to construct production facilities at the New Production Plant for manufacturing trimethylamine. During the Track Record Period, our demand for trimethylamine had progressively increased as reflected by the purchase amount of approximately 21,300, 24,000, 29,000 and 16,000 tonnes of trimethylamine, respectively, which is used for the production of choline chloride and betaine at the Tai'an Production Plant. For the nine months ended 30 September 2019, the purchase amount of trimethylamine by our Group reached over 24,000 tonnes, as compared to 21,000 tonnes of trimethylamine for the same period of the preceding year, and such amount has already exceeded the total purchase amount of trimethylamine recorded in the full year of 2016 and 2017.

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Despite the outbreak of African Swine Fever since the second half of 2018, our sales volume of choline chloride has continuously increased across the first three quarters of 2019. We also anticipate that the sales volume of choline chloride in the second half of 2019 will not be less than the sales volume of choline chloride recorded during the six months ended 30 June 2019. With the supportive measures implemented by the PRC on the swine industry gradually showing good progress of controlling African Swine Fever as reflected by the increasing live pigs in stock in 12 provinces nationwide in October 2019, we expect that the demand for choline chloride will resume and further increase upon full recovery of the swine industry from African Swine Fever, which will in turn increase our demand for trimethylamine to produce our animal nutrition products. In addition, after taking into account that, (i) the aforementioned purchase quantity of 24,000 tonnes of trimethylamine by the Group for the nine months ended 30 September 2019 already constituted 70% of the expected annual consumption volume of 33,000 tonnes of trimethylamine in the production processes of choline chloride and betaine upon full utilisation of the expanded production capacity, (ii) the purchase orders received by the Group for choline chloride and betaine in terms of quantity from July to November 2019 were more than 55,000 tonnes and 4,700 tonnes, which increased by more than 10% and 20%, respectively, when compared to the five months ended 30 November 2018, (iii) the number of customers for choline chloride increased from more than 950 as at 30 November 2018 to more than 1,100 as at 30 November 2019, (iv) since the lead time from receiving purchase orders to delivery of our products is generally within 15 days, we anticipate that our sales volume of choline chloride and betaine will increase in December 2019 and the foreseeable future, because we have received purchase orders for more than 6,200 tonnes of choline chloride and 400 tonnes of betaine as at 30 November 2019, which already exceed 65% of the average monthly sales volume of choline chloride for the six months ended 30 June 2019 and will be delivered in December 2019, and we expect to receive further purchase orders of choline chloride and betaine in December 2019 which will be delivered within the same month, and (v) the aforesaid quantity of purchase orders of choline chloride and betaine which had not been recognised as at 30 November 2019 had increased by more than 30% and 5%, respectively, when compared to the quantity of purchase orders of choline chloride and betaine which had not been recognised as at 30 November 2018, our Directors are of the view that our Group will have sufficient demand to consume the trimethylamine produced at our New Production Plant in the foreseeable future.

Upon completion of the production facilities upgrade and technological enhancement on the production processes, our production capacity for choline chloride and betaine at our Tai'an Production Plant in 2019 has reached approximately 150,000 tonnes and 18,000 tonnes, respectively, and it is expected that there will be no material change on the production capacity within a short period of time. As such, it is expected that upon full utilisation of the expanded production capacity of choline chloride and betaine after completion of the technological enhancement in 2019, a total of approximately 33,000 tonnes of trimethylamine will be consumed annually in the production processes. By producing trimethylamine at the New Production Plant instead of procuring from third party suppliers, we can ensure that there is a stable supply of raw materials for our production of choline chloride and betaine, which contributed to approximately 20.1%, 24.5%, 32.0% and 28.9% of our total revenue during the Track Record Period. According to Frost & Sullivan, the supply price of 98% anhydrous trimethylamine, which is the form of trimethylamine to be manufactured by our Group at the New Production Plant, is forecasted to increase from approximately RMB8,100.0 per tonne in 2018 to approximately RMB8,660.8 per tonne in 2023. It is expected that our production facilities at the New Production Plant for producing trimethylamine will commence operation in the first quarter of 2022. Based on the expected annual consumption volume of 33,000 tonnes of trimethylamine for the production of choline chloride and betaine upon full utilisation of their production capacity following the technological enhancement and the expected supply price of approximately RMB8,408.5 per tonne of 98% anhydrous trimethylamine in 2022 as advised by Frost & Sullivan, we estimate that the purchase costs of approximately RMB277.5 million will be incurred for sourcing trimethylamine from external suppliers. By producing the same volume of trimethylamine by our own production facilities, the expected total production costs amount to approximately RMB236.9 million which includes the cost of raw materials, depreciation expenses of the production plant and equipment and other miscellaneous costs including utilities costs for power, water and electricity supply, labour costs, logistics and storage costs. In view of the above and the increasing trend of the forecasted supply price of 98% anhydrous trimethylamine, assuming that (i) the production capacity of trimethylamine production facilities is fully utilised to produce the expected annual consumption volume of 33,000 tonnes of trimethylamine, (ii) the cost of land where the production facilities of trimethylamine situate is amortised in 20 years and the costs of fixed assets for production of trimethylamine are depreciated

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in 10 years, which is consistent with the Group's accounting policies, and (iii) the centralised costs of the New Production Plant, such as the cost for basic infrastructure, were allocated to each of the production facilities of trimethylamine and pharmaceutical intermediates with reference to the proportion of their respective floor area to be occupied at the New Production Plant, we anticipate that our Group can achieve a total cost saving of approximately RMB40.6 million per annum when the New Production Plant for producing trimethylamine is in full operation. In addition, the market price of trimethylamine is partially affected by the landscape of the trimethylamine market in the PRC. As advised by Frost & Sullivan, since there is a limited number of trimethylamine manufacturers in the PRC, these manufacturers tend to have more control in terms of pricing when compared to the downstream choline chloride manufacturers by reaching consensus on pricing among themselves in order to secure profitability. As a result, the fluctuation in the market price of trimethylamine caused by downstream demand is relatively smaller.

In view of the effect of African Swine Fever which slowed down the growth of demand from downstream feed additives industry in the PRC in the first half of 2019 and thus led to a decrease in average selling price of our choline chloride, while there is a smaller decrease in our cost of purchase of trimethylamine because of the reasons mentioned above, our gross profit margin of choline chloride is likely to be affected by the market price of trimethylamine if we continue to procure trimethylamine from the external suppliers. As such, we believe that the production of trimethylamine at the New Production Plant would secure the upstream supplies of the raw materials which minimises the cost impact and therefore enables us to record a reasonable level of gross profit margin and shorten the time required to transport trimethylamine from our suppliers, and thus reduce our production costs and enhance production efficiency as a whole by achieving economies of scale. Our Directors believe that our gross profit margin of animal nutrition chemicals products will gradually recover and increase as we will be able to have a better control of the cost and supply of raw materials after commencement of production of trimethylamine at the New Production Plant. As one of the largest manufacturers of animal nutrition chemicals and given our large scale of production, we also believe that this would allow us to increase our bargaining power in the animal nutrition chemicals market, maximise our profitability on sales of choline chloride and betaine and enhance our competitiveness among other industry players. As disclosed in the paragraph headed "Business – Market Outlook and Sustainability" in this prospectus, as advised by Frost & Sullivan, the growth of market size of choline chloride in the PRC is projected to resume in 2020 after the gradual ease of African Swine Fever and the implementation of favourable national policies to ensure steady supply of livestock. Notwithstanding the effect of African Swine Fever, for the three months ended 30 September 2019, the sales volume of choline chloride and betaine has increased to more than 34,000 tonnes and 2,800 tonnes, respectively, as compared with approximately 29,600 tonnes and 1,800 tonnes, for the three months ended 30 September 2018. Our Group also recorded an increase in the number of choline chloride customers from more than 950 as at 30 November 2018 to more than 1,100 as at 30 November 2019. Based on these recent sales indicators, our Directors believe that the sales volume of choline chloride and betaine in the second half of 2019 will not be less than the sales volume of choline chloride and betaine recorded during the six months ended 30 June 2019 and their sales volume will gradually increase in the foreseeable future after gradual ease of African Swine Fever. Taking into account the market outlook and the continuous increase in sales volume of choline chloride during the Track Record Period, our Directors believe that there will be sufficient demand for our animal nutrition chemicals products and such expansion plan for production of trimethylamine will enable us to enhance our competitiveness with a higher control on our profit margin in the future.

For details in relation to the construction of pilot plant for manufacturing pharmaceutical intermediates, please refer to the paragraphs headed "Business – Business Strategies – Continue to invest in research and development to optimise our production processes and develop new products" and "Business – Expansion Plan – (ii) Construction of pilot plant for pharmaceutical intermediates" in this prospectus.

Continue to invest in research and development to optimise our production processes and develop new products

We have been successfully improving our production processes for saving energy, maintaining a higher yield of our products and minimising our production costs during the production processes through our efforts in research and development.

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We consider research and development capabilities are vital to our continuous business growth. We intend to:

- set up a pilot plant at our New Production Plant for small batch production of various pharmaceutical intermediates which transforms our research and development efforts into practice. The establishment of such pilot plant enables the Group to utilise a small-scale production system to fulfil sales order of customised products, test and validate the production technologies of our new pharmaceutical intermediate products which were developed by our research and development team, before scaling up to a full-scale production. The primary objective behind constructing and operating the pilot plant is to allow us to collect the necessary data to identify the problems which we may encounter during larger or full-scale production so that the Group can streamline and improve our production processes into a safer, more efficient and commercially viable setting. By producing small quantities of these pharmaceutical intermediates, it can also serve as an ideal way for the Group to study the marketability of these pharmaceutical intermediates before we decide whether to proceed with a larger scale of production. In particular, we plan to spend approximately 10.2%, or approximately HK\$9.8 million of our total estimated net proceeds from the Global Offering, for the construction of a pilot plant for the trial production of methyl iodide and IPBC, which are different variations of iodine derivatives, and moxifloxacin side chain, which is the key pharmaceutical intermediate used in the production process of moxifloxacin hydrochloride tablets;
- leverage our research and development capabilities to offer a wider range of products based on market demand and products upgrade trends. In particular, we will invest in our research and development on certain pharmaceutical products in order to strengthen our sales in the segment of pharmaceutical products and intermediates which better comply with the increasingly stricter environmental protection laws and regulations. We plan to apply approximately 2.2%, or approximately HK\$2.1 million, of our total estimated net proceeds from the Global Offering, on the research and development process of our new pharmaceutical product, moxifloxacin hydrochloride tablets, by which we plan to engage a pharmaceutical company, which is an Independent Third Party, to conduct clinical trials on moxifloxacin hydrochloride tablets including preliminary and formal bioequivalence testings, raw materials purchase, sample preparation, and other miscellaneous costs;
- further improve our production efficiency by re-assessing our production processes to discover areas of improvement, investing in developing new production technologies when necessary and keeping abreast of latest growth and development of the industry;
- encourage our research and development personnel to participate in training provided by external research institutions;
- continue to collaborate with research organisations or universities to provide more training to our research and development staff in order to maintain our capabilities in developing new technologies or new equipment; and
- enhance communication and coordination between our sales and marketing department, our research and development centre and our production department so as to respond to customers' feedback more effectively.

For details, please refer to the paragraph headed “Business – Production – Expansion plan” and the section headed “Future Plans and Use of Proceeds” in this prospectus.

Increase our production capacity by upgrading our production facilities in the PRC

We aim to increase the production capacity of our production facilities by assessing our manufacturing techniques and production processes for areas of improvement from time to time, and implementing new technologies when required. According to Frost & Sullivan, the revenue derived from the feed additives industry in the PRC had increased from RMB56.8 billion to RMB68.6 billion from 2014 to 2018, representing a CAGR of 4.8%. On the other hand, the market size of choline chloride in terms of revenue in the PRC increased by approximately 35.8% from approximately RMB1,468.7 million in 2016 to approximately RMB1,994.5 million in 2017, and

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expanded at a slower rate of approximately 13.5% to approximately RMB2,263.2 million in 2018, as influenced by the outbreak of African Swine Fever. In line with the industry trend, our Group's revenue derived from sales of choline chloride increased by approximately 58.5% from approximately RMB304.6 million for the year ended 31 December 2016 to approximately RMB482.8 million for the year ended 31 December 2017, and further rose up by approximately 30.8% from approximately RMB482.8 million to approximately RMB631.7 million for the year ended 31 December 2018. Our sales volume of choline chloride also demonstrated an increase by approximately 25.2% from 82,387 tonnes for the year ended 31 December 2017 to approximately 103,123 tonnes for the year ended 31 December 2018. Although African Swine Fever had impacted on our revenue generated from the sales of choline chloride for the six months ended 30 June 2019, our sales volume has otherwise increased by approximately 27.5% from approximately 41,903 tonnes for the six months ended 30 June 2018 to approximately 53,445 tonnes for the six months ended 30 June 2019 as we have adjusted our price aiming to increase our market share for choline chloride in terms of quantity during the same period. We believe that our outperformance on choline chloride was mainly attributable to our extensive global sales network, high product quality, enhanced production technologies, strong logistics system and warehousing services, which we believe are our major competitive strengths over other suppliers of choline chloride. Our sales performance of choline chloride during the Track Record Period demonstrated that we are well-equipped to achieve a more aggressive sales target on choline chloride and laid a solid foundation for us to further expand our market share.

In addition, the revenue generated from the sales of choline chloride in the global market will increase from approximately U.S.\$569.7 million in 2018 to approximately U.S.\$697.7 million in 2023 at a CAGR of 4.1%. Despite that the market size of choline chloride in the PRC is projected to increase at a slower growth rate from a sales revenue of approximately RMB2,263.2 million in 2018 to approximately RMB2,908.1 million in 2023 as a result of African Swine Fever, we expect that the market will gradually recover and we will sustain our profitability in the coming years as the PRC local government has already implemented a series of supportive measures and policies such as provision of financial assistance, establishment of market supply protection mechanism, standardisation and increasing biosafety level of pig farms, in order to minimise the negative impact of African Swine Fever on the livestock sector. The State Council of the PRC also issued a circular on 10 September 2019 to urge governments at all levels to stabilise swine production and promote industrial upgrades to ensure stable supply of pork. The circular detailed the extension of subsidised loans for swine breeding farms and large scale pigs farms, encouraged the financial institutions to support the swine industry, called for timely payment of subsidies for mandatory butchering due to African Swine Fever, promoted for acceleration of standardised large scale farming, prescribed the target threshold for minimum supply quantity of pork by the domestic market, and the minimum utilisation rate for the large-scale hog farming and urged further efforts to accelerate the development of African Swine Fever vaccines. As the world's largest producer and consumer in the livestock sector, it is predicted that the consumption of meat in the PRC will continue to climb stably due to the rising population, strong growth in disposable income, improvement in domestic meat, and greater access to meat due to better transportation and distribution systems. According to Frost & Sullivan, the total population in the PRC will reach 1.41 billion by 2023 due to the second-child policy and the expanding urban population. With the growing population and accelerating urbanisation in the PRC and the aforementioned policies or guidance which shall minimise the impact of African Swine Fever and enhance resumption of stable swine production, it is expected that the swine consumption will continue to be driven up by about 996 thousand tonnes, which in turn pulls up the growth of the choline chloride market, and our sales of choline chloride and financial position will improve going forward.

In addition, some feed additive manufacturers have put in more resources to improve the production facilities and quality control measures implemented at their swine feed additives production plant and introduced specific measures to curb African Swine Fever such as closely monitoring the production process to ensure biosafety and focusing on hygiene control, promoting bio environmentally friendly additives, and developing downstream farm customers base, etc. In particular, one of our major customers was planning to strengthen its investment on swine breeding business in response to the PRC's government policy on resumption of stable swine production, the effect of which is expected to facilitate our sales volume growth of choline chloride.

On the other hand, the export volume of choline chloride from the PRC is projected to gradually increase from approximately 218,350 tonnes in 2018 to approximately 301,900 tonnes in 2023, representing a CAGR of 6.7%, due to the expansion of downstream applications worldwide in particular the U.S., such as the oil and gas industry, where choline chloride can be used as clay

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stabiliser and expansion inhibitor with high efficiency and safety. As the leading manufacturer and seller of choline chloride in the PRC with a domestic market share of approximately 30.3% in 2018 and our second ranking in the global choline chloride market with a market share of approximately 16.8% in 2018, our Group is confident that we are able to satisfy the demand from our existing customers and broaden our domestic and overseas customer base to capture additional market share as a result of the market growth. Our customers under the animal nutrition chemicals segment have been widely dispersed, as demonstrated by our sales generated from the largest customer of animal nutrition chemicals during the Track Record Period, which only amounted to approximately 1.0%, 1.1%, 1.1% and 1.9% of the total revenue of the Group, respectively. Our sales agreement with these customers are generally on a per-order basis rather than having a long-term agreement which specifies an annual sales commitment to be fulfilled by these customers. As such, we believe that the increase in total number of our choline chloride customers recorded by our Group could act as a useful indicator of the rising downstream demand of choline chloride which in turn provided a meaningful picture on the improvement of our on-going sales performance. In particular, the total number of choline chloride customers of the Group have increased from approximately 760 as at 31 December 2016 to approximately 980 as at 31 December 2018 and reached more than 1,000 customers as at 30 June 2019, which has already exceeded the total number of our choline chloride customers in the full year of 2018. Our Group's sales volume of choline chloride procured by our existing major customers have been progressively increased since 2017 in general. For the six months ended 30 June 2019, the Group recorded an increase in total sales volume of choline chloride by approximately 27.5% as compared with the same period of the preceding year. In addition, we receive sales enquiries from potential customers who expressed their interests to procure choline chloride from us on recurring basis from time to time. We expect to receive more sales orders of choline chloride from these potential customers and intend to maintain a long-term relationship with all of our new customers which will support our growth. In view of our existing production capacity and to ensure that we are able to timely fulfil the sales order and accommodate the needs of both the existing and the potential customers, it is necessary for us to expand our production capacity.

For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, the revenue of our Group which derived from the sales of betaine amounted to approximately RMB17.5 million, RMB49.0 million, RMB55.9 million and RMB26.6 million, respectively. The Group's sales volume of betaine increased by approximately 124.1% from 3,339 tonnes for the year ended 31 December 2016 to 7,484 tonnes for the year ended 31 December 2017 and remained relatively stable at 7,261 tonnes for the year ended 31 December 2018. An increasing trend of sales volume of betaine can also be observed for the six months ended 30 June 2019, as compared with the corresponding period in 2018. According to Frost & Sullivan, our Group ranked the third in terms of sales volume in betaine in 2018 and took up a market share of approximately 10.4% in the PRC betaine market in the same year. With the gradual increase of the raw material prices and the strong domestic and export demand for betaine, the market size of betaine in the PRC is anticipated to increase from approximately RMB621.9 million in 2018 to approximately RMB755.5 million in 2023, representing a CAGR of approximately 4.0%.

Based on our sales history, we observed that there is an overlapping between customers who purchase both choline chloride and betaine from us as they are both commonly used in the feed additives and livestock industry. As such, we see the potential of further developing both betaine and choline chloride because this will enable us to combine our sales effect and lower our selling and administrative expenses and attract customers which demand both products. In terms of procurement of raw material, we believe that we also have the competitive edge over other industry players because trimethylamine is a common raw material for producing both choline chloride and betaine. This allows us to reduce our production costs through bulk purchase of trimethylamine. Once our production facilities for trimethylamine at the New Production Plant is completed, we are also able to achieve further cost-saving, with secure stable supply of trimethylamine for producing both choline chloride and betaine. Given the foreseeable growth in the PRC betaine market and the fact that our existing market share in such market is relatively low, we believe that there is substantial room for our Group to further increase our market share in the PRC betaine market. We aim to capture further market share by continuing to enhance the product quality of betaine. By strictly monitoring and controlling the manufacturing process and the quality of betaine, which we believe may not be easily achieved by all betaine manufacturers, we expect that we are able to increase our selling price which would in turn generate more revenue in the future. According to Frost & Sullivan, with improved product quality, the selling price of betaine is expected to reach RMB9,337.6 per tonne in 2023, compared with only RMB8,920.1 per tonne in 2018.

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In light of the above, we have expanded our production capacity of choline chloride and betaine by performing technological enhancement to adjust and recalibrate the existing machinery and equipment to upgrade the production facilities at our Tai'an Production Plant. Our enhancement of production facilities at the Tai'an Production Plant mainly involved (i) the expansion of production lines for choline chloride, and (ii) the optimisation and upgrade of our existing production facilities for choline chloride and betaine, respectively, which commenced in January 2019. To implement such upgrade plan, we constructed a new production workshop for choline chloride and new machinery and equipment have been purchased in order to replace or enhance the existing production facilities used for manufacturing choline chloride and betaine, respectively. The total capital expenditure incurred for the technological enhancement is approximately RMB10.0 million, which has been fully funded by our internal financial resources. The major type of machinery and equipment that we purchased for upgrading our production facilities include desiccator, granulator and shot blasting machine for the production of choline chloride, and multi-effect concentrator and transfer tank for the production of betaine.

As a result of the technological enhancement, our production capacity for choline chloride and betaine at our Tai'an Production Plant in 2019 has reached approximately 150,000 tonnes and 18,000 tonnes, respectively, representing an increase of approximately 50.0% and 246.2%, respectively, as compared to our production capacity of approximately 100,000 tonnes and 5,200 tonnes for choline chloride and betaine, respectively, at our Tai'an Production Plant as at 31 December 2018. Depending on the actual market growth of choline chloride and betaine in the future, the Group intends to gradually release the increased production capacity to cater for any potential increase in market demand in the long run. With the Group's strategy for maintaining sustainable and long-term growth and development on animal nutrition products, we have taken into consideration of the following factors in determining the extent of increase in the production capacity of choline chloride and betaine: (i) the upward trend of the Group's respective sales volume and/or revenue generated from choline chloride and betaine during the Track Record Period, as compared with the overall industry, (ii) the increasing customer demand as demonstrated by the new sales orders of existing customers, the increase in number of customers, the sales enquiries received from potential customers and the aforementioned potential increase in sales attributable to customers who may demand and purchase both products from our Group, (iii) the expected market growth in choline chloride and betaine as advised by Frost & Sullivan, and (iv) our enhanced sales network and stronger marketing effort to drive up the sales in overseas and domestic markets. Based on these factors, we believe that there is sufficient market demand for choline chloride and betaine and it is in the best interest of the Group to increase the production capacity for choline chloride and betaine to a level that achieves the highest long term sustainable growth on a one-off basis.

We have received the regulatory approvals from the relevant PRC authorities in October 2018 (further supplemented in December 2018) and April 2019 for the upgrade of our production facilities at the Tai'an Production Plant so as to increase our production capacity of choline chloride and betaine, respectively. As at the Latest Practicable Date, we have purchased and installed the necessary machinery and equipment for the technological enhancement in respect of choline chloride and betaine, completed testing on these enhanced production facilities and commenced formal production of choline chloride and betaine with the expanded production capacity in August and October 2019, respectively. In relation to the new production workshop for choline chloride, we have completed the construction and installation of major machinery and equipment for this new production line in August 2019. We completed the testing procedures on this new production line in December 2019 and it will commence production in February 2020. The abovementioned production facilities upgrade for choline chloride and betaine did not and will not have any material impact on the Group's financial information and business operation, as demonstrated by the relatively stable production volume of choline chloride and betaine produced at the Tai'an Production Plant for the six months ended 30 June 2019 which is comparable to the production level of choline chloride and betaine in the corresponding period of 2018. In order to avoid any material impact on the production process of choline chloride, the external contractors engaged by us who were responsible for implementing the technological enhancement at our Tai'an Production Plant, were arranged to carry out the production facilities upgrade immediately before and after the public holidays of the Chinese New Year in February 2019 when we had a lower production level of choline chloride at the Tai'an Production Plant as we believe many of our customers in the PRC were in recess.

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By leveraging our increased production capacity after the upgrade of our production facilities and equipment, we expect to be able to satisfy the demand from our existing customers and to further enhance our market competitiveness and broaden our global customer base.

Upgrade and optimise our integrated data operation platform for better service quality and operational efficiency and increase our online sales capability

Our Directors recognise the importance of making continuous investment in our integrated data operation platform. For the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, we have incurred capital expenditure of approximately RMB1.0 million, RMB0.9 million, RMB0.2 million and RMB23,000 for the enhancement of our integrated data operation platform. The number of staff in our information technology department increased from three from 1 January 2016 to 10 as at the Latest Practicable Date. In particular, we believe that the introduction of our ERP system, OA system and production process control system in January 2001, April 2007 and February 2012, respectively, had brought positive impact to our operations through the enhancement of our operational efficiency and product quality by making the operational data available across our different departments, facilitating centralised management of our daily administrative operations and closely monitoring the production processes.

As our daily operations depend significantly on the reliability of our integrated data operation platform, we believe that enhancing the integrated data operation platform could strengthen our competitiveness and further improve our efficiency. We have upgraded our integrated data operation platform by developing an e-commerce platform connected to our ERP system, and a mobile application of our OA system using our internal finance resources so that our customers can place their purchase orders through their mobile devices. The e-commerce platform, which has been launched in August 2019, allows our customers to place their orders without geographical and time limitation, while our employees can quickly process customers' orders on the mobile application of the OA system instead of processing the sales agreements in hardcopies. For more details, please refer to the paragraph headed "Integrated Data Operation Platform" in this section. We believe that the e-commerce platform and the mobile application can further strengthen our customers' relationship and enhance service quality by improving production and operational efficiency.

In addition, we currently intend to use approximately 0.8%, or HK\$0.8 million, of our total estimated net proceeds from the Global Offering, to purchase the equipment, facilities and software to upgrade our existing financial and accounting management system to support the continuous upgrade and development of our OA system which includes the functions of, among others, preparation and consolidation of financial statements, trade payables and trade receivables management and electronic invoice billing. For more details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Continue to invest in our facilities for environmentally friendly production and implement measures to further reduce emissions to achieve long-term sustainable development

We believe that minimising environmental impact of our production processes and implementing effective measures to reduce emissions are key to our long-term development in the integrated chemical services market. During the Track Record Period, we made significant investments in environmentally friendly production processes and equipment, such as the discharging device at the top of the absorption tower to minimise environmental impact. Furthermore, certain of our research and development on production processes such as production, compression and evaporation of choline chloride also aimed at enhancing our operational efficiency and reducing consumption of energy.

We believe that we should continue to adopt strict environmental standards to allow us to be better positioned to cope with the increasingly stringent national and local environmental protection standards and less susceptible compared to our competitors who may be ordered by the relevant government authorities to cease production until the new requirement by the law can be complied with. As such, we are also dedicated to improving our waste management system to minimise the impact of our operations on the environment. We plan to purchase and install waste water treatment facilities at our New Production Plant in order to enhance our waste water treatment capabilities, develop water-saving measures and reduce water pollution, as well as

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incinerator, tail gas absorption tower and other ancillary facilities to handle the waste gas. We believe that our chemical products will continue to maintain or gain market share in the PRC and overseas market as a result of our continuous effort on environmentally friendly measures and strict compliance with the relevant environmental protection requirements.

Expanding through targeted acquisitions, joint ventures and partnerships with an aim to supplement our product areas or markets

We plan to pursue acquisition opportunities that can enhance our businesses, products, applications and technology. Such addition will be for the purpose of increasing and diversifying our products portfolio through acquiring new technology and extending our offering into complementary products areas or adjacent markets.

We intend to adopt a disciplined approach to acquisition with a view to ensuring future value creation to our Group or seek out joint ventures or partnerships as alternatives, with a focus on opportunities which enables us to solidify our market position and sustain long term growth.

In identifying the targets, we will consider factors including but not limited to their geographical locations, products portfolio and applications, customers, technology and financial capabilities.

Our criteria for pursuing the acquisition opportunities includes:

- *Products portfolio and application:* We plan to seek potential acquisition targets which are enterprises in the PRC manufacturing our major products under the four business segments, namely polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates, preferably with the “New and Advanced Technology Enterprise*” (高新科技企業) status. Our Directors believe that the relevant experience and expertise of these manufacturers would help us to broaden our products portfolio and optimise our production processes through new and advanced technology know-how in order to comply with the required standards and better accommodate our customers’ needs and attract more potential customers.
- *Geographical location:* We plan to focus on acquisition targets located in the PRC, where we already have an operating history of over 20 years in applied chemical intermediates business. By implementing our acquisition plan in the PRC, we can leverage our human resources, machinery and equipment and other resources across the PRC which allow us to achieve economies of scale. We believe that this will further strengthen our market presence and brand recognition in the relevant localities. With our familiarity with the legal and regulatory and environmental requirements in the PRC, we expect the potential targets to possess all the necessary licences or permits for their business operation and the production of the relevant chemical products.
- *Scale of Operation and financial capabilities:* We will take into account the financial capabilities and development potential of the acquisition targets. We aim to look for acquisition targets with more than RMB500 million of annual revenue or RMB15 million of annual net profit, with an optimal capital structure which will create synergies with our business. In addition, we will look for potential targets operating in a formal chemical industrial park in the PRC which possess the required environmental qualifications under the applicable national and local laws, with similar production capacity as our Tai’an Production Plant.
- *Percentage of interest held:* We aim to acquire a controlling stake in the potential targets which enables us to align the future directions of the acquisition targets with our Group and retain the veto power in the management of the acquisition targets.

As at the Latest Practicable Date, we have not identified any target for acquisition or joint venture or entered into any legally binding agreement in respect of any potential acquisition.

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MARKET OUTLOOK AND SUSTAINABILITY

During the Track Record Period, the majority of our revenue was derived from our polyurethane materials segment, accounted for approximately 45.3%, 50.0%, 40.9% and 35.5%, respectively, while the animal nutrition chemicals segment accounted for approximately 20.3%, 24.6%, 32.6% and 29.8%, respectively. As such, the sustainability of our Group's business is largely depending on the outlook of the polyurethane market and choline chloride market in the future.

Financial Performance of the Group for the Six Months Ended 30 June 2019

Slight decrease in revenue

For the six months ended 30 June 2019, our Group's revenue for the period recorded a slight decrease of approximately 13.0% as compared to the same period of the preceding year. Our revenue decreased from approximately RMB1,074.9 million for the six months ended 30 June 2018 to approximately RMB935.3 million for the six months ended 30 June 2019, which is mainly attributable to the decrease in revenue generated from animal nutrition chemicals and polyurethane materials. The outbreak of African Swine Fever in the PRC since the second half of 2018 had led to a weakened demand of swine's feed additives in the PRC due to the massive deaths of pigs and the subsequent slaughter of infected pigs and prohibition on export of pork from certain provinces. As the choline chloride market is highly dependent on the demand of downstream swine industry, after the outbreak of African Swine Fever, the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at low level in 2019. In view of the market conditions, we had adjusted the pricing of choline chloride which aims to increase our market share of choline chloride in terms of quantity, as reflected by our increase in sales volume of choline chloride for the six months ended 30 June 2019, as compared to the same period of the preceding year. The temporary decrease in demand in choline chloride thus caused a decrease in our revenue derived from the animal nutrition chemicals segment. Meanwhile, the decrease in revenue generated from polyurethane materials was mainly associated with the short-term pricing pressure as a result of the increase in market supply of polyurethane products. Nonetheless, the Group managed to keep similar amount of profit as our Group typically prices the products manufactured by third party manufacturers on a markup pricing basis, which is consistent with the industry norm as confirmed by Frost & Sullivan. For details, please refer to the paragraph headed "Financial Information – Description of selected items in the consolidated statements of profit or loss and other comprehensive income" in this prospectus.

Significant decrease in net profit

For the six months ended 30 June 2019, our Group's net profit substantially declined by approximately 72.4% as compared to the same period of the preceding year. The outbreak of African Swine Fever since the second half of 2018 and the pricing adjustment abovementioned had lowered the average selling price of choline chloride. As a result of the decrease in gross profit derived from the animal nutrition chemicals segment attributable to these reasons, there is a significant reduction in our net profit from approximately RMB60.8 million for the six months ended 30 June 2018 to approximately RMB16.8 million for the six months ended 2019.

Market Outlook of Choline Chloride

The outbreak of African Swine Fever in the PRC since the second half of 2018 had led to a weakened demand of swine's feed additives in the PRC due to the massive deaths of pigs and the subsequent slaughter of infected pigs and prohibition on export of pork from certain provinces. As the choline chloride market is highly dependent on the demand of downstream swine industry, after the outbreak of African Swine Fever, the average selling price of choline chloride in the PRC experienced significant decrease in the second half of 2018 and remained at low level in 2019.

To address the negative market conditions resulted from African Swine Fever, a series of supportive measures and policies have been implemented by the PRC government to alleviate the adverse effects suffered by the livestock sector, including provision of financial assistance, establishment of market supply protection mechanism and standardisation and increasing biosafety level of pig farms. In September 2019, the State Council of the PRC has issued national guidelines to urge governments at all levels to stabilise swine production and promote industrial upgrades to ensure stable

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supply of pork. In response to the national guidelines, the Ministry of Finance and the Ministry of Agriculture and Rural Affairs of the PRC have jointly issued policies with respect to the coverage of livestock insurance, in which the insurance amount for each breeding livestock has been increased from RMB1,000 to RMB1,500, to encourage and support the recovery and expansion of production scale of the swine breeding farms. The Group believes that these industry-wide efforts and favourable national policies initiated by the PRC government which aim at easing African Swine Fever to ensure steady domestic supply of livestock will lead to more stable demand and increase of market price of choline chloride.

Our Directors believe that the negative impact arising from African Swine Fever is only temporary in nature as the domestic epidemic had been basically controlled after implementation of the national policies and measures to support the swine industry. The gradual relief of African Swine Fever, as evidenced by the significant reduction in the number of new outbreaks from approximately 100 cases in the second half of 2018 to approximately 15 cases from June to November 2019 also shed light on the effectiveness of these national policies for industry recovery and rising demand of choline chloride. Further, according to the public information from the Ministry of Agriculture and Rural Affairs of the PRC, the number of live pigs in stock in 12 provinces nationwide rebounded in October 2019 after nine months of decline. As advised by Frost & Sullivan, the average selling price of choline chloride in the PRC has shown recovery in November 2019 after the continuous decrease in average selling price of choline chloride by approximately 13.5% since the outbreak of African Swine Fever and reaching its bottom in the second and third quarters of 2019. Based on the aforesaid latest market conditions and as advised by Frost & Sullivan, it is anticipated that the demand of choline chloride will be higher from the gradual resumption of stable swine production and thus it is reasonable to expect that the average selling price of choline chloride will reach approximately 10% rebound in the coming year.

The table below sets forth the market price (tax inclusive) of choline chloride in each month between June 2018 to November 2019 as advised by Frost & Sullivan:

2018

<i>(RMB/tonne)</i>	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Choline chloride	6,700.0	5,640.0	5,580.0	5,850.0	5,850.0	5,800.0	5,370.0

2019

<i>(RMB/tonne)</i>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Choline chloride	5,077.3	5,050.0	5,050.0	4,800.0	4,795.2	4,750.0	4,700.0	4,700.0	4,750.0	4,850.0	4,850.0

Market Outlook of Polyurethane Materials

During the first half of 2019, there was a decrease in the average selling price of polyurethane materials in the PRC, which was mainly attributed to the short-term pricing pressure on the polyurethane materials manufacturers as a result of the increased competition arising from the nationwide enlarged production capacity of TDI, which is expected to be absorbed by the increase in demand of polyurethane materials from downstream industries in the coming one to two years as described below. Despite that our Group recorded a decrease in revenue in the polyurethane materials segment during the six months ended 30 June 2019 which was mainly associated with the aforesaid decrease in the average selling price, we managed to improve our profitability during the same period, which was mainly attributable to our success in developing customer loyalty over the years through the offering of supporting services. Our Group typically prices the products manufactured by third party manufacturers on a markup pricing basis, where a similar amount of profit is charged regardless of the level of our purchase cost, and such practice is consistent with the industry norm as confirmed by Frost & Sullivan. Therefore, when our purchase price of the polyurethane materials products is low and our customers are willing to purchase from us at the similar amount of markup, mainly due to the services we offered and our long-term business relationship, our gross profit and gross profit margin would be improved when the average selling price was at low level.

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As advised by Frost & Sullivan, the average selling price of polyurethane materials in the PRC in June 2019 has reached its lowest level in three years and remained relatively stable afterwards in general, save as the drop in the average selling price of TDI in November 2019 primarily due to the increase in utilisation of TDI production capacity of one of the major upstream manufacturers in the PRC in October 2019, and the polyurethane market in the PRC is projected to maintain an upward trend gradually in the foreseeable future which will be sustained by (i) the high demand attributable to their wide applications in various end-use industries, for example in furniture, construction, and footwear industries as they are lightweight, durable, and waterproof which add resilience, strength and comfort to the products, in electronics and appliances and packaging industries for effective insulation and reducing vibration, and in automotive industry to foster comfort, protection and energy conservation, and (ii) the growing demand for thermal insulation materials from end-use cold chain industry, to preserve fresh products due to the higher expectation from general public on safety and quality in terms of food transportation. Notwithstanding that our Group's average selling price of polyurethane materials decreased by approximately 23.7% in the first half of 2019 as compared to the year of 2018, as advised by Frost & Sullivan, driven by such growth in demand from numerous downstream industries, it is expected that the average selling price of polyurethane materials in the PRC will rise by approximately 6% to 12% in the coming one to two years.

The table below sets forth the market price (tax inclusive) of TDI, polymeric MDI and polymer polyether in each month between June 2018 to November 2019 as advised by Frost & Sullivan:

2018

<i>(RMB/tonne)</i>	Jun	Jul	Aug	Sep	Oct	Nov	Dec
TDI	25,785.0	26,675.8	29,946.4	25,530.2	19,235.2	18,227.3	18,209.5
Polymeric MDI	20,345.0	19,197.7	18,621.7	15,414.3	13,463.9	12,470.5	11,378.6
Polymer polyether	12,971.0	13,059.7	13,945.2	14,170.0	13,958.6	12,145.0	11,718.4

2019

<i>(RMB/tonne)</i>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
TDI	13,702.3	13,476.5	13,150.0	15,537.9	14,285.7	12,550.0	13,382.6	13,350.8	12,759.5	12,978.9	11,955.1
Polymeric MDI	12,318.2	13,395.6	15,546.4	17,772.7	14,388.1	12,006.6	12,439.1	12,969.3	12,341.7	12,244.7	12,190.0
Polymer polyether	11,573.7	11,465.2	11,302.7	11,846.7	11,179.0	10,466.4	10,563.4	11,077.4	10,893.3	10,879.6	10,550.8

Sustainability of Our Market Position and Business Growth

Our Directors are of the view that we will be able to maintain our market position and sustain our business growth amidst challenging market conditions after taking into consideration the aforesaid latest market conditions, in particular the recovery of the swine industry and the positive market outlook of the polyurethane materials and choline chloride markets and the followings:

- Our Group is committed to maintain our market insights and industry competitiveness and strengthen our influence in the polyurethane and choline chloride market to achieve further market expansion both domestically and overseas for sustainable development by improving customer services. In order to provide better experience to our customers, our sales personnel have been visiting and communicating with our existing and potential customers more frequently about their preference and intended use of our polyurethane products, so as to provide product customisation services that best suited their needs. We also closely follow up on any sales order from potential customers. In terms of after-sales customer services, we aim to enhance our customer relationship by gathering feedback on our products for room of further improvement. In addition, our well-trained sales team with an in-depth knowledge on our wide range of polyurethane products are able to timely response to any customers' enquiries;

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- Taking into consideration (i) we will continue to strengthen our customers loyalty through the above measures, and (ii) despite under the challenging market conditions as affected by the significant decrease in average selling price, we were able to improve our gross profit as we (a) managed a lower extent of decrease in our selling price in polyurethane materials as compared to the decrease in our purchase cost, which mainly reflected the market price as advised by Frost & Sullivan. For instance, the decrease in our average selling price of TDI in the six months ended 30 June 2019 as compared to the preceding six-month period was over 9% less than the corresponding decrease in our average purchase costs, and (b) achieved higher level of sales volume in TDI and polymer polyether as mainly attributable to the increase in purchase volume from existing customers and sales made to new customers in the polyurethane materials segment for the six months ended 30 June 2019, as a result of (1) our stronger marketing effort to participate in various industry exhibitions relating to polyurethane materials held in the PRC and overseas countries such as Thailand, Russia, Pakistan and South Africa near the second half of 2018 and first half of 2019, where we could identify new customers, (2) our more frequent follow-up calls and enquiries by our sales team to contact the then recurring polyurethane materials customers engaging in the industries of manufacturing coating materials, footwear, automotive seats, sponge products, in order to actively promote our products and take the initiatives to reach out and understand if there is any product needs from the customers, and (3) the increasing popularity for our polymer polyether which was made without ozone-depleting freon as a result of growing environmental awareness, our Directors are of the view that our Group will be able to maintain our profitability and sales volume of our polyurethane materials products in the future;
- We are confident to maintain our dominant market position in choline chloride by extending our market outreach, providing satisfactory customer services and adjusting our pricing swiftly in response to the market, which aim to resist the changing market conditions and any unexpected circumstances. Despite the choline chloride market has shrunk as influenced by African Swine Fever in 2019, we are otherwise able to increase our sales volume of choline chloride by approximately 27.5% for the six months ended 30 June 2019 when compared with the corresponding period of the preceding year. We have been actively extending our market outreach through participation in numerous industry events, in which we were able to identify and pursue new customers. By adopting our measures in providing customer services as abovesaid, we are also attentive to our existing customers' preference and feedback which further strengthen the relationship with our customers. We also adjust our pricing swiftly in response to the market to keep ahead of the competition when facing unfavourable business environment and adverse market conditions. Based on the above reasons, our Directors believe that the sales volume of choline chloride in the second half of 2019 is expected to be not less than that in the first half of 2019 and will gradually increase in the foreseeable future after the gradual ease of African Swine Fever in the PRC; and
- Our Group's successful operating structure and practices, experienced management team and knowledgeable personnel would enable us to identify and venture into new areas where other competitors do not have the competitive advantage. In particular, as part of our expansion plan, we will establish the New Production Plant for the production of trimethylamine, which is one of the principal raw materials of choline chloride. As advised by Frost & Sullivan, currently, none of the manufacturers of choline chloride in the PRC has production capacity of the major raw materials of choline chloride, and our Group is the only manufacturer of choline chloride in the PRC which has such expansion plan. Our Directors believe that, by securing upstream supplies of raw materials after the commencement of production of trimethylamine at the New Production Plant, our gross profit margin of animal nutrition chemicals products will gradually recover and increase as we will have better control on our cost and supply of raw materials. Further, we believe such expansion plan will enable us to capitalise on the market consolidation opportunities brought about by the challenging market conditions and absorbing the market share from other competitors.

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Hence, our Directors are of the view that our profitability and the ability to adapt swiftly to the challenging market conditions are key and critical to the sustainability of our business. With the enhanced corporate status after the Listing and the net proceeds from the Global Offering to fund our expansion plan, we will continue to replicate our successful business strategies in our four major business segments in order to operate in a sustainable manner in the future amidst the intense competition and challenging market conditions.

BUSINESS MODEL

We are primarily engaged in the production and sales of our chemicals as well as sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region such as Japan, South Korea and Taiwan, Europe and the United States. We have four principal business segments, namely polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates.

During the Track Record Period, we mainly sold our products in the PRC. We have also exported our products to more than 50 overseas markets such as Vietnam, Russia, Ukraine, India, the United States and other European countries. Our target customers mainly include manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry in the PRC and other overseas countries. Over the years, we have established our own marketing platform with an extensive global network of sales channels. We strive to provide not only innovative and environmentally friendly chemical products to our customers but also custom-made and effective solutions to accommodate our customers' needs. We have launched an e-commerce platform connected to our ERP system and a mobile application of our OA system in August 2019 which facilitates our expansion of sales volume and customer base.

The key phases of our business operations are as follows:



Phase 1: Customers development and negotiation with customers

Our sales personnel regularly visit our major customers to gather their feedback on our products and strengthen our business relationship. We focus on promoting sales of our products through attending industry conferences and advertising on internet media.

Our sales and marketing staff negotiates with our customers in advance the types of products to be purchased, pricing, purchase quantity and payment terms. For each of the sales transactions conducted in the PRC, our staff input the key terms agreed between us and the customers to our ERP system.

Phase 2: Production or procurement of products from third party manufacturers

Our customers normally place orders with us by entering into sales agreements. For details, please refer to the paragraph headed “Sales, Customers and Marketing – Principal terms of our sales agreement” in this section.

We source our raw materials to produce our self-manufactured chemicals and chemicals produced by third party manufacturers for onward sales to our customers based on their demands which are anticipated by our sales and marketing department. Our sales department prepares a monthly rolling sales forecast and our procurement department then devises and regularly updates the requirement plan for the raw materials for production of our self-manufactured chemicals and chemicals produced by third party manufacturers for distribution, respectively. Such requirement plan is used by our procurement department to make purchase orders of the raw materials which are used in our production and chemicals produced by third party manufacturers. For details in relation to our procurement process, please refer to the paragraph headed “Procurement” in this section. Our ERP system enables us to capture the latest purchase orders and inventory information

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within a short period of time, which provides us an accurate projection of the quantity of raw materials required for production and chemicals produced by third party manufacturers for sale and therefore enhances our operational efficiency. We believe that our chemical products can be produced or procured in a timely manner through the practice mentioned above.

All the production processes of our chemical products are carried out at our production facilities in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, the PRC and Binh Duong Province, Vietnam. We also conduct quality checks at various stages of the production, from receipt of raw materials to finished products testing, to ensure that the production processes are carried out properly and there are no material defects which may affect the quality of our products.

Phase 3: Sales and delivery

Upon completion of the production or procurement, we arrange the products to be delivered to our warehouses. We are generally responsible for arranging the delivery of our products to the location designated by our customers through the logistics companies operated by our Group or other third party transportation companies for sales in the PRC. For our export sales, we generally engage logistic services providers to handle the administrative matters including the transportation arrangement and customs clearance procedures. The cost of delivery is borne by us or the customers depending on the business terms which have been negotiated and agreed between us and our customers.

We generally sell our products to customers that we believe are manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry. Based on the reasons as set out in the paragraph headed "Sales, Customers and Marketing – Customers and sales channel" in this section, our Directors consider that all our customers were end-customers of our Group and that we did not adopt any distributorship business models in selling our products.

Set forth below is a breakdown of our revenue and sales volume generated from our self-manufactured chemicals and chemicals produced by third party manufacturers under our business segments:

	2016		For the year ended 31 December				2018		For the six months ended 30 June			
	RMB'000	% of revenue	2017		2018		2018		2019			
			RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Polyurethane materials												
Self-manufactured chemicals	94,776	5.9	158,135	7.3	198,359	9.2	90,535	8.4	95,982	10.3		
Chemicals produced by third parties	633,816	39.4	931,413	42.7	683,204	31.7	360,671	33.6	235,923	25.2		
Animal nutrition chemicals												
Self-manufactured chemicals	323,948	20.2	533,678	24.5	689,290	32.0	337,044	31.4	270,592	28.9		
Chemicals produced by third parties	2,744	0.2	2,170	0.1	13,367	0.6	3,285	0.3	8,314	0.9		
Fine chemicals												
Self-manufactured chemicals	19,740	1.2	48,826	2.2	100,577	4.7	45,585	4.2	65,208	7.0		
Chemicals produced by third parties	299,850	18.7	281,669	12.9	186,224	8.6	109,514	10.2	61,263	6.5		
Pharmaceutical products and intermediates												
Self-manufactured chemicals	90,666	5.6	93,299	4.3	152,965	7.1	65,145	6.1	96,671	10.3		
Chemicals produced by third parties	132,489	8.2	119,685	5.5	117,685	5.5	57,697	5.3	96,612	10.4		
Others ^(Note)	8,800	0.6	10,174	0.5	11,275	0.6	5,451	0.5	4,708	0.5		
Total revenue	1,606,829	100.0	2,179,049	100.0	2,152,946	100.0	1,074,927	100.0	935,273	100.0		

Note: Others primarily include revenue generated from transportation of hazardous chemicals for third parties in Nanjing.

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	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Tonnes	% of sales volume	Tonnes	% of sales volume	Tonnes	% of sales volume	Tonnes	% of sales volume	Tonnes	% of sales volume
Polyurethane materials										
Self-manufactured chemicals	7,374	3.9	8,812	5.0	12,376	6.4	5,322	6.3	6,795	6.9
Chemicals produced by third parties	54,679	28.5	42,562	24.2	41,274	21.3	18,803	22.2	19,665	19.9
Animal nutrition chemicals										
Self-manufactured chemicals	85,104	44.4	90,364	51.4	110,792	57.1	45,777	54.1	57,231	57.9
Chemicals produced by third parties	213	0.1	334	0.2	1,704	0.9	464	0.5	998	1.0
Fine chemicals										
Self-manufactured chemicals	3,750	2.0	7,743	4.4	10,740	5.5	4,683	5.5	7,592	7.7
Chemicals produced by third parties	39,559	20.6	25,217	14.4	15,779	8.1	9,123	10.8	5,700	5.7
Pharmaceutical products and intermediates <small>(Note)</small>										
Self-manufactured chemicals	666	0.4	569	0.3	948	0.5	402	0.5	586	0.6
Chemicals produced by third parties	246	0.1	241	0.1	298	0.2	97	0.1	360	0.3
Total sales volume	191,591	100.0	175,842	100.0	193,911	100.0	84,671	100.0	98,927	100.0

Note: The respective sales volume for self-manufactured chemicals and chemicals produced by third parties does not include pharmaceutical products as there is no standard unit of measurement for sales volume of pharmaceutical products.

According to Frost & Sullivan, customers in the integrated chemical services market are widely dispersed and those with relatively small scale usually encounter problems in procuring chemical products from large chemical manufacturers due to their purchases in relatively smaller and quantities. Over the years, we believe that we have established good relationship with these chemicals manufacturers which enable us to secure stable and high-quality supply of applied chemicals for onward sales to the downstream customers. We believe that this would in turn enhance our customers' confidence on our products which lays a solid foundation for building our relationship with the customers. We usually purchase these chemicals manufactured by third party manufacturers in bulk which resulted in lower costs and with our diversified customer base, we are able to sell these chemical products in small batches to our customers which are small or medium enterprises in the market.

On the other hand, it is common for large and well-known chemical manufacturers in the market to focus on the development, production and sales of particular types of products in order to achieve economies of scale. Instead of sourcing directly from these chemical manufacturers, our customers, which are normally small-and-micro sized chemical companies, prefer purchasing from our Group as we have a centralised supply of a wide range of chemical products and we are able to accommodate customers' specific needs by designing tailor-made products and providing professional technical guidance on the application and usage of the products. As such, we believe that the comprehensive product mix and supply-chain oriented services currently offered by the Group would appear to be more attractive to our customers as they are able to source multiple chemical products from one single supplier. The strong customisation capabilities of the Group thus develops our reputation in the trading business market and by employing local employees at our overseas subsidiaries, we are also able to manage our overseas customers' expectation more effectively. With our own fleet of vehicles and a number of warehousing services locations across PRC and other overseas countries, we can cater delivery orders of our products in a timely manner. Moreover, we accept various settlement methods for bill payment, for example, bank draft, cheque and bank acceptance draft for local sales, and telegraph transfer and letter of credit for export sales, which provides more convenient options to our customers.

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In light of the above, our Directors believe that our Group's competitive edge in our trading business mainly lies in the following aspects: (i) we have strong product customisation and product matching capabilities and are capable of providing flexibility to our customers regardless of their scale of operation in terms of purchase quantity, delivery location and settlement options, etc., which enables us to capture more market share in the trading business market, (ii) we operate our own logistics companies with fleet of self-owned vehicles which ensure timely delivery of products to our customers, (iii) we have a well-established warehousing system across the PRC and other overseas locations which facilitate sales to customers of all scales globally, (iv) we have a sound risk management system, in particular, we have maintained trade credit insurance against risk of our customers' default in payment and also cargo transportation insurance against loss or damage of the cargo by which our products are transported, (v) we have an efficient integrated data operation platform which enhances our operational efficiency and inventory control effectiveness, and (vi) our business operation is not limited by the traditional sales model and we have developed an online e-commerce trading platform which has been launched in August 2019. As advised by our PRC Legal Advisers, since the online e-commerce trading platform developed and operated by the Group is used for sales of our self-manufactured chemicals and chemicals produced from third party manufacturers only, which is not accessible by any third party sellers for sales of their products on it, such nature of business does not fall under the ambit of "telecommunications business" as stipulated in the *Regulation on Telecommunications of the People's Republic of China* (《中華人民共和國電信條例》) and hence the Group is not required to obtain the Internal Content Provider Licence.

PRODUCTS

We are an applied chemical intermediates provider in the PRC with our headquarters in Nanjing.

We principally produce and sell the following products for each of our business segments, including:

- polymeric MDI, TDI, polymer polyether, isocyanate mixture, polyurethane foam and modified MDI (under the segment of polyurethane materials);
- choline chloride and betaine (under the segment of animal nutrition chemicals);
- carboxylic acids, solvents, resins and oleochemicals (under the segment of fine chemicals); and
- iodine and iodine derivatives and pharmaceutical products (under the segment of pharmaceutical products and intermediates)

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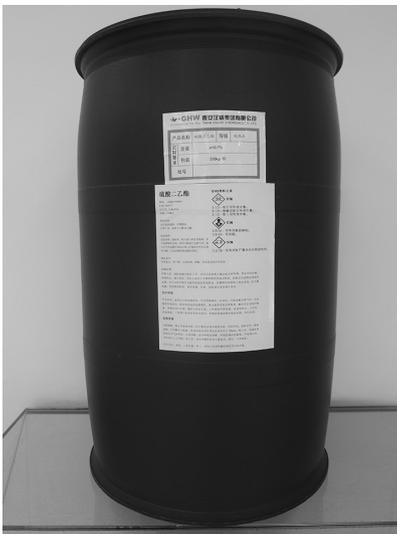
Set forth below are pictures of some of our products offered under our business segments:



Polymer polyether



Choline chloride



Diethyl sulfate



Iodine derivatives

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The table below sets forth the breakdown of revenue generated from sales of key products under our business segments and their respective gross profit margin during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June								
	2016		2017		2018		2018		2019		2019				
	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)			
Polyurethane materials															
Polymeric MDI ⁽¹⁾	486,471	30.3	4.5	723,958	33.2	5.9	488,371	22.7	4.0	262,953	24.5	7.8	177,330	19.0	9.7
TDI ⁽¹⁾	107,282	6.7	7.4	181,022	8.3	5.5	169,230	7.9	3.5	87,891	8.2	6.4	44,694	4.8	16.0
Polymer polyether ⁽²⁾	54,961	3.4	14.9	81,913	3.8	15.3	132,044	6.1	12.4	51,296	4.8	8.0	74,342	7.9	18.2
Isocyanate mixture ⁽²⁾	26,148	1.6	19.9	40,923	1.9	12.7	20,707	1.0	9.3	13,877	1.3	7.1	5,693	0.6	16.7
Polyurethane foam ⁽¹⁾	22,022	1.4	20.5	9,688	0.4	13.3	14,208	0.7	17.1	4,671	0.4	11.5	9,411	1.0	17.8
Modified MDI ⁽²⁾	13,667	0.9	7.0	35,300	1.6	8.7	45,607	2.1	16.5	25,362	2.4	18.1	15,948	1.7	11.3
Others ⁽¹⁾⁽²⁾	18,041	1.1	10.4	16,744	0.8	11.3	11,396	0.4	5.5	5,156	0.4	7.1	4,487	0.5	5.4
Animal nutrition chemicals															
Choline chloride ⁽²⁾	304,604	19.0	17.1	482,785	22.3	34.4	631,663	29.3	30.0	305,907	28.5	37.3	243,719	26.1	14.4
Betaine ⁽²⁾	17,466	1.1	24.5	49,032	2.2	23.5	55,923	2.6	25.2	29,941	2.8	23.2	26,605	2.8	23.8
Others ⁽¹⁾⁽²⁾	4,622	0.2	14.9	4,031	0.1	21.4	15,071	0.7	11.7	4,481	0.4	11.5	8,582	0.9	2.0
Fine chemicals															
Carboxylic acids ⁽¹⁾	90,728	5.6	10.9	83,853	3.8	14.5	50,281	2.3	14.8	28,347	2.6	20.3	14,470	1.5	4.6
Solvents ⁽¹⁾	83,987	5.2	10.1	65,838	3.0	9.1	26,193	1.2	4.9	16,942	1.6	9.9	3,685	0.4	6.3
Resins ⁽¹⁾	71,039	4.4	16.9	66,967	3.1	7.2	58,222	2.7	(4.2)	34,443	3.2	1.0	16,589	1.8	4.1
Oleochemicals ⁽¹⁾	54,095	3.4	7.0	65,011	3.0	6.7	51,528	2.4	(0.1)	29,782	2.8	(2.3)	26,519	2.8	8.2
Others ⁽¹⁾⁽²⁾	19,741	1.2	42.9	48,826	2.2	20.4	100,577	4.7	12.7	45,585	4.2	11.3	65,208	7.0	15.4
Pharmaceutical products and intermediates															
Iodine ⁽¹⁾	37,303	2.3	7.0	37,074	1.7	11.0	56,600	2.6	9.3	17,055	1.6	14.1	76,568	8.2	11.6
Iodine derivative ⁽¹⁾⁽²⁾	75,077	4.7	5.4	72,052	3.3	14.9	122,964	5.7	10.0	51,754	4.8	6.7	86,423	9.3	11.9
Pharmaceutical products ⁽¹⁾	99,876	6.2	9.3	96,981	4.5	11.5	87,363	4.1	17.7	51,691	4.8	11.8	29,310	3.1	17.4
Others ⁽¹⁾⁽²⁾	10,899	0.7	7.5	6,877	0.3	12.4	3,723	0.2	11.2	2,342	0.2	10.3	982	0.1	7.7
Others⁽³⁾	8,800	0.6	9.2	10,174	0.5	23.6	11,275	0.6	16.0	5,451	0.5	11.0	4,708	0.5	15.1
Total revenue	1,606,829	100.0		2,179,049	100.0		2,152,946	100.0		1,074,927	100.0		935,273	100.0	

Notes:

- (1) These products are chemicals produced by third party manufacturers.
- (2) These products are self-manufactured by our Group.
- (3) Others primarily include revenue generated from transportation of hazardous chemicals for third parties in Nanjing.

The material fluctuation of gross profit margin of the Group's key products under each business segment during the Track Record Period are described as follows.

Under the polyurethane materials segment, our gross profit margin for polymeric MDI increased from approximately 4.5% for the year ended 31 December 2016 to approximately 5.9% for the year ended 31 December 2017. The various incidents of disaster, breakdown of equipment and environmental control in the second half of 2016 and in 2017 had caused temporary suspension of production facilities of leading polymeric MDI suppliers in 2017 which resulted in unstable supply of polymeric MDI in the market. Due to the rising crude oil prices and continued shortage of supply in 2017, our average selling price of polymeric MDI reached the highest point in 2017, which allows us to improve our gross profit margin for the year ended 31 December 2017. As the supply of polymeric MDI in the market become more stable in 2018, our Group decided to charge a smaller gross profit margin to maintain the competitiveness in the market, the gross profit margin of polymeric MDI decreased to approximately 4.0% for the year ended 31 December 2018.

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On the other hand, our gross profit margin for TDI decreased from approximately 7.4% for the year ended 31 December 2016 to approximately 5.5% for the year ended 31 December 2017 and further declined to approximately 3.5% for the year ended 31 December 2018. Due to the sufficient market supply of TDI in the market in 2015 as a result of the increase in production capacity of market players, the price of TDI reached the lowest point in 2015. In 2016, when the market price of TDI went upwards, we were able to sell our inventories of TDI which were purchased at lower cost at a higher profitability, which resulted in a relatively higher gross profit margin for the year ended 31 December 2016 when compared with the year ended 31 December 2017. With a new TDI manufacturer headquartered in Saudi Arabia with annual production capacity of 20,000 tonnes commencing production in the second half of 2017 and there was no material production suspension from the major TDI manufacturers in 2018, there was a more stable supply of TDI in the market, we reduced our selling price with reference to the demand and supply in the market. Given that the decrease in our selling price outweighed the decrease in purchase cost of TDI, there was a decrease in gross profit margin from 2017 to 2018.

We recorded an increase of gross profit margin of both polymeric MDI and TDI, from approximately 7.8% and 6.4% for the six months ended 30 June 2018 to approximately 9.7% and 16.0% for the six months ended 30 June 2019, respectively. The market prices of polymeric MDI and TDI, dropped to the lowest level in December 2018 or early 2019, and experienced fluctuations in the second quarter of 2019. As such, we were able to derive more favourable gross profit as the market price was at low level, whereas during the six months ended 30 June 2018, the market price was at higher level and on a continuous downward price trend, and the profit made during that period was comparably minimal. Under the polyurethane materials segment, polymer polyether also experienced an increase of gross profit margin from approximately 8.0% for the six months ended 30 June 2018 to approximately 18.2% for the six months ended 30 June 2019. Our Directors believe that it was mainly attributable to the increase in demand of our polymer polyether which was made without ozone-depleting freon.

Our gross profit margin for modified MDI under the polyurethane materials segment increased from approximately 8.7% for the year ended 31 December 2017 to approximately 16.5% for the year ended 31 December 2018 primarily because of (i) the decrease in cost of polymeric MDI, being the major raw material for the production of modified MDI, in 2018, which outweighed the decrease in average selling price of modified MDI, and (ii) the increase in sales volume of modified MDI from approximately 1,543 tonnes for the year ended 31 December 2017 to approximately 2,161 tonnes for the year ended 31 December 2018, which reduced the overhead cost per tonne in 2018. Our Group recorded a decrease of gross profit margin of modified MDI from approximately 18.1% for the six months ended 30 June 2018 to approximately 11.3% for the six months ended 30 June 2019. As a new competitor had entered into the modified MDI market in August 2018 while there was a decreasing demand in downstream application of modified MDI, the combined result of the intensified market competition between suppliers of modified MDI and the shrinking of the downstream market of modified MDI has led to a decline of gross profit margin for the six months ended 30 June 2019, as compared with the corresponding period in 2018.

In relation to isocyanate mixture, the gross profit margin decreased from approximately 19.9% for the year ended 31 December 2016 to approximately 12.7% for the year ended 31 December 2017, and further reduced to approximately 9.3% for the year ended 31 December 2018. Such decreasing trend of gross profit margin throughout the three years ended 31 December 2018 was mainly attributable to (i) the increase in costs of TDI and polymeric MDI, being the major raw materials for the production of isocyanate mixture, in 2017, which outweighed the increase in selling price of isocyanate mixture, and (ii) the decline in sales volume of isocyanate mixture from approximately 1,820 tonnes for the year ended 31 December 2016 to approximately 1,526 tonnes for the year ended 31 December 2017, and a further reduction to approximately 890 tonnes for the year ended 31 December 2018, which increased the overhead cost per tonne in 2017 and 2018. With the decreased average selling price of isocyanate mixture for the six months ended 30 June 2019 as compared with the same period in 2018, the gross profit margin of isocyanate mixture increased from approximately 7.1% for the six months ended 30 June 2018 to approximately 16.7% for the six months ended 30 June 2019.

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Under the animal nutrition chemicals segment, our gross profit margin for choline chloride increased from approximately 17.1% for the year ended 31 December 2016 to approximately 34.4% for the year ended 31 December 2017. As the largest seller of choline chloride in the PRC in terms of revenue in 2017, our influence on the market had enabled us to charge a relatively high margin for our sale of choline chloride in 2017. There has been a decline in gross profit margin of choline chloride from approximately 37.3% for the six months ended 30 June 2018 to approximately 14.4% for the six months ended 30 June 2019, primarily because of the decreasing average selling price due to the outbreak of African Swine Fever and our adjustment on price aiming to increase our market share in terms of quantity. For detailed explanation for the fluctuation in gross profit margin of choline chloride during the Track Record Period, please refer to the paragraph headed “Financial Information – Description of selected items in the consolidated statements of profits or loss and other comprehensive income – Gross profit and gross profit margin” in this prospectus.

Under the fine chemicals segment, our gross profit margin in carboxylic acids increased from approximately 10.9% for the year ended 31 December 2016 to approximately 14.5% for the year ended 31 December 2017 and slightly increased to approximately 14.8% for the year ended 31 December 2018. We believe that the increasing trend of gross profit margin during the three years ended 31 December 2018 was primarily caused by the decrease in domestic supply in the PRC by our major supplier of propionic acid who aimed to expand its export market in 2017. This caused an increase in our average purchase price of propionic acid, which was reflected in our average selling price. Although the purchase cost of propionic acid has risen continuously, it was outweighed by the further increase in average selling price of propionic acid. Since the aforementioned major supplier was the only domestic manufacturer in the PRC during the three years ended 31 December 2018 as advised by Frost & Sullivan, we believe that the reduction of domestic supply by this major supplier would lead to a shortage of supply of propionic acid in the PRC and limit the choice of the downstream customers. Therefore, we were able to charge a relative higher selling price for the sale of propionic acid in 2017 onwards, which resulted in the upward trend of gross profit margin throughout the three years ended 31 December 2018. Our Group had a decreasing gross profit margin of carboxylic acid from approximately 20.3% for the six months ended 30 June 2018 to approximately 4.6% for the six months ended 30 June 2019, which was mainly due to a decreased gross profit margin of propionic acid from approximately 19.3% to 3.8% for the corresponding periods in 2018 and 2019, respectively. As our Directors believe that the downstream customers of propionic acid anticipate that there would be a decrease in market price of propionic acid given the increase in supply that resulted from the expansion of production volume of one of the major manufacturers of propionic acid during the six months ended 30 June 2019, there was a decrease in demand in propionic acid which led to a lower gross profit of propionic acid.

In relation to solvents, our gross profit margin for the year ended 31 December 2016 declined from approximately 10.1% to approximately 9.1% for the year ended 31 December 2017 and subsequently reduced to approximately 4.9% for the year ended 31 December 2018. The larger extent of decrease in gross profit margin of solvents from 2017 to 2018 was mainly attributable to the cessation of import of MIBK from Japan throughout 2018, which was one of our major products in the solvents category, due to the anti-dumping investigation in early 2017 and the imposition of anti-dumping policy in November 2017. As a result, the gross profit margin of MIBK was lowered in 2018 and hence a decrease of gross profit margin of solvents in general. In early 2018, after the cessation of import of MIBK from Japan, we procured MIBK from other countries such as Korea and the PRC. However, given the narrow gross profit that we could achieve, we further reduced the sales volume of MIBK in 2019. Hence, this led to a decrease of gross profit margin of MIBK, which resulted in an overall decrease of gross profit margin of carboxylic acid from approximately 9.9% for the six months ended 30 June 2018 to approximately 6.3% for the six months ended 30 June 2019.

Our gross profit margin for resins decreased from approximately 16.9% for the year ended 31 December 2016 to approximately 7.2% for the years ended 31 December 2017. This was mainly attributable to a decrease in gross profit margin of isophthalic acid, which is a product of resins manufactured by third party manufacturers, from approximately 20.3% for the year ended 31 December 2016 to approximately 6.5% for the year ended 31 December 2017, resulting from a relative larger extent of increase in average purchase price of isophthalic acid which outweighed the increase of our average selling price of isophthalic acid from 2016 to 2017. For the detailed explanation on the decreased gross profit margin of isophthalic acid, please refer to the paragraph headed “Financial Information – Description of selected items in the consolidated statements of profits or loss and other comprehensive income – Gross profit and gross profit margin” in this prospectus. With (i) the depreciation of Renminbi against the U.S. dollars leading to a higher cost of purchase of imported

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inventories in 2018, and (ii) the decreasing average selling price of isophthalic acid (categorised under resins) and castor oil (categorised under oleochemicals) from 2017 to 2018, we recorded a negative gross profit margin of approximately 4.2% and 0.1% for resins and oleochemicals, respectively, for the year ended 31 December 2018, as compared with approximately 7.2% and 6.7%, respectively, for the year ended 31 December 2017. The gross profit margin of resins has otherwise increased from approximately 1.0% for the six months ended 30 June 2018 to approximately 4.1% for the six months ended 30 June 2019. Due to the negative gross profit margin of isophthalic acid in 2018, we have reduced the sales volume of this product for the six months ended 30 June 2019 to minimise our loss, and thus there was a smaller impact on the gross profit margin of resins. Given that our other products in the resins category continued to maintain a stable and positive gross profit margin for the six months ended 2018 and 2019, our overall gross profit margin of resins increased as a result. The negative gross profit margin of oleochemicals of approximately 2.3% for the six months ended 30 June 2018 had increased and turned to a positive level at approximately 8.2% for the six months ended 30 June 2019. This was primarily because (i) we ceased the sales of lauric acid from 2019 onwards, which were loss-making during the six months ended 30 June 2018, and (ii) our revenue and gross profit contributed from castor oil has increased, which was due to an increase in average selling price of castor oil for the six months ended 30 June 2019 resulting from the decrease in imported volume of castor oil from India.

Under the pharmaceutical products and intermediates segment, our gross profit margin for iodine derivatives increased from approximately 5.4% for the year ended 31 December 2016 to 14.9% for the year ended 31 December 2017, primarily due to the increase in average selling price of our self-manufactured iodine derivatives, as a result of their limited supply in the PRC market which arose from the increasingly stringent environmental protection requirements imposed by the government to control the production capacity. Our gross profit margin for iodine derivatives decreased to approximately 10.0% for the year ended 31 December 2018 mainly because of the increase in average purchase price of iodine as the major raw material of iodine derivatives in 2018, which outweighed the increasing average selling price of iodine derivatives. Both the revenue contribution and the gross profit margin of our iodine derivatives increased during the six months ended 30 June 2019 due to the increase in demand from our downstream customers such as the rising sales volume of potassium iodate from our existing customers in the contrast agent industry. Thus, the increase of production volume of iodine derivatives has enabled us to benefit from economies of scale and contributed to the increase in its gross profit margin. For the rising trend of the gross profit margin of our pharmaceutical products, this was mainly attributable to the increase of gross profit margin of cefpodoxime, which was sold to our Major Customer – Supplier for producing cefpodoxime dispersible tablets throughout the three years ended 31 December 2018 and the six months ended 30 June 2019. Please refer to the paragraph headed “Business – Overlapping of Customer and Supplier” in this section for further explanation in relation to such increase.

The table below sets forth the actual production volume of our key self-manufactured products during the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
	<i>(in tonnes)</i>			
Polyurethane materials				
Polymer polyether	4,341.8	5,666.8	9,893.9	6,073.5
Animal nutrition chemicals				
Choline chloride	79,311.0	83,520.1	101,041.9	58,959.0
Betaine	2,504.1	4,755.9	5,231.2	3,497.3
Pharmaceutical products and intermediates				
Iodine derivatives ^(Note)	699.6	622.7	1,024.7	536.0

Note: Our self-manufactured iodine derivatives include potassium iodide, sodium iodide, calcium iodate, sodium periodate, and potassium iodate.

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Set forth below is the brief description of some of our principal products and their production processes.

1. Polyurethane materials

Main applications: Widely used in automotive interior (such as steering wheel armrest and seat cushion headrest) and exterior (such as car roof and automotive painting), engine compartment, refrigerator application, furniture, toys, building insulation, refrigerator, solar water heater, or as catalyst, foaming agent and flame retardant

Price range during the Track Record Period: Approximately RMB8,600 to RMB38,000 per tonne

The following diagram illustrates the major production process of polyurethane materials which takes approximately 11 to 14.5 hours:



	Production process	Details	Estimated production time
Step 1:	Weighing raw materials (投料)	Principal raw materials including polyether and auxiliary materials are weighed according to the required ratio and put together into the reactor.	3 to 4 hours
Step 2:	Mixing raw materials for reaction (混料)	Raw materials are mixed for production until they are even.	2.5 to 3.5 hours
Step 3:	Outgoing quality control (出品检测)	The chemicals are checked against testing guidelines provided by the laboratory to ensure their specifications comply with the required standards before dispatching to our customers.	3 to 4 hours
Step 4:	Packaging (包装)	The finished products are packed after passing the outgoing quality control.	2.5 to 3 hours

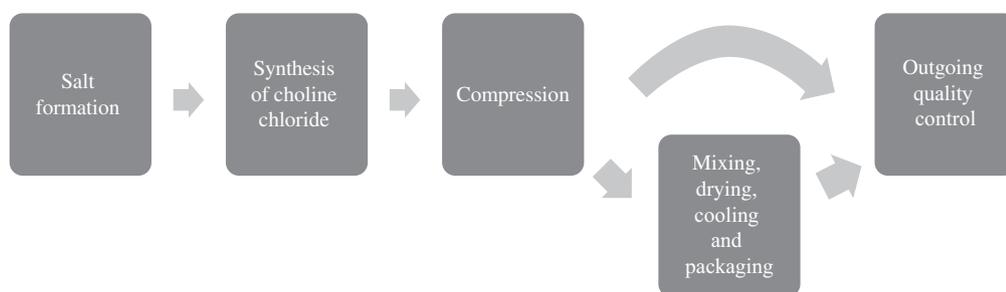
2. Choline chloride

Main applications: Feed additives

Price range during the Track Record Period: Approximately RMB2,900 to RMB15,000 per tonne

BUSINESS

The following diagram illustrates the major production process of choline chloride which takes approximately 20 to 36 hours:



	Production process	Details	Estimated production time
Step 1:	Salt formation (成鹽工序) ⁽¹⁾	The principal raw material, trimethylamine, reacts with hydrochloric acid to produce trimethylamine hydrochloride.	5 to 8 hours
Step 2:	Synthesis of choline chloride (氯化膽鹼合成) ⁽¹⁾	Trimethylamine hydrochloride reacts with ethylene oxide to produce semi-finished choline chloride.	5 to 8 hours
Step 3:	Compression (濃縮) ⁽¹⁾	Semi-finished aqueous choline chloride with a higher concentration is formed after compression. Its composition is then adjusted to produce the finished product of choline chloride in liquid state.	5 to 8 hours
Step 4:	Mixing, drying, cooling and packaging (混合、乾燥、冷卻及包裝) ⁽²⁾	Semi-finished aqueous choline chloride is put into the mixer to mix with the plant carrier. The mixture is then put into the desiccator for drying and cooling to produce choline chloride in powder form which is ready for packaging.	2 to 5 hours
Step 5:	Outgoing quality control (出品檢測)	The finished products are checked against testing guidelines setting out the testing procedures and requirements to ensure their specifications comply with the national and industry standards before dispatching to our customers.	5 to 7 hours

Notes:

(1) This step is only applicable to the production of choline chloride in liquid state.

(2) This step is only applicable to the production of choline chloride in powder form.

3. Betaine

Main applications:

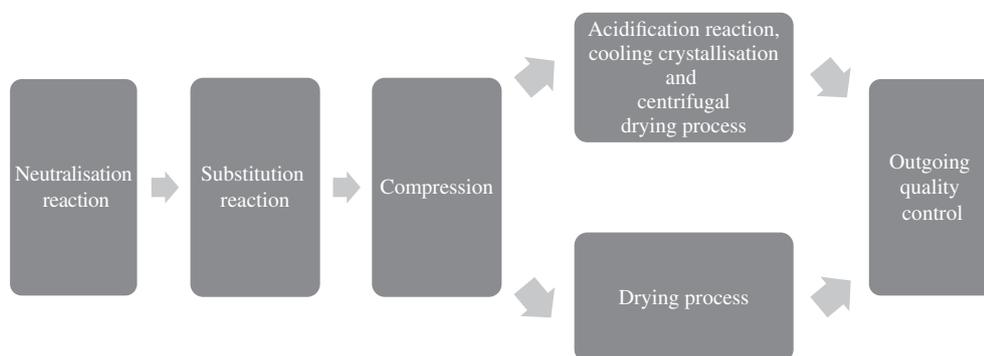
Feed additives

Price range during the Track Record Period:

Approximately RMB3,300 to RMB17,000 per tonne

BUSINESS

The following diagram illustrates the major production process of betaine which takes approximately 37.5 to 60 hours:



	Production process	Details	Estimated production time
Step 1:	Neutralisation reaction (中和反應):	Neutralisation agent is formed in the neutralisation reaction of the raw materials.	6 to 7.5 hours
Step 2:	Substitution reaction (取代反應):	Trimethylamine reacts with neutralisation agent to produce aqueous betaine.	12.5 to 16 hours
Step 3:	Compression (濃縮):	Semi-finished aqueous betaine is formed after compression of aqueous betaine.	11 to 12.5 hours
Step 4(a):	Acidification reaction (酸化反應), cooling crystallisation (降溫析晶) and centrifugal drying process (離心烘乾) ⁽¹⁾ :	Semi-finished aqueous betaine reacts with hydrochloric acid and form betaine hydrochloride after cooling crystallisation and centrifugal drying process.	10 to 17 hours
Step 4(b):	Drying process (乾燥處理) ⁽²⁾ :	Semi-finished aqueous betaine is arranged to go through the drying process and form betaine in non-liquid state.	3 to 5 hours
Step 5:	Outgoing quality control (出品檢測):	The finished products are checked against testing guidelines setting out the testing procedures and requirements to ensure their specifications comply with the national and industry standards before dispatching to our customers.	5 to 7 hours

Notes:

- (1) This step is only applicable to the production of betaine hydrochloride.
- (2) This step is only applicable to the production of betaine in non-liquid state.

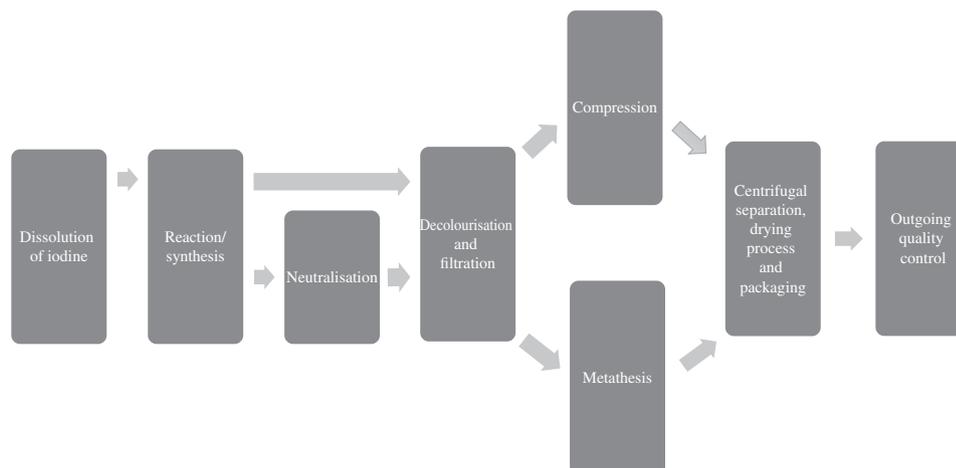
BUSINESS

4. Iodine derivatives

Main applications: Widely used in pharmaceutical industry as X-ray contrast agent and pharmaceutical intermediates

Price range during the Track Record Period: Approximately RMB42,000 to RMB310,000 per tonne

The following diagram illustrates the major production process of principal iodine derivatives which takes approximately 28 to 41 hours:



	Production process	Details	Estimated production time
Step 1:	Dissolution of iodine (溶碘) ⁽¹⁾	Solid iodine is added to and mixed with the mother liquor of potassium iodide or sodium iodide (as the case may be) until it is completely dissolved.	1.5 to 2.5 hours
Step 2:	Reaction/synthesis (反應/合成)	Iodine solution (for production of potassium iodide or sodium iodide) or solid iodine (for production of potassium iodate and calcium iodate) is then added slowly to the reaction solution and the chemical reaction is adjusted to its end point.	5 to 6 hours
Step 3:	Neutralisation (中和) ⁽²⁾	The reaction solution is neutralised with the addition of potassium hydroxide and potassium carbonate.	2 to 3 hours
Step 4:	Decolourisation and filtration (脫色及過濾)	Active carbon is then added to the reaction solution for decolourisation and eventually arranged for filtration.	5 to 6 hours
Step 5(a):	Compression (濃縮) ⁽³⁾	The chemical is then arranged for compression to crystallise and form a solid mixture.	9 to 12 hours
Step 5(b):	Metathesis (複分解) ⁽⁴⁾	The chemical is then arranged for metathesis to form solid mixture of calcium iodate.	4 to 5 hours
Step 6:	Centrifugal separation and packaging (離心分離及包裝)	The finished products in solid form is formed after going through centrifugal separation and are then ready for packaging.	7 to 8 hours

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	Production process	Details	Estimated production time
Step 7:	Outgoing quality control (出品検測)	The finished products are checked against testing guidelines setting out the testing procedures and requirements to ensure their specifications comply with the national and industry standards before selling to our customers.	5 to 6 hours

Notes:

- (1) This step is only applicable to the production of potassium iodide and sodium iodide.
- (2) This step is only applicable to the production of potassium iodate and calcium iodate.
- (3) This step is not applicable to the production of calcium iodate.
- (4) This step is only applicable to the production of calcium iodate.

PRODUCTION

Production facilities and capacities

Our procurement department, production department and sales and marketing department work closely to manage our production planning. We prepare production plans at the beginning of each year according to market demands, historical sales and production records, adjusted by the number of orders on hand at the time, production capacity and the current inventory levels, as well as maintenance needs of our production facilities. Generally, we only accept customer orders if we expect that our customer's prescribed delivery time, which is negotiated by our sales and marketing staff with the customers in advance, can be met by our production plan. Nevertheless, in the event that the production capacity of our production facilities cannot meet the confirmed orders for a short period, our sales and marketing department will try its best to negotiate with the customers for an extended delivery schedule.

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As at the Latest Practicable Date, we had three production plants, located in Tai'an of Shandong Province, Xuzhou of Jiangsu Province, the PRC and Binh Duong Province, Vietnam, respectively.

The table below sets forth details of our production plants as at the Latest Practicable Date.

Location of production plants	Year since production	Production line No.	Major production lines segment	Key products manufactured
Tai'an, Shandong Province, the PRC	2012	1	Polyurethane materials	Polymer polyether, isocyanate mixture, and modified MDI ("PU Materials Group")
		2	Animal nutrition chemicals	Choline chloride
		3	Animal nutrition chemicals	Betaine
		4	Fine chemicals	Isooctanoic acid
		5	Fine chemicals	Diethyl sulfate
		6	Pharmaceutical products and intermediates	Iodine derivatives – potassium iodide and sodium iodide ("Iodine Derivatives Group A")
		7	Pharmaceutical products and intermediates	Iodine derivatives – calcium iodate, sodium periodate, and potassium iodate ("Iodine Derivatives Group B")
Xuzhou, Jiangsu Province, the PRC	2004	1	Animal nutrition chemicals	Choline chloride and betaine ("Animal Nutrition Group")
Binh Duong Province, Vietnam	2016	1	Polyurethane materials	Polymer polyether
		2	Animal nutrition chemicals	Choline chloride
		3	Fine chemicals	Cardanol

BUSINESS

Average utilisation rate

The table below sets forth the designed annual production capacity, actual production volume and utilisation rate of the major production lines under each of our production plants for the years ended 31 December 2016, 2017 and the six months ended 30 June 2019:

Tai'an Production Plant

Unit	For the year ended 31 December 2017				For the six months ended 30 June 2019				
	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate
Polyurethane materials									
PU unit ⁽²⁾	23,715.0	14,607.0	61.6%	23,715.0	16,993.6	71.7%	11,742.8	11,549.5	98.4%
Animal nutrition chemicals⁽³⁾									
Choline chloride	93,000.0	72,233.0	77.7%	93,000.0	75,921.5	81.6%	74,274.2 ⁽⁴⁾	45,367.0	61.1%
Betaine	5,208.0	2,048.8	39.3%	5,208.0	4,399.9	84.5%	5,894.4 ⁽⁴⁾	3,044.9	51.7%
Fine chemicals⁽⁵⁾									
Isocyanic acid	-	-	-	2,976.0	1,389.1	46.7%	2,822.4 ⁽⁴⁾	2,190.2	77.6%
Diethyl sulfate	1,550.0	887.3	57.2%	1,860.0	1,176.1	63.2%	921.0	844.5	91.7%
Pharmaceutical products and intermediates									
Iodine Derivatives Group A ⁽²⁾	297.6	173.4	58.3%	297.6	209.5	70.4%	147.4	155.0	105.2%
Iodine Derivatives Group B ⁽²⁾	527.0	411.4	78.1%	527.0	266.1	50.5%	261.0	272.9	104.6%

Xuzhou Production Plant

Unit	For the year ended 31 December 2017				For the six months ended 30 June 2019				
	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate
Animal nutrition chemicals									
ANA unit ⁽²⁾	14,880.0	8,292.0	55.7%	14,880.0	7,407.7	49.8%	12,740.5	11,300.9	88.7%

Vietnam Production Plant

Unit	For the year ended 31 December				For the six months ended 30 June				
	2016	2017	2018	2019	2016	2017	2018	2019	
	Designed production capacity	Actual production volume	Utilisation rate ⁽⁶⁾	Designed production capacity	Actual production volume	Utilisation rate ⁽⁶⁾	Designed production capacity	Actual production volume	Utilisation rate ⁽⁶⁾
Polyurethane materials									
Polymer polyether ⁽⁶⁾	-	-	-	1,379.0	484.0	35.1%	1,728.5	984.3	56.9%
Animal nutrition chemicals									
Choline chloride ⁽⁷⁾	-	-	-	2,116.8	1,140.0	53.9%	8,971.2	4,253.0	47.4%
Fine chemicals									
Cardamol ⁽⁸⁾	-	-	-	2,438.4	1,499.7	61.5%	5,392.8	4,807.0	89.1%

Notes:

- (1) The designed annual or periodic production capacity for formal production of all of the above key products at our Tai'an Production Plant and Xuzhou Production Plant is calculated based on 310 working days per year or 153.5 working days per six months with 24 working hours per day. We estimated our designed annual or periodic production capacity based on 310 working days per year or 153.5 working days per six months because our facilities for the formal production of these key products were generally under maintenance for approximately 30 days per year or 15 days per six months on average during the Track Record Period. There were approximately 25 days per year or 12.5 days per six months on average on which our facilities for the formal production of these key products were not in operation due to holidays (excluding Saturday and Sunday) or unfavourable weather conditions.
- (2) During the Track Record Period, certain production lines were used for the formal production of more than one product under the segments of polyurethane materials and pharmaceutical products and intermediates at our Tai'an Production Plant. Given that the various products sharing one production line cannot be manufactured simultaneously in the same production line, the utilisation rate is calculated based on the sum of the utilisation rate of each individual product, which is calculated by dividing each of their actual production volume in the relevant year or six-month period by the corresponding designed annual or periodic production capacity on an individual basis, on the assumption that the necessary production facilities are solely used for manufacturing that particular product. The volume in the specified common units translates into the volume in tonnes of the respective products manufactured in our Tai'an Production Plant as follows:
 - 1 PU unit: 1 tonne of polymer polyether: 3.825 tonnes of isocyanate mixture: 3.825 tonnes of modified MDI
 - 1 IDA unit: 1 tonne of potassium iodide: 1 tonne of sodium iodide
 - 1 IDB unit: 1 tonne of calcium iodate: 1.7 tonnes of sodium periodate: 1.417 tonnes of potassium iodate

- (3) The utilisation rate for formal production of each of the key products at our Tai'an Production Plant under the segments of animal nutrition chemicals and fine chemicals is calculated by dividing the actual production volume of the particular product in the relevant year or six-month period by the corresponding designed annual or periodic production capacity.
- (4) The respective designed production capacity of choline chloride and betaine for the six months ended 30 June 2019 increased due to the technological enhancement carried out at the Tai'an Production Plant which has been completed as at the Latest Practicable Date and fully funded by our internal financial resources. The designed production capacity of isosaccharic acid for the six months ended 30 June 2019 increased due to the upgrade of our production facilities in our Tai'an Production Plant in order to achieve higher production efficiency.
- (5) During the Track Record Period, the same production line was used for the formal production of choline chloride and betaine under the segment of animal nutrition chemicals at our Xuzhou Production Plant. Given that the two products sharing one production line cannot be manufactured simultaneously in the same production line, the utilisation rate is calculated based on the sum of the utilisation rate of each of choline chloride and betaine, respectively. The respective utilisation rate of choline chloride and betaine is calculated by dividing each of their actual production volume in the relevant year or six-month period by the corresponding designed annual or periodic production capacity on an individual basis, on the assumption that the necessary production facilities are solely used for manufacturing that particular product. The volume in ANA unit translates into the volume in tonnes of the respective choline chloride and betaine manufactured at our Xuzhou Production Plant as follows:

For the years ended 31 December 2016 and 2017: 1 ANA unit: 1 tonne of choline chloride: 2.6667 tonnes of betaine

For the year ended 31 December 2018 and the six months ended 30 June 2019; 1 ANA unit: 1 tonne of choline chloride; 2,7667 tonnes of betaine. The ratio of choline chloride to betaine for the years ended 31 December 2016 and 2017 is different from the ratio for the year ended 31 December 2018 and the six months ended 30 June 2019, primarily due to the technological enhancement on the production process and equipment of choline chloride at our Xuzhou Production Plant in early 2018.

(6) Polymer polyether commenced formal production at our Vietnam Production Plant in May 2017. For the year ended 31 December 2017, the designed annual production capacity for formal production of polymer polyether at the Vietnam Production Plant is calculated based on 221 working days in the year of 2017 with 12 working hours per day. We estimated our designed annual production capacity based on 221 working days per year because our facilities for the formal production of polymer polyether were under maintenance for approximately 24 days in the year of 2017. There were approximately 120 days in the year of 2017 on which our facilities for the formal production of polyurethane materials were not in operation due to the commencement of such production in May 2017, holidays (including Saturday and Sunday) or unfavourable weather conditions. For the year ended 31 December 2018, the designed annual production capacity for formal production of polymer polyether at the Vietnam Production Plant is calculated based on 277 working days in the year of 2018 with 12 working hours per day. We estimated our designed annual production capacity based on 277 working days per year because our facilities for the formal production of polymer polyether were under maintenance for approximately 48 days in the year of 2018. There were approximately 40 days in the year of 2018 on which our facilities for the formal production of polymer polyether were not in operation due to installation of production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions. For the six months ended 30 June 2019, the designed periodic production capacity for formal production of polymer polyether at the Vietnam Production Plant is calculated based on 131 working days during the six-month period of 2019 with 12 working hours per day. We estimated our designed periodic production capacity based on 131 working days during the six-month period of 2019 because our facilities for the formal production of polymer polyether were under maintenance for approximately 24 days during the six-month period of 2019. There were approximately 26 days during the six-month period of 2019 on which our facilities for the formal production of polymer polyether were not in operation primarily due to installation of production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions. Our Vietnam Production Plant had commenced production since 2016. Due to the short operating history, the production line of polymer polyether at our Vietnam Production Plant was still in the development phase and was only able to work 12 hours per day in the years of 2017 and 2018 and the six months ended 30 June 2019. In view of such reason, we tended to allocate more resources on the production line of our principal and well-developed products, namely choline chloride and cardanol and is therefore unable to monitor and operate our production line of polymer polyether for 24 hours per day. The Group anticipates that the operation of our production line of polymer polyether will gradually increase to 24 hours per day when the production scale of our Vietnam Production Plant becomes more stable, with a further expansion of our management team and technical personnel at the Vietnam Production Plant, to accommodate the increasing production capacity of polymer polyether in the coming years.

(7) Choline chloride commenced formal production at our Vietnam Production Plant in September 2017. For the year ended 31 December 2017, the designed annual production capacity for formal production of choline chloride manufactured at the Vietnam Production Plant is calculated based on 63 working days in the year of 2017 with 24 working hours per day. We estimated our designed annual production capacity based on 63 working days per year because our facilities for the formal production of choline chloride were under maintenance for approximately 9 days in the year of 2017. There were approximately 293 days in the year of 2017 on which our facilities for the formal production of choline chloride were not in operation due to trial production, installation and modification of production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions. For the year ended 31 December 2018, the designed annual production capacity for formal production of choline chloride at the Vietnam Production Plant is calculated based on 267 working days in the year of 2018 with 24 working hours per day. We estimated our designed annual production capacity based on 267 working days in the year of 2018 because our facilities for the formal production of choline chloride were under maintenance for approximately 48 days in the year of 2018. There were approximately 50 days in the year of 2018 on which our facilities for the formal production of choline chloride were not in operation due to modification of the production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions. For the six months ended 30 June 2019, the designed periodic production capacity for formal production of choline chloride at the Vietnam Production Plant is calculated based on 138 working days during the six-month period of 2019 with 24 working hours per day. We estimated our designed periodic production capacity based on 138 working days during the six-month period of 2019 because our facilities for the formal production of choline chloride were under maintenance for approximately 24 days during the six-month period of 2019. There were approximately 19 days during the six-month period of 2019 on which our facilities for the formal production of choline chloride were not in operation primarily due to installation of production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions.

- (8) Cardanol commenced formal production at our Vietnam Production Plant in March 2017. For the year ended 31 December 2017, the designed annual production capacity for formal production of cardanol at the Vietnam Production Plant is calculated based on 254 working days in the year of 2017 with 24 working hours per day. We estimated our designed annual production capacity based on 254 working days per year because our facilities for the formal production of cardanol were under maintenance for approximately 27 days in the year of 2017. There were approximately 84 days in the year of 2017 on which our facilities for the formal production of cardanol were not in operation due to the commencement of such production in March 2017, holidays (including Saturday and Sunday) or unfavourable weather conditions. For the year ended 31 December 2018, the designed annual production capacity for formal production of cardanol at the Vietnam Production Plant is calculated based on 321 working days in the year of 2018 with 24 working hours per day. We estimated our designed periodic production capacity based on 321 working days in the year of 2018 because our facilities for the formal production of cardanol were under maintenance for approximately 24 days in the year of 2018. There were approximately 20 days in the year of 2018 on which our facilities for the formal production of cardanol were not in operation due to holidays (including Saturday and Sunday) or unfavourable weather conditions. For the six months ended 30 June 2019, the designed periodic production capacity for formal production of cardanol at the Vietnam Production Plant is calculated based on 140 working days during the six-month period of 2019 with 24 working hours per day. We estimated our designed periodic production capacity based on 140 working days during the six-month period of 2019 because our facilities for the formal production of cardanol were under maintenance for approximately 12 days during the six-month period of 2019. There were approximately 29 days during the six-month period of 2019 on which our facilities for the formal production of cardanol were not in operation primarily due to installation of production facilities, holidays (including Saturday and Sunday) or unfavourable weather conditions.
- (9) The utilisation rate for formal production of each of the above key products at the Vietnam Production Plant is calculated by dividing the actual production volume of the products in the relevant year or six-month period by the corresponding designed annual or periodic production capacity.
- (10) The designed production capacity of cardanol for the six months ended 30 June 2019 increased due to the introduction of new production lines of cardanol at our Vietnam Production Plant during the six months ended 30 June 2019.

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The fluctuation of the utilisation rate for our production lines in different segments during the Track Record Period was principally subject to our actual sales performance.

The utilisation rate of facilities for the production of betaine under the segment of animal nutrition chemicals at our Tai'an Production Plant increased from approximately 39.3% for the year ended 31 December 2016 to approximately 84.5% for the year ended 31 December 2017, primarily because we started our production of betaine in 2015 and we had an increasing production volume of betaine at the Tai'an Production Plant from 2016 to 2017 in order to meet the increasing market demand of betaine. With more stable and developed production process from 2018 onwards, the utilisation rate of facilities for the production of betaine under the segment of animal nutrition chemicals at our Tai'an Production Plant further increased to approximately 88.2% for the year ended 31 December 2018. For the six months ended 30 June 2019, the utilisation rate of facilities for the production of choline chloride and betaine under the animal nutrition chemicals segment at our Tai'an Production Plant decreased to approximately 61.1% and 51.7%, respectively, as compared with approximately 88.1% and 88.2% for the year ended 31 December 2018. Such decrease was mainly attributable to the technological enhancement carried out at the Tai'an Production Plant which has been completed as at the Latest Practicable Date and fully funded by our internal financial resources, and hence increases the respective designed production capacity of choline chloride and betaine. For further details, please refer to the paragraph headed "Business – Business Strategies – Increase our production capacity by upgrading our production facilities in the PRC" in this section. The utilisation rate of facilities for the production of choline chloride under the animal nutrition chemicals segment at our Xuzhou Production Plant has otherwise increased from approximately 64.5% for the year ended 31 December 2018 to approximately 88.7% for the six months ended 30 June 2019, as demonstrated by the increasing sales volume of choline chloride recorded by our Group during the same period.

The utilisation rate of facilities for the production of isooctanoic acid under the segment of fine chemicals at our Tai'an Production Plant increased from nil for the year ended 31 December 2016 to approximately 46.7% for the year ended 31 December 2017, primarily because the product was under development phase in 2016 and was included in our formal production capacity since January 2017. The utilisation rate of facilities for the production of isooctanoic acid under the segment of fine chemicals at our Tai'an Production Plant increased to approximately 74.5% for the year ended 31 December 2018, primarily because of the increase of market demand for isooctanoic acid in 2018, which was reflected in the increasing sales volume of isooctanoic acid during the year ended 31 December 2018. The designed production capacity of isooctanoic acid for the six months ended 30 June 2019 has increased as we have upgraded our production facilities at our Tai'an Production Plant in order to achieve higher production efficiency for isooctanoic acid. We are able to maintain a relative stable utilisation rate of facilities at approximately 77.6% for the production of isooctanoic acid for the six months ended 30 June 2019, mainly because the respective market demand has continued to soar which boosts up the sales volume of isooctanoic acid during the first half of 2019.

The utilisation rate of facilities for the production of Iodine Derivatives Group B under the segment of pharmaceutical products and intermediates at our Tai'an Production Plant decreased from 78.1% for the year ended 31 December 2016 to approximately 50.5% for the year ended 31 December 2017, primarily because the production process of these iodine derivatives were constantly improving which resulted in relatively less stable production results. With these iodine derivatives products being further developed and optimised which resulted in more stable production process, the utilisation rate of facilities for the production of Iodine Derivatives Group B under the segment of pharmaceutical products and intermediates at our Tai'an Production Plant increased to approximately 93.4% for the year ended 31 December 2018, which corresponded with the increasing sales of these products during the respective period. The utilisation rate of facilities for the production of Iodine Derivatives Group A and Iodine Derivatives Group B under the segment of pharmaceutical products and intermediates at our Tai'an Production Plant increased from approximately 79.4% and 93.4%, for the year ended 31 December 2018 to approximately 105.2% and 104.6%, respectively, for the six months ended 30 June 2019. To accommodate the increasing sales order of Iodine Derivatives Group A and Iodine Derivatives Group B from our customers for the six months ended 30 June 2019, we have increased our production efficiency at our Tai'an Production Plant by working overtime during holidays and shortening the maintenance period in order to maximise the operation time of our production facilities. As such, the actual production volume of Iodine Derivatives Group A and Iodine Derivatives Group B both exceeded their respective designed production capacity for the six months ended 30 June 2019.

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The respective utilisation rate of facilities for the production of polymer polyether under the segment of polyurethane materials, choline chloride under the segment of animal nutrition chemicals and cardanol under the segment of fine chemicals at the Vietnam Production Plant increased from nil for the year ended 31 December 2016 to 35.1%, 53.9% and 61.5% for the year ended 31 December 2017, respectively, mainly because we only commenced formal production of these products since 2017. With more stable production results of these products from 2017 onwards, the respective utilisation rate of facilities for the production of these products at the Vietnam Production Plant had gradually increased or remained stable for the years ended 31 December 2017 and 2018. The respective utilisation rate of facilities for the production of polymer polyether increased from 35.1% for the year ended 31 December 2017 to 56.9% for the year ended 31 December 2018 while the respective utilisation rate of facilities for the production of choline chloride remained stable at approximately 53.9% and 47.4% for the years ended 31 December 2017 and 2018, respectively. In line with the Group's increasing export sales of choline chloride for the six months ended 30 June 2019, the respective utilisation rate for the production of choline chloride at our Vietnam Production Plant during the same period rose further to approximately 76.4%. Due to the introduction of new production lines of cardanol at our Vietnam Production Plant during the six months ended 30 June 2019, the respective designed production capacity of cardanol has significantly increased. Therefore, the utilisation rate of facilities for the production of cardanol under the segment of fine chemicals at our Vietnam Production Plant decreased from approximately 89.1% for the year ended 31 December 2018 to approximately 48.8% for the six months ended 30 June 2019.

Production equipment and technology

The machinery and equipment utilised in our production processes are designed to ensure our compliance with environmental regulations and to increase efficiency by maximising the quantity and quality of our products while minimising production costs.

As at the Latest Practicable Date, the major production equipment utilised in our production were owned by us. We did not have plan for the material replacement of these major production equipment. Our major production equipment, when properly maintained, can be used for up to approximately 10 years. During the Track Record Period, in line with the normal practice of chemicals industry and based on the useful life of our major production equipment as well as our internal policies on equipment maintenance and replacement, the replacement cycle of our major production equipment is approximately 5 to 10 years. As at the Latest Practicable Date, the estimated average remaining useful life of our major production equipment ranged from approximately 5 to 8 years. Pursuant to our accounting policies, depreciation of our production equipment is provided for using straight-line method over a period of 10 years.

The following table sets out the breakdown of the type, replacement cycle and remaining useful life of our major production equipment as at the Latest Practicable Date.

Type of production equipment	Number of equipment	Replacement cycle (years)	Average remaining useful life (years)
1. Storage equipment (儲存設備)	95	10	6.0
2. Reactor (反應器)	152	10	6.1
3. Heat exchanger (換熱器)	64	10	7.1
4. Delivery equipment (輸送設備)	30	5 to 10	5.1
5. Filtration and separation equipment (過濾及分離設備)	148	10	6.2
6. Drying and packaging equipment (乾燥及包裝設備)	34	5 to 10	6.0
7. Multi functional evaporator (多效蒸發器)	4	10	8.3
8. Multi-stage tail gas absorption system (多級尾氣吸收系統)	10	10	5.7

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We conduct regular inspections and maintenance works at our production plants to ensure that our production equipment can function properly and at full capacity. Inspections and maintenance works are conducted for every 12 hours and 24 hours, respectively, by staff from the equipment maintenance and electronic instruments control departments. During the Track Record Period, we did not experience any material or prolonged suspension of production at our facilities due to any equipment malfunctions or other failures.

We have also installed the following advanced equipment in our production processes, which have effectively enhanced our production capacity, decreased our production costs and improved our compliance with environmental laws and regulations:

Technology/Equipment	Function
1. Multi functional evaporator (多效蒸發器)	The use of multi-functional evaporator can effectively reduce the consumption of steam for evaporation of a tonne of water from 1.2 – 1.5 tonnes to 0.4 – 0.5 tonne, which reduces our energy consumption and waste emission and lowers our production costs.
2. Multi-stage tail gas absorption system (多級尾氣吸收系統)	The use of multi-stage tail gas absorption system can reduce the waste gas emission and loss of materials by collecting and treating the tail gas and waste gas at the production plants, which enhances the products yield rate and enhance the environmental protection of our production.

As at the Latest Practicable Date, we have obtained 50 patents relating to our production equipment and method used in the chemical production processes of our products. For further details, please refer to the paragraph headed “Statutory and General Information – B. Further Information About Our Business – 2. Intellectual property rights ” set out in Appendix IV to this prospectus.

Expansion plan

In view of our current market share and the expected rising demand for our animal nutrition products in terms of quantity and the increasing cost of raw materials for manufacturing our animal nutrition chemicals as advised by Frost & Sullivan, our Group believes that securing upstream supplies of raw materials will enable us to further strengthen our leading position in the industry through greater bargaining power in terms of our product pricing and enhance profitability by reducing our production costs. At the same time, we intend to enhance our competitiveness and market presence by enriching our product portfolio and expanding our revenue base while strengthening our competency and innovation capability.

To achieve these objectives, we plan to establish the New Production Plant in the western region from our Tai’an Production Plant at the Tai’an Daiyue Chemical Industrial Park (泰安岱岳化工產業園)(the “**Industrial Park**”). The New Production Plant is expected to have a total gross floor area of approximately 49,652 sq.m. and will consist of certain production facilities for (i) the production of trimethylamine, which is the key raw material for the production of choline chloride and betaine, and (ii) the construction of a pilot plant for manufacturing various pharmaceutical intermediates, including methyl iodide, IPBC and moxifloxacin side chain.

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On 3 December 2018, we signed a project agreement (the “**Agreement**”) with the management committee (the “**Management Committee**”) of the Industrial Park where the parcel of land of up to 400 mu (畝) on which our New Production Plant is expected to situate (the “**Potential Land**”), who is the governmental organisation representing the People’s Government of Tai’an, Daiyue District (泰安市岱岳區人民政府) (the “**Tai’an Daiyue Government**”) in the matter pursuant to the laws and regulations of the PRC and is responsible for the management, administration and economic development of the Industrial Park as advised by the PRC Legal Advisers, and an Independent Third Party, for the acquisition of the land use rights in respect of the Potential Land for a period of 50 years. The distance between the Potential Land and the Tai’an Production Plant was in close proximity of approximately 40 metres. Pursuant to the Agreement, the land use rights shall be obtained by way of bidding invitation, auction or listing (the “**Land Auction**”) as required under the laws and regulations of the PRC. The PRC Legal Advisers further advised that the purposes of entering the Agreement with the Management Committee was (i) to obtain the endorsement of the Management Committee for the Group to implement its expansion plan on the Construction Land and facilitate any governmental reporting and approval procedures in respect of planning, construction and other matters, and (ii) the Agreement formed the basis for liaison with the relevant governmental authorities for initiating the Land Auction process as described below.

Although the Group is entitled to acquire the land use rights of the Potential Land with a site area of up to 400 mu (畝) under the Agreement, the final site area of the Potential Land of which the land use rights are to be acquired by us will be subject to the final agreement in respect of the transfer of the land use rights the (“**Final Agreement**”). Save as the required portion of the Potential Land for constructing the New Production Plant (the “**Construction Land**”) which has a site area of approximately 137 mu (畝), the Group currently does not have any concrete plan or make any commitment to acquire the land use rights of the remaining portion of the Potential Land (the “**Remaining Land**”) for further expansion. Depending on our future expansion plan, we will continuously assess whether it is in the interest of the Group to acquire the Remaining Land and further negotiate with the relevant government authorities in the event that such need arises. The consideration for acquiring the land use rights of the Potential Land is calculated on the basis of RMB100,000 per mu (畝) (subject to the final auction price) and the Group shall pay a guarantee deposit of RMB100,000 per mu (畝) (which shall form part of the final consideration) plus any relevant social insurance fees to the Management Committee. Based on the site area of 137 mu (畝) of the Construction Land which is used for the expansion plan, the guarantee deposit is approximately RMB 15.8 million (the “**Guarantee Deposit**”). In December 2018, such Guarantee Deposit has been fully settled in accordance with the terms of the Agreement by our internal financial resources.

The Agreement also specifies that the Management Committee will coordinate with the regulatory authority of land and resources administration in the PRC (the “**Land and Resources Authority**”) to obtain the land use right certificate and it will permit our Group to undergo construction work within 18 months from the date of commencement of construction and in any event the relevant work shall be completed within two years from the date of obtaining the final agreement in respect of the transfer of the land use rights.

In January 2019, a payment notice of land use fees for new construction land (新增建設用地土地有償使用費) was issued by the Land and Resources Authority to the Tai’an Daiyue Government in respect of the Construction Land. According to the *Land Management Laws* (土地管理法), *Implementation Regulations of the Land Management Laws* (土地管理法實施條例) and *Management Measures of the Collection and Use of Land Use Fee for New Construction Land* (新增建設用地土地有償使用費收繳使用管理辦法), the land use fees for new construction land (新增建設用地土地有償使用費) in respect of the Construction Land amount to approximately RMB3.8 million (the “**Land Use Fees**”), which is calculated on the basis of RMB28,000 per mu (畝) and shall be payable by the Tai’an Daiyue Government to the Land and Resources Authority before the relevant land requisition can be further proceeded. Pursuant to a confirmation rendered by the Management Committee, since the land use plan in relation to the Construction Land has been approved by the People’s Government of Shandong Province (山東省人民政府) (the “**Approved Land Use Plan**”), the Land Use Fees were to be settled by us in advance on behalf of the Tai’an Daiyue Government and in the event that we fail to obtain the land use rights in respect of the Construction Land, the Land Use Fees assumed by us will be fully reimbursed by the Land and Resources Authority. In order to proceed with the procedures for obtaining the land use rights of the Construction Land, the Group has settled the relevant Land Use Fees by our internal financial resources in January 2019.

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In January 2019, the relevant land requisition procedures corresponding to the Approved Land Use Plan have been completed in which the Construction Land has become state-owned construction land and the pre-approval for the construction land planning in respect of the Construction Land has been obtained during the pre-trial meeting held on 25 April 2019. We have published the controlled detailed planning announcement on 13 June 2019 and obtained the planning conditions in relation to our expansion plan from Tai'an Urban Planning Committee Office (泰安規劃委員會辦公室) in July 2019. In October 2019, the announcement of the Land Auction has been published by the Public Resources Management Centre (公共資源管理中心) on the Internet and we have successfully bid the Construction Land on 28 October 2019 at a final auction price of approximately RMB 28.7 million (the “**Final Auction Price**”). As confirmed by the Management Committee, the difference between the Final Auction Price and the total amount of the Guarantee Deposit and the Land Use Fees was mainly attributable to the price adjustment made by the relevant PRC government authority in 2019 after taking into account the increase in valuation of the Construction Land. The Final Auction Price which comprises the consideration for the acquisition of the land use rights, the social insurance fees and the land use fees for new construction land in relation to the Construction Land, have been funded by our internal financial resources and fully settled in October 2019. The whole Land Auction process has been completed in early December 2019, in which we have obtained the approval from the People's Government of Tai'an (泰安市人民政府) and signed the Final Agreement in respect of the transfer of the land use rights of the Construction Land. Our Directors confirm and our PRC Legal Advisers concur that, we have (i) fulfilled our legal obligations for the acquisition of the Construction Land under the Final Agreement, and (ii) acquired the Construction Land in December 2019 in which our Group has been granted the exclusive rights to occupy and use the Construction Land.

A breakdown of the construction costs and capital expenditure for the initial establishment of the New Production Plant and the relevant financing plan of the Group is shown in the table below:

	Expected approximate amount of construction costs and/ or capital expenditure (RMB'000) (HK\$'000)		Financing plan
Initial Establishment of the New Production Plant			Proceeds from the Global Offering and internal resources
• Construction of basic infrastructure	10,000	11,236	
• Purchase and installation of ancillary facilities and utilities system	7,000	7,865	
• Miscellaneous costs related to the construction	4,000	4,494	
	21,000	23,595	

For details of the timeframe for the Group to utilise the proceeds from the Global Offering according to the above expansion plan, please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus.

We estimate that we will incur capital expenditure of approximately RMB21.0 million for the initial establishment of the New Production Plant, which involves the construction of basic infrastructure in the New Production Plant, including among others, the construction of public work station, central control room, boiler room, gate guard station and other civil constructions including wall building and road construction, the purchase and installation of ancillary facilities and utilities systems such as sewage treatment system, electricity distribution system, cooling system and fire protection system, etc., and miscellaneous costs related to the construction of these infrastructure and facilities such as survey and design fees, safety and environmental handling fees and construction supervision fees. These basic infrastructure, ancillary facilities and utilities systems will be commonly used by and shared among the production facilities for trimethylamine and the pharmaceutical intermediates. We anticipate that the proceeds from the Global Offering and our internal financial resources will be used to cover such capital expenditure. For details on the use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

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We will apply for the permits and licences associated with environmental protection and safety construction and the construction land planning permit in relation to the New Production Plant and all other relevant permits and licences necessary for the implementation of the expansion plan. We will also submit our applications for the building construction permit, building ownership certificate and production permits in respect of our New Production Plant after which formal production may commence. As confirmed by our PRC Legal Advisers, given that our New Production Plant is in compliance with the overall planning for the Construction Land as evidenced by the Approved Land Use Plan, there should be no legal impediment for us to obtain the relevant permits and licences associated with environmental protection and safety construction, construction land planning permit, building construction permit, the building ownership certificate and other approvals and permits associated with the implementation of the expansion plan, and the relevant land requisition procedures corresponding to the Approved Land Use Plan have been completed in January 2019.

We will continuously evaluate the actual timetable for the execution of our plan for establishment of the New Production Plant. Subject to the completion of the Global Offering and after taking into account the weather considerations, the availability of workers and construction materials and the progress of obtaining the necessary permits and approvals, we have commenced the preparatory work and design of the New Production Plant in May 2019 and July 2019, respectively, and we expect to commence the construction work of the basic infrastructure and other production facilities at the New Production Plant in April 2020. Following the testing phase of the New Production Plant in the last quarter of 2021, we plan to commence operation of the New Production Plant in the first quarter of 2022 after obtaining all the necessary licences and approvals. We will then commence production of the raw materials and products mentioned as follows in the second quarter of 2022.

(i) Construction of production facilities for the key raw materials of our animal nutrition products

Trimethylamine is the principal raw material for the production of our animal nutrition chemicals including choline chloride and betaine. In view of the increasing swine consumption and the expected rising demand for animal nutrition chemicals in terms of quantity which will potentially lead to further expansion of our market share in the PRC and globally and the increasing raw material costs for the production of animal nutrition chemicals, we intend to open up the upstream supply chain of our animal nutrition chemicals through the production of trimethylamine. We will implement such expansion plan by constructing production facilities at the New Production Plant for manufacturing 98% anhydrous trimethylamine, which is a form of trimethylamine with almost the highest purity.

According to Frost & Sullivan, we were the largest market player in choline chloride in terms of sales revenue in the PRC in 2018 and we ranked the second among all the sellers of choline chloride globally in 2018, accounting for approximately 16.8% of the global market share. In addition, the total number of choline chloride customers of the Group have increased from approximately 760 as at 31 December 2016 to approximately 980 as at 31 December 2018 and reached more than 1,000 customers as at 30 June 2019, which has already exceeded the total number of our choline chloride customers in the full year of 2018. By 2023, the revenue generated from the feed additives industry in the PRC would reach approximately RMB82.0 billion, as compared with RMB68.6 billion in 2018. To capture the business opportunities for the expected growth in demand of animal nutrition chemicals as a result of the increasing swine consumption, as at the Latest Practicable Date, we have completed the upgrade of our production facilities at our Tai'an Production Plant by performing technological enhancement to adjust and recalibrate the existing machinery and equipment for the production of choline chloride and betaine using internal financial resources. In order to support the increased production capacity of choline chloride and betaine as a result of the aforementioned upgrade in production facilities and technological enhancement at our Tai'an Production Plant, our demand for the raw materials of these two products including trimethylamine is expected to increase. By producing trimethylamine at the New Production Plant, we can ensure that there is a stable supply of raw materials for the production of our animal nutrition products. For further details on the reasons for us to expand into the production of trimethylamine at the New Production Plant, please refer to the paragraph headed "Business – Business Strategies – Enrich our product portfolio and expand our supply chain vertically in order to capture new market opportunities" in this prospectus.

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In addition, monomethylamine and dimethylamine are generated as by-products during the production process of trimethylamine. By making adjustments on production parameters in accordance with the required output ratio, we can produce monomethylamine, dimethylamine and trimethylamine in the same production line. Due to such flexibility, our Group is able to explore new market opportunities by offering monomethylamine and dimethylamine to the market while using the self-manufactured trimethylamine for manufacturing our animal nutrition chemicals. We anticipate that once the construction of our production facilities at the New Production Plant are completed, we can achieve an annual designed production capacity of approximately 6,000 tonnes, 11,000 tonnes, and 33,000 tonnes of monomethylamine, dimethylamine and trimethylamine, respectively.

A breakdown of the construction costs and capital expenditure for the production facilities at the New Production Plant for the production of trimethylamine and the relevant financing plan of the Group is shown in the table below:

	Expected approximate amount of construction costs and/ or capital expenditure		
	(RMB'000)	(HK\$'000)	Financing plan
Construction of production facilities at the New Production Plant for the production of trimethylamine			Proceeds from the Global Offering and internal resources
• Construction of production facilities	12,000	13,483	
• Construction of storage facilities	6,000	6,742	
• Purchase of major machinery and equipment	52,983	59,531	
• Installation of major machinery and equipment	7,000	7,865	
	77,983	87,621	

For the details of the timeframe for the Group to utilise the proceeds from the Global Offering according to the above expansion plan, please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus.

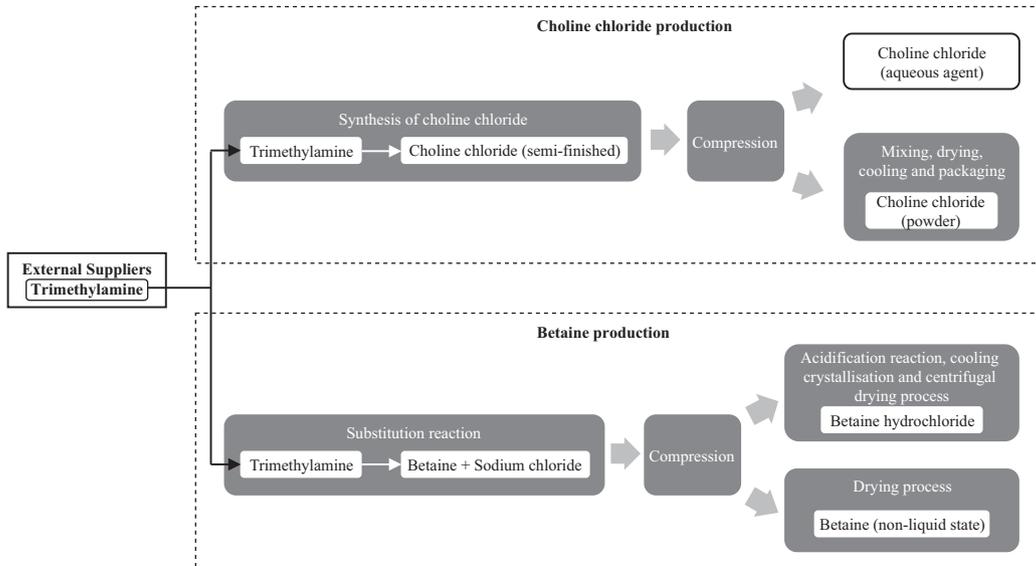
Based on the preliminary quotations obtained, we estimate that the capital expenditure for the construction of production facilities and storage facilities for trimethylamine will be approximately RMB18.0 million, and the purchase and installation of major machinery and equipment for the production of trimethylamine will be approximately RMB60.0 million, which will be financed by the net proceeds of the Global Offering and internal financial resources of the Group. Such production facilities will have an expected total gross floor area of approximately 16,400 sq.m. and the major type of machinery and equipment that we plan to purchase includes among others, methylamine reactor, high temperature heat exchanger, vaporiser, deamination tower and condenser. As at the Latest Practicable Date, we had not incurred any cost in connection with the production facilities for trimethylamine as it was still under the planning stage.

Assuming that there will be no material impact on the business and operating results due to unexpected fluctuation in market demand, inflations, increase in raw material costs and labour costs throughout the operation period, the expected time required for the new production facilities to generate revenue equal to its operating costs for the first time (excluding depreciation), i.e., the breakeven period, is approximately four months from the commencement date of operation of such new production facilities. The expected time required for the new production facilities to recover the investment costs (excluding depreciation), i.e., the payback period, is approximately 5.2 years from the commencement date of operation of such new production facilities.

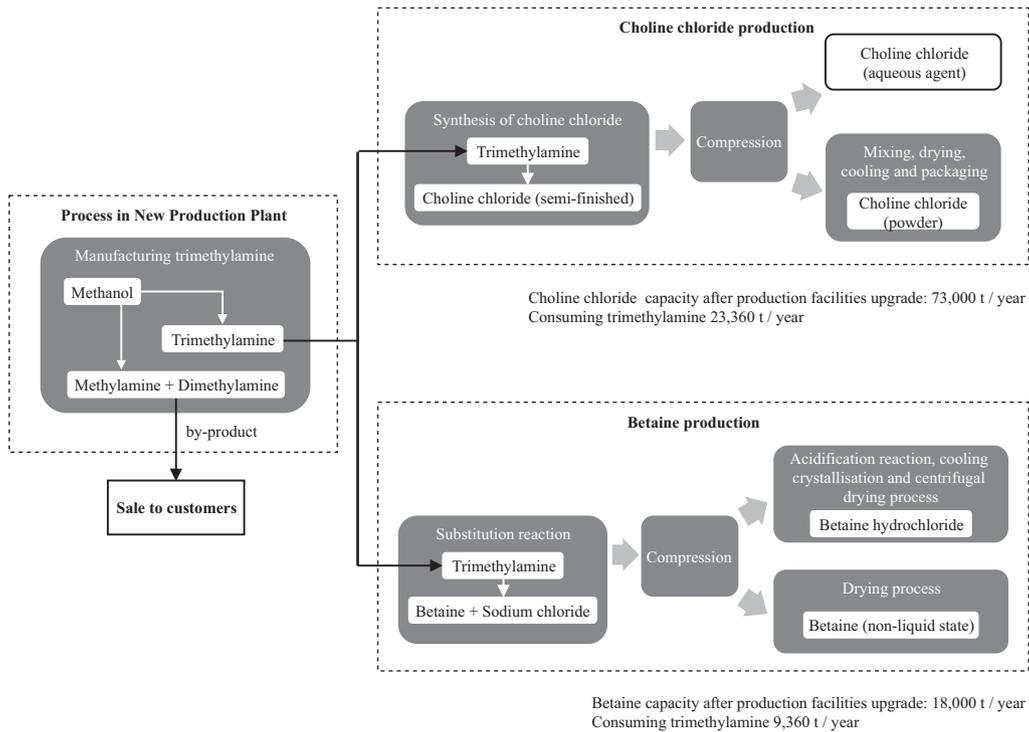
BUSINESS

The diagram below illustrates the key changes to our production capacities before and after implementing our expansion plan:

Existing production facilities



Facilities after implementing the expansion plan



(ii) Construction of pilot plant for pharmaceutical intermediates

To further leverage our research and development capabilities, we aim to set up a pilot plant for small batch production of various pharmaceutical intermediates which transforms our research and development efforts into practice. The establishment of such pilot plant enables the Group to utilise a small-scale production system to practically test and validate the production technologies of our new pharmaceutical intermediate products which were developed by our research and development team, before scaling up to a full-scale production. The primary objective behind constructing and operating the pilot plant is to allow us to collect the data to identify the problems which we may encounter during larger or full-scale production so that the Group can streamline and improve our production process into a safer, more efficient and commercially viable setting. By producing small quantities of these pharmaceutical intermediates, it can also serve as an ideal way for the Group to study the marketability of these pharmaceutical intermediates before we decide whether to proceed with a larger scale of production.

In this regard, we intend to use the net proceeds from the Global Offering and our internal financial resources to finance the construction of such pilot plant at the New Production Plant for the production of methyl iodide and IPBC, which are different variations of iodine derivatives. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, revenue generated from the sales of iodine derivatives amounted to approximately RMB75.1 million, RMB72.1 million, RMB123.0 million and RMB86.4 million, respectively, which accounted for approximately 33.7%, 33.8%, 45.4% and 44.7% of the segment revenue for pharmaceutical products and intermediates, respectively. With an increase in sales volume and average selling price of iodine derivatives for the year ended 31 December 2018 and for the six months ended 30 June 2019, the Group recorded an approximately 70.6% and 67.0% of increase in revenue derived from iodine derivatives, respectively, as compared with the corresponding periods in 2017 and 2018. In particular, a rising demand for our self-manufactured hydroiodic acid can be observed due to the implementation of temporary anti-dumping measures on imported hydroiodic acid from the U.S. and Japan commencing from late June 2018, in which we had increased our production volume which boost up our sales volume of hydroiodic acid during the year ended 31 December 2018. In addition, there is an increase in sales volume of potassium iodate as a result of the increasing demand from our customers in the contrast agent industry for the six months ended 30 June 2019. Given that the segment revenue derived from iodine derivatives continued to increase during the Track Record Period, we believe that the production of these new variation of iodine derivatives could further enhance our existing product portfolio under the pharmaceutical intermediates segment so that we can generate more sales revenue from our existing customers who need to purchase more than one type of iodine derivatives (such as customers purchasing hydroiodic acid may also need the supply of methyl iodide as an accessory product), as well as attracting potential new customers for expansion of our customer base.

Methyl iodide is commonly used as a chemical synthesis reaction catalyst in the acetic acid industry. According to Frost & Sullivan, the total downstream demand of methyl iodide in the PRC is approximately 150 tonnes per year. Due to the technical threshold and raw materials required for the production of iodine derivative products, there are less than five methyl iodide manufacturers in the PRC and currently there are two major methyl iodide manufacturers located in Jiangsu Province and Jiangxi Province, with a production capacity of approximately 250 tonnes per year. Based on its purity degree and chemical process, the price of methyl iodide ranges from approximately RMB200 to RMB400 per kilogram. In the PRC, the market size of acetic acid increased from approximately RMB12.7 billion in 2013 to approximately RMB16.9 billion in 2017 and further increased to approximately RMB26.5 billion in 2018. The total production capacity of acetic acid in the PRC remained stable but the price of acetic acid fluctuated due to the rise and fall of overseas supply. It is forecasted that due to the gently stable downstream applications such as purified terephthalic acid and the fall back of acetic acid, the total market size of acetic acid would reach approximately RMB33.1 billion in 2023. In view of the above, the combined effect of the concentrated market of methyl iodide and the rising demand of acetic acid thus facilitate our expansion to these new products market and we believe that we possess the competitive advantages over other industry players in terms of technological requirements involved in the production process of iodine derivatives and our ability to obtain stable supply of iodine from our suppliers.

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IPBC is a highly effective fungicide which can kill mould, yeast, algae and bacteria extensively. It is widely used in developed countries such as Europe, the U.S. and Japan in hair care products, sunscreen products, baby products, skin care products, wood preservatives and additives for paints and coatings. The total downstream demand for IPBC in the PRC is approximately 300 tonnes per year with price ranges from approximately RMB200 to RMB400 per kilogram. Currently, there is only one major IPBC manufacturer in the PRC which is located in Shanghai with a production capacity of approximately 500 tonnes per year. Stimulated by the industrialisation process and stricter environmental regulations, the market size of industrial fungicide in the PRC increased steadily from approximately RMB25.1 billion in 2014 to approximately RMB32.6 billion in 2018, representing a CAGR of approximately 6.8%. Comparing with the approximately US\$50 billion global market in 2017, the industrial fungicide in the PRC is still in its early development stage. It is estimated that the market size of industrial fungicide in the PRC would reach approximately RMB46.7 billion in 2023, with a CAGR of 7.5%, primarily attributable to the sustainable demand from downstream applications such as industrial water treatment and paints and coating which further drives the market growth of IPBC. As such, we believe that methyl iodide, IPBC and moxifloxacin side chain as described below have a good market prospects and would enable us to enlarge our product portfolio and revenue base, which is of great significance to the Group's sustainable growth and development.

On the other hand, the pilot plant will also assist in carrying out small-scale production to fulfil customised sales order and trial production of moxifloxacin side chain, which is the key pharmaceutical intermediate used in the production process of moxifloxacin hydrochloride. Moxifloxacin hydrochloride has been recognised by medical practitioners and patients as an antibiotic which is ideal for curing respiratory disease. It has strong antibacterial power and is generally resistant to drug-resistant bacteria. Its advantages of long half-life and relatively less adverse effects on human beings have also driven the increasing market demand in recent years. According to Frost & Sullivan, the moxifloxacin hydroxide market in the PRC increased from approximately RMB2.5 billion in 2014 to approximately RMB4.5 billion in 2018, representing a CAGR of 15.8%. Due to the advantages of broad spectrum sterilisation and small toxic side effects, it is estimated that moxifloxacin hydroxide is going to gradually replace the third generation of quinolones drugs and its market size will reach approximately RMB7.0 billion in 2023, representing a CAGR of approximately 9.2%. We believe the rising demand for moxifloxacin hydroxide would therefore enable us to penetrate into the moxifloxacin side chain market more easily. The market of moxifloxacin side chain in the PRC is considered as concentrated, shared by a limited number of manufacturers. In 2018, there was only less than 10 manufacturers of moxifloxacin side chain in the PRC market. The major competitive focuses of the moxifloxacin side chain market lie in the manufacturers of their production technology know-how, the acquisition of specialised talents and the ability to secure sufficient capital to support the operation of equipment and production lines. In 2018, the sales volume of moxifloxacin side chain generated by the largest market player in the PRC took up approximately 50% of the total market share. As for other large-scale market players, they have established stable relationship with their upstream raw material suppliers and downstream customers who are mainly manufacturers of moxifloxacin hydroxide.

As discussed in the section headed "Future Plans and Use of Proceeds" in this prospectus, we will invest in our research and development process of pharmaceutical products in order to strengthen our sales in the segment of pharmaceutical products and intermediates and we expect to use our internal financial resources and part of our net proceeds from the Global Offering to engage third party pharmaceutical company to conduct clinical trials on moxifloxacin hydrochloride tablets in order to facilitate our research and development team to further develop the moxifloxacin side chain product. As such, we believe that the synergy resulted from the production of moxifloxacin side chain at the pilot plant and our research and development process in moxifloxacin hydrochloride tablets would allow us to optimise our production efficiency and further increase our competitive strength. However, our Group currently does not intend to produce moxifloxacin hydrochloride tablets at the pilot plant due to the following restrictions: (i) we do not possess the requisite licence or permit for the production of moxifloxacin hydroxide tablets under the PRC laws and regulations, and (ii) considerable capital investments are required for developing the production technology of moxifloxacin hydrochloride tablets and constructing and purchasing the necessary production facilities and equipment. According to Frost & Sullivan, the problem of high entry barriers for moxifloxacin hydroxide industry has therefore encouraged cooperation with qualified manufacturers of pharmaceutical products, whereby they are commonly entrusted by other sellers of pharmaceutical products or suppliers of pharmaceutical raw materials to carry out research and development and production of new pharmaceutical products. This form of cooperation is also highly supported by the PRC Government.

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A breakdown of the construction costs and capital expenditure for the pilot plant at the New Production Plant for the production of pharmaceutical intermediates and the relevant financing plan of the Group is shown in the table below:

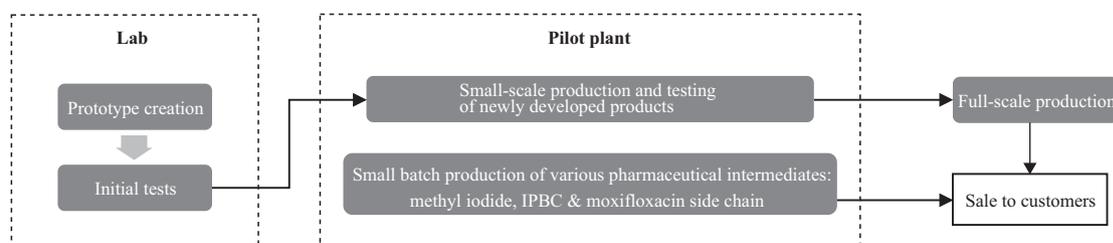
	Expected approximate amount of construction costs and/ or capital expenditure		Financing plan
	(RMB'000)	(HK\$'000)	
Construction of pilot plant at the New Production Plant for the production of pharmaceutical intermediates			Proceeds from the Global Offering and internal resources
• Construction of pilot plant	7,000	7,865	
• Purchase of major machinery and equipment	1,200	1,348	
• Installation of major machinery and equipment	4,500	5,056	
	12,700	14,269	

For details of the timeframe for the Group to utilise the proceeds from the Global Offering according to the above expansion plan, please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus.

We expect that the capital expenditure for the construction of the pilot plant for the pharmaceutical intermediates is estimated to be approximately RMB12.7 million. We plan to construct a pilot plant with an expected total gross floor area of approximately 8,900 sq.m. and a dangerous goods warehouse with an expected total gross floor area of approximately 700 sq.m. at the New Production Plant. We will also purchase and install major machinery and equipment at the pilot plant which includes among others, reactor, condenser, drying machine, tail gas absorption tower, etc. As at the Latest Practicable Date, we had not incurred any cost in connection with the pilot plant for these pharmaceutical intermediates as it was still under the planning stage.

Assuming that there will be no material impact on the business and operating results due to unexpected fluctuation in market demand, inflations, increase in raw material costs and labour costs throughout the operation period, the expected time required for the new production facilities to generate revenue equal to its operating costs for the first time (excluding depreciation), i.e., the breakeven period, is approximately four months from the commencement date of operation of the pilot plant. The expected time required for the new production facilities to recover the investment costs (excluding depreciation), i.e., the payback period, is approximately 1.7 years from the commencement date of operation of the pilot plant.

The diagram below illustrates the two key purposes to be served by the pilot plant, which is to (i) perform small-scale production and testing of newly developed products, and (ii) perform small batch production of various pharmaceutical intermediates:



BUSINESS

SALES, CUSTOMERS AND MARKETING

Customers and sales channel

Our sales and marketing department is responsible for the sales of our products. During the Track Record Period and up to the Latest Practicable Date, we sold our products through our business operations primarily in the PRC, Vietnam, India, Ukraine, Russia, Slovakia and the United States to both PRC and international customers in more than 50 countries. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales of our self-manufactured chemicals accounted for approximately 32.9%, 38.3%, 53.0% and 56.5%, respectively, while sales of chemicals produced by third party manufacturers accounted for approximately 66.5%, 61.2%, 46.4% and 43.0% of our total revenue, respectively.

The following table sets out the breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	For the year ended 31 December		2017		2018		For the six months ended 30 June		2019	
	2016	% of	(RMB'000)	% of	(RMB'000)	% of	2018	% of	(RMB'000)	% of
	(RMB'000)	revenue	(RMB'000)	revenue	(RMB'000)	revenue	RMB'000	revenue	(RMB'000)	revenue
							(unaudited)			
PRC	1,394,359	86.8	1,858,675	85.3	1,677,947	78.0	852,046	79.3	718,752	76.8
Europe ⁽¹⁾	89,894	5.6	118,527	5.4	191,242	8.9	98,045	9.1	65,413	7.0
Other Countries in Asia (excluding the PRC and Vietnam) ⁽²⁾	48,249	3.0	80,655	3.7	88,098	4.1	41,038	3.8	41,069	4.4
Vietnam	46,768	2.9	75,760	3.5	127,842	5.9	55,061	5.1	69,936	7.5
Others ⁽³⁾	27,559	1.7	45,432	2.1	67,817	3.1	28,737	2.7	40,103	4.3
Total	1,606,829	100.0	2,179,049	100.0	2,152,946	100.0	1,074,927	100.0	935,273	100.0

Notes:

- (1) Our customers in Europe primarily include customers located in Russia, Ukraine, France and Belgium.
- (2) Our customers in Asia (excluding the PRC and Vietnam) primarily include customers located in India, Pakistan and Taiwan.
- (3) Other customers in other countries primarily include customers located in Brazil, the United States and Canada.

Tax rebate

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the amount of tax rebate received by our Group was approximately RMB21.0 million, RMB28.2 million, RMB45.8 million and RMB27.7 million, representing approximately 1.3%, 1.3%, 2.1% and 3.0% of our revenue, respectively. The purpose of the tax rebate is to refund the value-added tax incurred on raw materials we sourced for production of our products, which were subsequently exported to overseas countries.

For our export sales from the PRC, our products fall within the categories eligible for tax rebate under the Notice on Increasing the Export Tax Rebate Rates of Value-Added Tax on Labour-intensive Commodities* (財政部、國家稅務總局關於出口貨物勞務增值稅和消費稅政策的通告) and the Notice on Adjustment of Export Tax Rebate Rate of Certain Products* (財政部、國家稅務總局關於調整部分產品出口退稅率的通告) which encourage PRC enterprises to export their products. For the three years ended 31 December 2018, and the three months ended 31 March 2019, the applicable value-added tax rate in the PRC for most of our chemical products is 16.0%. When the sales of our export products are being recognised, we are entitled to and will immediately make the applications for tax rebate to the tax authority. Tax rebate can then be recognised as tax recoverable under other receivables, deposits and prepayments. The amount of tax rebate is calculated by multiplying the invoiced value of the raw materials used to manufacture such export products with the tax rebate rate applicable to the export product type. We are informed by the tax authority that the relevant tax rebate can be refunded to us by a direct cash payment or realised by way of offsetting against value-added tax payable. If the value-added tax payable is less than the tax rebate entitled, cash settlement will be made by the tax authority. Due to policy change in the PRC, such value-added tax rate was decreased to 13.0% from April 2019 onwards.

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For our export sales in Vietnam, as advised by our Vietnamese Legal Advisers, the goods forwarded through Vietnam's territory, goods temporarily imported or exported, the raw materials imported for manufacturing or export processing under contract with foreign partners are not subject to value-added tax. Therefore, for the purchased raw materials which we paid value-added tax at import and subsequently used for manufacturing export products, the paid value-added tax would be refunded in accordance with the legal procedures. Such tax rebate will be recognised as tax recoverable under other receivables, deposits and prepayments. The amount of tax rebate is calculated by multiplying the invoiced value of the raw materials used to manufacture such export products with the applicable rate of tax rebate. The amount of tax rebate is refunded to us from the tax authority by (i) a direct payment via bank account, or (ii) to be offset against taxes of the next tax period or outstanding tax liabilities (if any).

We generally sell our products to customers whom we believe are manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we generated approximately 74.3%, 79.2%, 74.2% and 80.4% of our revenue from sales to these customers, respectively. The remaining customers which accounted for less than 20% of our total revenue during the Track Record Period cover a wide range of industries such as surfactant agent, pesticide, food additives, toys and crafts and chemical reagents.

Our Directors confirm that, none of our customers were engaged as the distributor of our products, and (i) we did not enter into any distribution agreement with our customers during the Track Record Period, and all trading customers purchased our products by way of sales agreement, (ii) we had no ownership, managerial or contractual control over any trading customers or on their sales, credit or pricing policies, and marketing activities, (iii) we did not accept any return or exchange of our products sold to trading customers (except for product quality issues), (iv) we had no restrictions or requirements on trading customers regarding their geographical coverage, sales target, minimum purchase requirements, target customers or avoidance of competition policies, and (v) our trading customers did not provide us, and they were not required to provide us with, any information regarding inventory levels and customers' demands of our products. As such, our Directors consider that all our customers were end-customers of our Group and we did not adopt any distributorship business model in selling our products. Apart from our products, we believe our customers also sell products produced by other manufacturers. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, all our customers were Independent Third Parties.

During the Track Record Period, in respect of each transaction with our customers, we generally entered into standard legally binding agreements with our customers, except that some of our customers would require us to enter into an agreement based on the form provided by them.

Principal terms of our sales agreement

The table below sets forth the principal terms of our sales agreement generally with our customers:

Duration:	Generally on a per-order basis or one year.
Pricing:	Determined on a case-by-case basis, the sales agreements generally specify a per unit base price of the finished product, subject to a validity period of such price.
Rights and obligations of parties involved:	Products shall be provided in accordance with the specification provided by the customers (including quantity, production origin, packaging and quality standard) while the customers are required to fulfil their payment obligations as agreed in the sales agreements.
Payment and credit terms:	Payment shall be made by telegraphic transfer, bank acceptance bill or letter of credit. Credit period varies, mainly delivery against payment, cash on delivery or payment within seven to 60 days upon receipt of the invoice.

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Delivery:	Depending on the agreement between the parties. We are generally responsible for delivery of the products to the location designated by the customer within the time limit specified in the sales agreement. We assume the risk of loss and damage before the products are delivered to the designated location.
Price adjustment provisions:	There is generally no price adjustment clause in our standard sales agreement. Some customers may include such clause in the form of agreements provided by them where the price may be adjusted based on agreement of the parties and in the event of price fluctuation in the market.
Minimum purchase amount:	There is no such clause in the sales agreement.
Penalty:	There is no such clause in the sales agreement.
Inspection/return policy:	Depending on the terms of the sales agreement. The customer can raise a dispute relating to the quality of the products within a stipulated period, generally seven days from the date of delivery of our products.
Conditions for termination and renewal of agreement:	<p>There is no such clause in our standard sales agreement. The standard sales agreement shall be automatically terminated upon completion.</p> <p>For the sales agreement based on the form provided by our customers, the non-defaulting party may be entitled to terminate the agreement if the other party is subject to bankruptcy or liquidation or breach of the agreement.</p>

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales to our largest customer were approximately RMB32.2 million, RMB42.9 million, RMB41.8 million and RMB23.7 million, respectively, which accounted for approximately 2.0%, 2.0%, 1.9% and 2.5%, respectively, of our total revenue. For the same periods, sales to our five largest customers were approximately RMB86.8 million, RMB119.1 million, RMB140.6 million and RMB86.3 million, respectively, which accounted for approximately 5.4%, 5.5%, 6.5% and 9.3%, respectively, of our total revenue. While we value our relationship with each of our customers, we believe that the loss of any individual customer would not materially impact our business in the long-term. None of our Directors, their respective associates or any shareholder (which to the best knowledge of our Directors owns 5% or more of our Company's issued share capital) held any interest in any of our five largest customers during the Track Record Period. To the best knowledge of our Directors, none of our five largest customers during the Track Record Period are our suppliers.

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The following table sets forth certain information with respect to our five largest customers (by affiliated group) during the Track Record Period.

Year ended 31 December 2016

Rank	Five largest customers	Customer type/ Business scope	Total sales amount for the year ended 31 December 2016 (RMB'000)	Approximate percentage to our total revenue	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Jiangxi Jiangling Lear Interior System Co., Ltd.* (江西江鈴李爾內飾系統有限公司)	A manufacturer based in Jiangxi, which designs, produces and sells seats and interior trim for automobile	32,155	2.0%	30 to 60 days	4 years
2.	Customer A	A manufacturer based in Shandong, which produces and sells chemicals including rubber antioxidants and MIBK	18,238	1.1%	30 days	7 years
3.	Guilin Liyuan Oil and Grain Food Group Co., Ltd.* (桂林力源糧油食品有限公司)	A manufacturer based in Guangxi, which engages in feed processing and sale, and production and sales of feed additive premixes	15,675	1.0%	Delivery against payment	6 years
4.	Customer B	A company based in Guangdong, which engages in husbandry, sales of livestock and sales of livestock feed	10,830	0.7%	30 days	6 years
5.	Zhejiang Province Pharmaceutical Industry Co., Ltd.* (浙江省醫藥工業有限公司)	A company based in Zhejiang, which engages in wholesale of pharmaceutical products and sale of veterinary drugs	9,893	0.6%	7 days	11 years

Year ended 31 December 2017

Rank	Five largest customers	Customer type/ Business scope	Total sales amount for the year ended 31 December 2017 (RMB'000)	Approximate percentage to our total revenue	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Jiangxi Jiangling Lear Interior System Co., Ltd.* (江西江鈴李爾內飾系統有限公司)	A manufacturer based in Jiangxi, which designs, produces and sells seats and interior trim for automobile	42,856	2.0%	30 to 60 days	4 years
2.	Guilin Liyuan Oil and Grain Food Group Co., Ltd.* (桂林力源糧油食品有限公司)	A manufacturer based in Guangxi, which engages in feed processing and sale, and production and sales of feed additive premixes	24,367	1.1%	Delivery against payment	6 years
3.	Customer B	A company based in Guangdong, which engages in husbandry, sales of livestock and sales of livestock feed	22,598	1.0%	30 days	6 years
4.	Liaoning Longteng Construction Material Technology Co., Ltd.* (遼寧龍騰建材科技股份有限公司)	A manufacturer based in Shenyang, which engages in production and sales of livestock feed and feed additive premixes	15,622	0.7%	0 to 30 days	6 years
5.	Wuhan Chia Tai Co., Ltd.* (武漢正大有限公司)	A manufacturer based in Wuhan, which engages in design of construction materials and production, sale and installation of profiled steel plates	13,658	0.6%	0 to 30 days	6 years

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Year ended 31 December 2018

Rank	Five largest customers	Customer type/ Business scope	Total sales amount for the year ended 31 December 2018 (RMB'000)	Approximate percentage to our total revenue	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Jiangxi Jiangling Lear Interior System Co., Ltd.* (江西江鈴李爾內飾系統有限公司)	A manufacturer based in Jiangxi, which designs, produces and sells seats and interior trim for automobile	41,840	1.9%	30-60 days	4 years
2.	Customer D	A company based in Vietnam, which engages in trading in chemicals and manufacturing of proofing for metal roof	30,113	1.4%	30 days	3 years
3.	Nanjing Changao Pharmaceutical Co., Ltd.* (南京長澳製藥有限公司)	A company based in Nanjing, which engages in production and sales of pharmaceutical products	23,712	1.1%	90 days	8 years
4.	Customer B	A company based in Guangdong, which engages in husbandry and sales of livestock and sales of livestock feed	23,406	1.1%	30 days	6 years
5.	Customer C	A company based in Nanjing, which engages in import and export trading of livestock feed and chemical products	21,488	1.0%	Delivery against payment	3 years

Six months ended 30 June 2019

Rank	Five largest customers	Customer type/ Business scope	Total sales amount for the six months ended 30 June 2019 (RMB'000)	Approximate percentage to our total revenue	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Customer E	A manufacturer based in Fujian, which produces and sells synthetic materials and organic chemical raw materials	23,675	2.5%	Delivery against payment	less than 1 year
2.	Customer D	A company based in Vietnam, which engages in trading in chemicals and manufacturing of proofing for metal roof	19,318	2.1%	30 days	3 years
3.	Customer F	A manufacturer based in Shandong, which engages in processing, sales and production of feed and veterinary drugs, sales of feed additives and animal breeding	17,538	1.9%	30 days	2 years
4.	Jiangxi Jiangling Lear Interior System Co., Ltd.* (江西江鈴李爾內飾系統有限公司)	A manufacturer based in Jiangxi, which designs, produces and sells seats and interior trim for automobile	16,824	1.8%	30 – 60 days	4 years
5.	Wuhan Chia Tai Co., Ltd.* (武漢正大有限公司)	A manufacturer based in Wuhan, which engages in design of construction materials and production, sale and installation of profiled steel plates	8,911	1.0%	10 – 30 days	6 years

BUSINESS

Customer E

Customer E is a manufacturer based in Fujian, which primarily engages in production and sale of synthetic materials and organic chemical raw materials with over five years of industry experience. To the best knowledge of our Directors and based on publicly available information, Customer E's products include fluorochemicals and fluorinated polymers. Customer E was established in 2010 with current registered capital of more than RMB480 million. The holding company of Customer E is owned as to 100% by a company (the "**Ultimate Holding Company**") which is the controlling shareholder of a company listed on the Shenzhen Stock Exchange (the "**Shenzhen Listed Company**"). The Ultimate Holding Company owns numerous companies in the PRC which engage in industries including pharmaceutical and property development. The chairman of the Shenzhen Listed Company is the legal representative and shareholder of 95% shares in the Ultimate Holding Company.

We have established a strong and long-term business relationship with one of our iodine customers based in Tianjin ("**Tianjin Customer**"), which engaged in production and sale of chemical products, including iodine pentafluoride. Since we first supplied our products to Tianjin Customer in early 2014, we have earned trust and confidence from Tianjin Customer. The Group has received recurring sales orders from Tianjin Customer during the period of 2014 to 2019. Our Group was keen to further strengthen our iodine customer base through marketing activities. In late 2018, we were introduced by Tianjin Customer through customer referral to Customer E, which purchased iodine pentafluoride from Tianjin Customer. To the best knowledge of our Directors, Customer E would use iodine pentafluoride and iodine as raw materials for production of pentafluoroethyl iodide. Pentafluoroethyl iodide is the raw material for production of perfluoroalkyl ethyl acrylate, of which Customer E's production facilities commenced operation in 2018. Since acquainted with the manager of Customer E, our sales team started to discuss with Customer E the potential opportunities through marketing activities and qualified as one of its approved suppliers in late 2018. They subsequently placed the first purchase order with us for iodine in December 2018. Since December 2018 and during the six months ended 30 June 2019, we had received continuous sales orders from Customer E. Our Directors are of the view that this is primarily because there had been an increasing demand for iodine in the downstream industries, especially in the fluorine chemical industry and we are one of the few importers of iodine in the PRC which has established our reputation among our customers.

To the best knowledge and belief of our Directors, Customer E, its shareholders and directors are Independent Third Parties and do not have any past or present relationship (including but not limited to employment, trust, financing and family relationship) with our Group, its directors, shareholders, senior management or any of their respective associates.

Pricing, settlement terms and credit control

The prices of our products are agreed between us and our customers. We set our selling price on a cost-plus basis with reference to various factors, including general economic conditions, the prevailing market price, our cost of sales including cost of raw materials and inventories, labour and manufacturing overheads and purchase volume and the availability of competing or same products in the market. In view of our market position and bargaining power, we are generally able to pass on the increases in cost of raw materials and inventories to our customers. For details of the sensitivity analysis illustrating the impact of hypothetical fluctuations in the cost of raw materials and inventories on our profit before tax, please refer to the paragraph headed "Financial Information – Key Factors Affecting Our Results of Operations – Procurement price of raw materials and inventories" in this prospectus.

The average time from the confirmation of a sales order to the time when finished products are ready for delivery normally ranges from five to seven days. We may or may not bear the costs of transportation, depending on our negotiation with the customers. As we have a solid relationship with our customers and a stable customer base, we can ensure that there are sufficient purchase orders for our products.

Depending on our relationship with that customer, some of our customers are required to make full payment prior to the delivery of products or on delivery of products. No credit is granted to these customers.

BUSINESS

We have also implemented an internal credit policy to monitor the credit history of each of our customers. We only consider to grant a credit period for potential customers which are manufacturers having established and operated for two years or more unless the relevant potential customers are related enterprises or subsidiaries of our existing customers. As such, we have purchased trade credit insurance against the risk of our customers' default in payment for our products. We generally do not grant any credit period for enterprises which are subject to litigation in respect of sales contract disputes, administrative penalty, continuous financial loss, non-compliance and outstanding tax arrears. Depending on the factors including but not limited to the scale of operation, business relationship with our Group, transaction amount and historical payment records, we generally grant our customers a credit period of 15 to 30 days. We may exercise discretion to grant a longer credit period to some of our large and long-standing customers.

We arrange for delivery of our products to the customers within 15 days of return of the executed sales agreement by our customers. Title and risks of our products will pass to the respective customers when the products are delivered to the designated location. Our overseas customers usually settle their payment through telegraphic transfer, bank acceptance bill or letters of credit.

As at the Latest Practicable Date, we have not experienced any material issues in respect of the doubtful debts from our sales.

Marketing

As at the Latest Practicable Date, our sales and marketing department consists of 101 staff, who are responsible for seeking out business opportunities in our targeted markets and maintaining good business relationship with our existing customers. Our sales team has an extensive understanding of the market trends and built up solid customer relationship with our existing and potential customers through communication with these customers. By obtaining the latest market information, we are able to adjust our business strategies so as to explore the markets with a greater demand for our products and take proactive approaches to contact potential customers which may be looking for our products.

We believe marketing and promotion is fundamental to maintaining our market position. We focus on promoting sales of our products through attending industry conferences and advertising on internet media. As we recognise the importance of promoting our products through online platform, we have established our Company's website which may serve as an additional channel to promote our products. Our e-commerce platform has been launched in August 2019 which allows our customers to place order directly through such platform also further facilitates our expansion of customer base.

In terms of after-sales service, our staff gathers feedback from our customers regarding our products from time to time. We visit our customers on a periodic basis to discuss the quality of our products and service, as well as their future purchases. Such interaction with customers allows us to foster closer working relationships with our existing customers, secure new purchase orders and promote our products.

BUSINESS ACTIVITIES IN THE SANCTIONED COUNTRIES

The United States, the European Union, Australia and the United Nations Security Council have broad economic sanctions targeting the Sanctioned Countries. The United States and other jurisdictions have certain sanctions targeting Sanctioned Persons regardless of whether they are located in the Sanctioned Countries. For details of the relevant sanctions laws and regulations, please refer to the paragraph headed "Regulatory Overview – Sanctions Laws and Regulations" in this prospectus.

During the Track Record Period, we made sales of our products to customers in Russia, Ukraine, Lebanon, Egypt, Belarus, Tunisia, Venezuela, Syria and Sudan, all of which are Sanctioned Countries. The total revenue generated from sales to customers in these Sanctioned Countries amounted to approximately RMB60.8 million, RMB94.5 million, RMB128.7 million and RMB40.9 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, representing approximately 3.8%, 4.3%, 6.0% and 4.4% of our total revenue for the corresponding years or period.

BUSINESS

During the Track Record Period, our sales activities involving the Sanctioned Countries were conducted on normal commercial terms in the ordinary course of business. The counterparties to all the above sales of our products involving the Sanctioned Countries were Independent Third Parties.

The following demonstrates details of our sales of products to customers in the Sanctioned Countries during the Track Record Period:

	For the years ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Approximate percentage Revenue (RMB'000)	to our total revenue (%)	Approximate percentage Revenue (RMB'000)	to our total revenue (%)	Approximate percentage Revenue (RMB'000)	to our total revenue (%)	Approximate Revenue (RMB'000) (unaudited)	percentage to our total revenue (%)	Approximate Revenue (RMB'000)	percentage to our total revenue (%)
Russia	41,860	2.6	65,649	3.0	92,749	4.3	45,468	4.2	28,270	3.0
Ukraine	16,453	1.0	22,072	1.0	25,489	1.2	11,688	1.1	10,186	1.1
Lebanon	845	0.1	440	0.02	2,571	0.1	1,776	0.1	410	0.04
Egypt	810	0.1	1,772	0.1	3,652	0.2	2,669	0.2	772	0.08
Belarus	-	-	2,028	0.1	4,229	0.2	3,639	0.3	669	0.07
Tunisia	372	0.02	1,942	0.1	-	-	-	-	608	0.07
Venezuela	256	0.02	-	-	-	-	-	-	-	-
Syria	154	0.01	183	0.01	-	-	-	-	-	-
Sudan	-	-	375	0.02	-	-	-	-	-	-
Total	60,750	3.8	94,461	4.3	128,690	6.0	65,240	6.1	40,915	4.4

Sanctions risks

United States and United Nations

In relation to our Group's sales to customers in the Sanctioned Countries during the Track Record Period, our Group has not been notified that any United States or United Nations sanctions will be imposed on them. None of the contracting parties are specifically identified on the blocked persons lists maintained by OFAC. Moreover, our Group's sales do not involve industries or sectors that are currently subject to specific United States or United Nations sanctions. Therefore, they are not deemed to be prohibited activities under the relevant United States and United Nations sanction laws and regulations. In light of the above, as advised by Loeb & Loeb LLP, the legal advisers to our Company as to United States and United Nations sanctions laws, it is unlikely that our Group could be deemed to have violated United States or United Nations sanctions laws in relation to its activities in the Sanctioned Countries during the Track Record Period. In addition, as advised by Loeb & Loeb LLP, the impact and sanctions risk on our Group, their investors and shareholders and the persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Group's shares is low.

European Union

In relation to our Group's sales to customers in the Sanctioned Countries during the Track Record Period, our Group has not been notified that any European Union sanctions will be imposed on them. It is the view of RadcliffesLeBrasseur, the legal advisers to our Company as to European Union sanctions laws, that none of our Group's products and activities in the Sanctioned Countries fall within the restrictions imposed by the European Union sanctions on the Sanctioned Countries, none of the customers in the Sanctioned Countries are listed on the published European Union consolidated lists of economic sanctions targets and that our Group's sales to the Sanctioned Countries are not in breach of the European Union sanctions. As such, as advised by RadcliffesLeBrasseur, based on the confirmations made by us as stated below as a result of our Group's sales to the Sanctioned Countries, the risk of impact from the European Union sanctions to our Group, its investors and shareholders, and any persons who might, directly or indirectly, be involved in the Listing, is minimal:

BUSINESS

- (a) our Group has no affiliate, subsidiary, or branch incorporated or constituted under the law of any member state of the European Union (each a “**Member State**”) (save for GHW Eurochemicals, a Slovakian subsidiary in our Group) nor is our Group doing business within the territory of any Member State, apart from sales to customers in the European Union (being both direct sales as well as sales made through our Group’s trading customers);
- (b) during the Track Record Period, our Group did not employ or otherwise engage any directors, officers, or employees who were nationals of any Member State (save for the employees of GHW Eurochemicals who are Slovakian citizens) anywhere in the world;
- (c) no financing or financial assistance has been received by our Group (either directly or indirectly) from any company, entity or body incorporated or located in the territory of any Member State or any of the United Kingdom overseas territories (including the Cayman Islands and BVI) and no company in our Group has been used in any way in relation to activities involving a country which is the target of European Union economic sanctions;
- (d) none of our Group’s products (or any components) are exported from the territory of any Member State, whether by our Group, or so far as our Group is aware, by any customer of our Group nor do they contain any components, software, or technology sourced from the territory of any Member State nor are they intended for any military end user nor do they have any application in relation to nuclear or missile technology; and
- (e) we believe that none of our Group’s products fall within the restrictions imposed by European Union sanctions on the Sanctioned Countries.

Australia

In relation to our Group’s sales to customers in the Sanctioned Countries during the Track Record Period, our Group has not been notified that any Australian sanctions will be imposed on them. In addition, none of the customers in the Sanctioned Countries appear in the consolidated list of all persons and entities who are subject to targeted financial sanctions or travel bans under Australian sanctions laws. Holding Redlich, the legal advisers to our Company as to Australian sanctions laws, is of the view that, based on the confirmations made by us as stated below and given that our Group’s business activities in the Sanctioned Countries are not prohibited activities under Australian sanctions laws, the historical sales to the Sanctioned Countries or the entering into of sale and purchase contracts with customers in the Sanctioned Countries during the Track Record Period do not provide any basis on which a competent authority could take any enforcement action under the relevant sanction laws against our Group:

- (a) our Group does not have any business operations in Australia during the Track Record Period;
- (b) companies comprising our Group are not registered in or otherwise conducting business in Australia;
- (c) no Australian citizens have been involved in any way, including in the negotiation or approval of, or with the on-going performance of, or in any wider decision-making capacity, with respect to any of our Group’s dealings in the Sanctioned Countries; and
- (d) neither our Company nor any of our subsidiaries or affiliates is:
 - (i) a person located in Australia;
 - (ii) an Australian citizen or Australian-registered body corporate;
 - (iii) owned or controlled by Australians or persons in Australia; or

BUSINESS

- (iv) a person or body corporate using an Australian-flagged vessel or aircraft to transport goods or transact services subject to Australian sanctions laws.

According to Holding Redlich, our Group has a low risk of violating Australian sanction laws as a result of the Group's sales to customers in the Sanctioned Countries as there is no evidence of a direct sanctions breach by the Group. The relevant risk for our Group to violate Australian sanction laws where our Group's customers in Russia or Ukraine purchasing goods on an undisclosed basis for supply to a designated person is also regarded as low.

As such, the impact and sanction risk on the Group, their investors and shareholders and the persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of the Group's shares is low.

Views of our Directors

Taking into account that it is unlikely for our Group to have violated the relevant sanctions law as a result of the business activities in the Sanctioned Countries and the low impact and sanctions risk on our Group or our Group's investors and shareholders and the persons who might directly or indirectly be involved in permitting the listing, trading and clearing of our Group's shares, and in order to maintain sales revenue and to maximise our Shareholders' interests, we will continue to carry out the above business activities. Our Directors, however, do not expect any significant increase or decrease in our Group's sales to the Sanctioned Countries upon Listing.

Based on the above advice from our legal advisers as to the United States, the United Nations, the European Union and Australian sanctions laws, our Directors are of the view that the risk of sanctions violations as a result of our Group's sales to Sanctioned Countries during the Track Record Period and the expected sales to Sanctioned Countries upon Listing is remote.

For details of the sanctions risk, please refer to the paragraph headed "Risk Factors – Risks Relating to our Business – We could be adversely affected as a result of our operations in certain countries that are subject to evolving economic sanctions of the United States, the European Union, Australia and the United Nations Security Council and other relevant sanctions authorities" in this prospectus.

Our undertakings to the Stock Exchange

We undertake to the Stock Exchange that:

- we will not use the net proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, whether directly or indirectly, to finance or facilitate any activities or businesses with, or for the benefit of, any Sanctioned Countries or any other government, individual or entity sanctioned by the United States, the European Union, the United Nations or Australia, including but not limited to, any government, individual or entity that is the subject to any OFAC-administered sanctions or that would be in breach of sanctions imposed by the United States, the European Union, the United Nations or Australia;
- we will not undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, our Shareholders or potential investors to violate or become a target of sanctions laws of the United States, the European Union, the United Nations or Australia;
- we will make timely disclosure on the website of the Stock Exchange and our website if we believe that any of our business activities would put our Group or our Shareholders and investors at risks of being in breach of the sanctions imposed by the United States, the European Union, the United Nations or Australia; and
- we will also include such disclosures in our annual reports and the discussion of our efforts on monitoring our business exposure to sanctions risk, the status of our future business (if any) in any country subject to sanctions imposed by the United States, the European Union, the United Nations and Australia, and our business intention relating to customers from any such country.

BUSINESS

Our internal control measures to minimise sanctions risk

As we intend to continue to sell our products to customers in the Sanctioned Countries, in order to identify and monitor our exposure to risks associated with sanctions laws relating to these sales, we will implement the following measures before the Listing, including:

- the Board has established a risk management committee to manage our exposures to sanctions risks and oversee the implementation of internal control policies. The risk management committee will be chaired by Mr. Zhou Chunnian, with Mr. Chen Hua and Mr. Sun Guibin and will hold meeting at least one time each year to discuss sanctions issue;
- the risk management committee may engage external legal advisers with relevant expertise and experience in sanctions matters to evaluate the sanctions risk as and when necessary and will formulate risk management measures taking into account the advice and recommendations provided by such external legal advisers;
- we will maintain a control list of the Sanctioned Countries and persons and entities designated pursuant to the sanctions imposed by the United States, the European Union, the United Nations or Australia which is provided and updated by the external legal advisers from time to time. The risk management committee will review existing and potential customers' information against the list to identify the sanctions risk;
- for new customers from countries subject to sanctions imposed by the United States, the European Union, the United Nations or Australia, the risk management committee must review and approve these potential customers before we enter into any agreement or embark on any business opportunities with these potential customers;
- we will open and maintain separate bank account(s) which is/are designated for proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange. Our risk management committee will monitor and regulate the use of the net proceeds from the Global Offering to ensure that we will not breach our undertaking to the Stock Exchange; and
- compliance and training programme for sanctions issues will be provided to our Directors, senior management members to ensure that they keep abreast of the material developments in the sanctions related issues.

Our Directors are of the view that the above measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risks relating to sanctions laws and complying with our undertakings to the Stock Exchange.

After undertaking relevant due diligence and subject to the full implementation and enforcement of the above measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective framework to assist the Company in identifying and monitoring any material risks relating to sanctions laws.

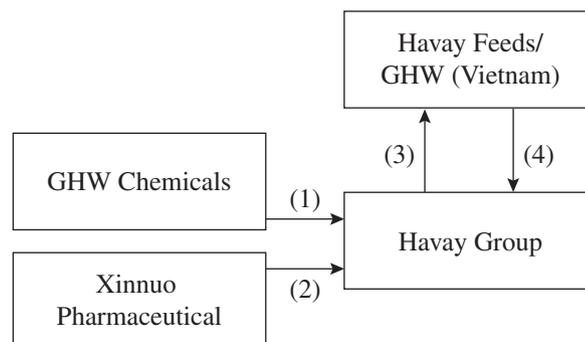
BUSINESS

INTRA-GROUP SALES BETWEEN OUR VARIOUS SUBSIDIARIES

In respect of the transactions involving intra-group sales, during the Track Record Period, we primarily produced our self-manufactured products in the three production plants in the PRC and Vietnam through Havay Group, Havay Feeds and GHW (Vietnam) while our sales orders in respect of some products with our customers are concluded by GHW International SCM, GHW Chemicals, GHW International (HK), GHW (Vietnam) Chemicals or our Overseas Subsidiaries. The major functions undertaken by Havay Group, Havay Feeds and GHW (Vietnam) include (i) research and development, (ii) procuring raw materials (other than those for production of polymer polyether and iodine derivatives), (iii) production, (iv) quality control, and (v) inventory management. The major functions undertaken by Xinnuo Pharmaceutical, GHW Chemicals and GHW International SCM, in the cases of PRC sales of some products include (i) undertaking overall marketing and sales activities including customer channels development and maintenance, price negotiation and sales order conclusion with the PRC customers, (ii) procuring raw materials for the production of polymer polyether and iodine derivatives directly from suppliers and price negotiation, and (iii) undertaking certain logistics function. In the case of sales of some products overseas, GHW (Vietnam) Chemicals, GHW International (HK) and Overseas Subsidiaries undertook the major function of marketing, customer channels development and maintenance and sales order conclusion with the customers in the overseas countries. Other than the intra-group sales, all of the members in the Group (other than Havay Group) procured products manufactured by third party manufacturers and sold to third party customers during the Track Record Period.

The chart below sets forth the major steps and parties involved in our intra-group transactions among our subsidiaries during the Track Record Period:

Procurement of raw materials/intermediates



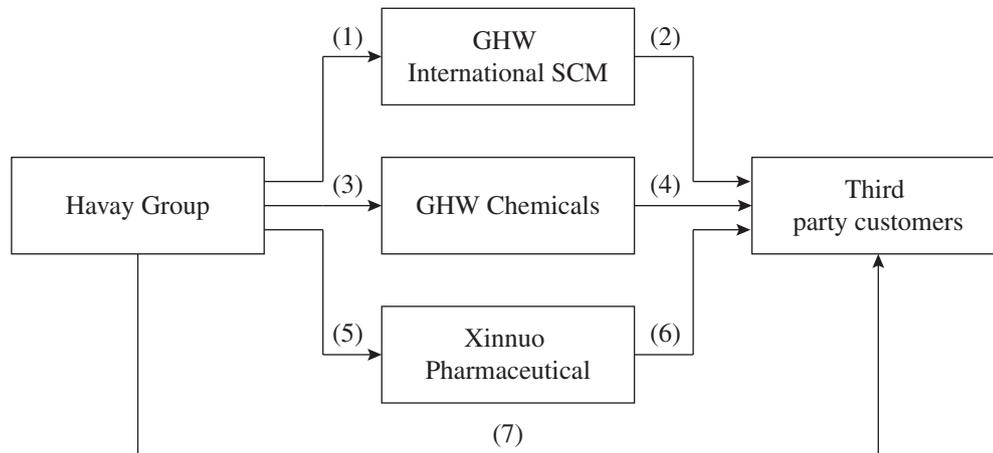
Notes:

1. GHW Chemicals purchases polyurethane raw materials (“**PU Raw Materials**”) from the third party suppliers and sold the PU Raw Materials to Havay Group for the production of polymer polyether.
2. Xinnuo Pharmaceutical purchased iodine as the raw material from the third party suppliers and sold the iodine from the third party suppliers to Havay Group for the production of iodine derivatives.
3. Since the production facilities at the Xuzhou Production Plant and Vietnam Production Plant only manufactured choline chloride in powder form but not aqueous choline chloride, while aqueous choline chloride is required as an intermediate during the production process of choline chloride in powder form, Havay Group sold the self-manufactured aqueous choline chloride to Havay Feed and GHW (Vietnam) for the production of choline chloride in powder form.
4. Havay Feed and GHW (Vietnam) sold some of their manufactured choline chloride in powder form to Havay Group for subsequent sales to third party customers as particularised below.

BUSINESS

Sales of products

(a) Local sales in the PRC

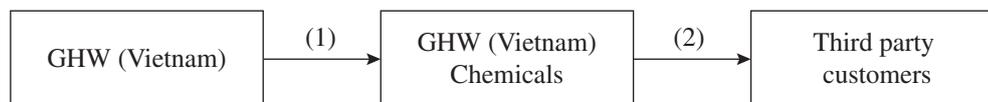


Notes:

1. GHW International SCM received purchase orders of isooctanoic acid from third party customers in the PRC. GHW International SCM would channel these purchase orders to Havay Group for the production of isooctanoic acid.
2. The finished products produced by Havay Group are delivered to GHW International SCM, which then deliver the products to the third party customers in the PRC.
3. GHW Chemicals received purchase orders of polymer polyether and modified MDI from third party customers in the PRC. GHW Chemicals would channel these purchase orders to Havay Group for the production of polymer polyether and modified MDI.
4. The finished products produced by Havay Group are delivered to GHW Chemicals, which then deliver the products to the third party customers in the PRC.
5. Xinnuo Pharmaceutical received purchase orders of iodine derivatives from third party customers in the PRC. Xinnuo Pharmaceutical would channel these purchase orders to Havay Group for the production of iodine derivatives.
6. Xinnuo Pharmaceutical sold self-manufactured iodine derivatives and iodine manufactured by third party manufacturers to third party customers in the PRC.
7. Havay Group sold choline chloride (including its self-manufactured choline chloride and choline chloride in powder form manufactured by Havay Feed and GHW (Vietnam)) to third party customers in the PRC.

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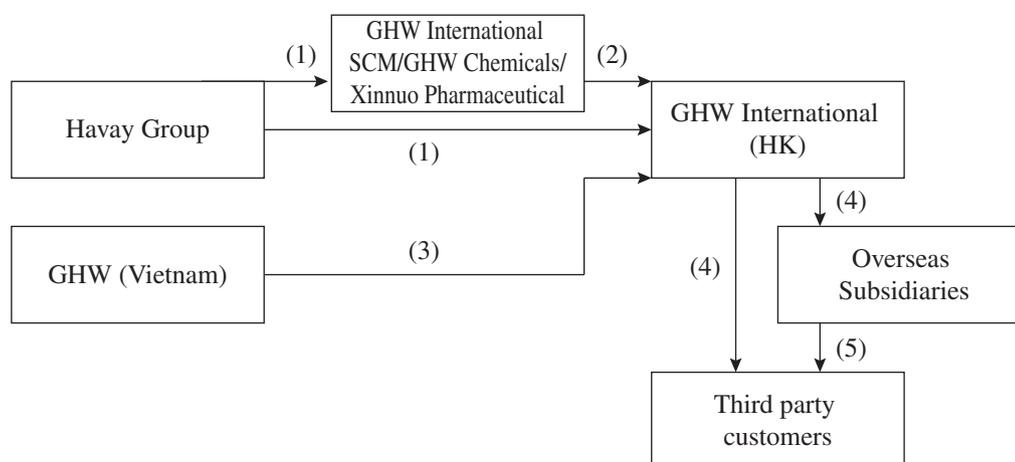
(b) Local sales in Vietnam



Notes:

1. GHW (Vietnam) Chemicals received purchase orders of choline chloride and polymer polyether from third party customers in Vietnam. GHW (Vietnam) Chemicals would then channel these purchase orders to GHW (Vietnam) for the production of choline chloride and polymer polyether.
2. GHW (Vietnam) Chemicals sold self-manufactured products by the Group and products manufactured by third party manufacturers to the third party.

(c) Export sales overseas



Notes:

1. Havay Group sold self-manufactured products to GHW International SCM, GHW Chemicals, Xinnuo Pharmaceutical and GHW International (HK).
2. GHW International SCM, GHW Chemicals and Xinnuo Pharmaceutical sold self-manufactured products of the Group and products manufactured by third party manufacturers to GHW International (HK).
3. GHW (Vietnam) sold self-manufactured products to GHW International (HK).
4. GHW International (HK) sold self-manufactured products and products manufactured by third party manufacturers to third party customers directly or Overseas Subsidiaries.
5. Overseas Subsidiaries sold self-manufactured products and products manufactured by third party manufacturers to customers in the overseas countries.

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Commercial rationale

Our Directors believe that such arrangements enhance the effectiveness of our management and operations and facilitates our procurement, marketing and production functions within our Group. When our Group was founded in 1995, GHW Chemicals was established in 1995 with a business focus of selling applied chemicals intermediates produced by third party manufacturers. The same situation applied to other members of the Group such as Xinnuo Pharmaceutical when it was first established in 1998. We only began to produce choline chloride, iodine derivatives and polyurethane materials in 2004, 2008 and 2012, respectively. Given that the Group members with a business focus of selling products manufactured by third party manufacturers had been establishing a stable business relationship with the suppliers for polymer polyether and iodine derivatives and customers for years, our Directors preferred to continue the transaction with the same entity in the Group to consolidate the customer relationship management and maintain reputation among our customers with established brand names and to obtain more favourable procurement terms from these suppliers by virtue of the stable business relationship. Therefore, when we commenced production of our own products, the products were sold from the entities which undertook the function of production to the entities which had been concluding sales with third party customers in their names.

Tax implications and compliance

In order to assess whether our intra-group manufacturing and sales transactions were carried on an arm's length basis, we have engaged the Tax Consultant, namely, BDO Tax Limited to conduct an analysis of the above transactions (the "**Analysis**"). Based on the percentage of revenue generated from the members of the Group which were involved in the intra-group manufacturing and sales over the total revenue of the Group during the Track Record Period, the Tax Consultant had selected Havay Group, Havay Feeds, GHW (Vietnam) (collectively, the "**Analysed Intra-Group Manufacturing Companies**"), GHW (Vietnam) Chemicals, GHW Chemicals, GHW International SCM, Xinnuo Pharmaceutical, Nuovomondo Chemicals, Ukrhimformacia and Star International (collectively, the "**Analysed Intra-Group Sales Companies**"), which in aggregate contributed approximately 78.3% of revenue of the Group during the Track Record Period. For the purpose of evaluating our Group's compliance with the applicable transfer pricing rules and regulations, being the Organisation for Economic Co-operation and Development ("**OECD**") transfer pricing guidelines ("**OECD TPG**") during the Track Record Period through the Analysis, the Tax Consultant calculated the profit level that should be earned by each of the Analysed Intra-Group Sales and Manufacturing Companies based on the following procedures:

- (i) interviewed the Group's management team and analysed the financial statements and other relevant accounting information of the Analysed Intra-Group Sales and Manufacturing Companies;
- (ii) understood the operation model and analysed the functions and risks assumed by each of the Analysed Intra-Group Sales and Manufacturing Companies and assets utilised in the related party transactions;
- (iii) conducted transfer pricing benchmarking analysis by searching the comparable companies in each region by using the independent databases in accordance with the OECD TPG. The Tax Consultant selected groups of independent functionally comparable companies to calculate relevant inter-quartile ranges of the profit level indicators in different regions, which can be used as a benchmark to test whether intra-group sales and manufacturing transactions were carried out according to the OECD TPG arm's length's principle;
- (iv) based on the nature and characteristics of the transaction model and the functional profile of the Analysed Intra-Group Sales and Manufacturing Companies, selected the transactional net profit margin method as the appropriate transfer pricing analysis methodology, which examines a net profit indicators that taxpayers realise from controlled transactions by reference to the same net profit indicators earned in comparable transactions by independent companies;

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- (v) determined the comparable transactions, application net profit indicators (which are the earnings before interest and taxes operating margin (the “**EBIT operating margin**”) for the Analysed Intra-Group Sales Companies and the net cost plus margin for the Analysed Intra-Group Manufacturing Companies) and the range of reasonable profit margin derived by comparable companies;
- (vi) benchmarked the EBIT operating margin for the Analysed Intra-Group Sales Companies and net cost plus margin for the Analysed Intra-Group Manufacturing Companies for the Track Record Period with the normal EBIT operating margin and net cost plus margin, respectively, derived from comparable companies providing similar services as each of the Analysed Intra-Group Sales and Manufacturing Companies for 2015 to 2018 (given that the financial data of the comparable companies for the six months ended 31 December 2019 is not available) in accordance with the OECD TPG, and determined whether or not our intra-group manufacturing and sales were carried out on an arm’s length basis and quantified the potential transfer pricing exposures; and
- (vii) determine if there are Double Taxation Agreements/Arrangements (“**DTAs**”) between the jurisdictions of the companies with transfer pricing exposures determined in (vi) above and their respective transacting related parties. If official transfer pricing investigations concluded that transfer pricing adjustments to be made by the tax authorities, companies engaging in the related party transactions could request tax authorities from both jurisdictions to enter into Mutual Agreement Procedure (“**MAP**”) in accordance with the DTAs. Both tax authorities would need to negotiate and agree on the treatment of the transfer pricing adjustments via the MAP. Only when the two tax authorities have reached an agreement on the treatment of the transfer pricing adjustments calculated in (vi) above, the companies that pay for the transfer pricing adjustments could claim a corresponding tax deduction from their own in-charge tax authorities to avoid double taxation. From the Group’s perspective, the tax deduction claimed can reduce the overall transfer pricing adjustment impact.

If the tax authorities of the companies with transfer pricing exposures have agreed to activate the MAP and enter into negotiating process with their counterparts, and agreements have been reached, the transfer pricing exposures from the Group’s perspective are as follows:

- the net cost plus margin or the weighted average net cost plus margin for each of Havay Group and Havay Feed, the EBIT operating margin or the weighted EBIT operating margin of GHW Chemicals, GHW International SCM, Xinnuo Pharmaceutical and Ukrhimformacia for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the EBIT operating margin of Star International for the years ended 31 December 2016 and 2017 and the EBIT operating margin of Nuovomondo Chemicals for the year ended 31 December 2017 were higher than the upper quartile or within the inter-quartile range of the weighted average arm’s length ranges derived from the respective comparable companies with similar functions and risks from 2015 to 2018. Therefore, the transactions by these Group members did not violate the arm’s length principle according to the OECD TPG;
- the net cost plus margin of GHW (Vietnam) and EBIT operating margin of GHW (Vietnam) Chemicals for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were below the lower quartile of the weighted average arm’s length ranges of the respective comparable companies with similar functions and risks from 2015 to 2018; and

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- the EBIT operating margin of Star International for the year ended 31 December 2018 and the six months ended 30 June 2019, and the EBIT operating margin of Nuovomondo Chemicals for the years ended 31 December 2016 and 2018 and the six months ended 30 June 2019, were below the lower quartile of the weighted average EBIT operating margin of the respective comparable companies with similar functions and risks from 2015 to 2018.

The Tax Consultant has quantified the potential transfer pricing exposure in India, Russia and Vietnam. If the tax authorities were to impose the transfer pricing adjustments of GHW (Vietnam) and GHW (Vietnam) Chemicals for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, Star International for the year ended 31 December 2018 and the six months ended 30 June 2019, and Nuovomondo Chemicals for the years ended 31 December 2016 and 2018 and the six months ended 30 June 2019, and adjust their net cost plus margin or EBIT operating margin, only if the two tax authorities in the jurisdictions of the Group members involved in the intra-group sales and manufacturing are willing to activate MAP, then the Group can take into account the reduced impact as a result of possible tax deduction through MAP if there are DTAs between jurisdictions of the Group members involved in the intra-group sales and manufacturing, it would result in an additional tax payable of approximately RMB0.3 million in aggregate, which is insignificant to the Group's consolidated financial statements as a whole. The Directors consider that the amount of potential tax exposure represented approximately 0.004%, 0.001%, 0.008% and 0.003% of our Group's revenue only, or 0.3%, 0.03% 0.2% and 0.1% of our Group's profit only for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Since the Directors consider the possibility of claims is remote as particularised below and the amount of potential claims is immaterial, no further income tax provision for the Track Record Period is considered necessary according to the Directors. For the intra-group transactions carried among the Group members (other than the Analysed Intra-Group Sales and Manufacturing Companies), we have compared with reference to the analysis performed by the Tax Consultant which compared the transactional net profit margin range of the comparable companies undertaking similar functions to those of these Group members and assessed the potential tax exposure, only if the two tax authorities in the jurisdictions of the Group members involved in the intragroup sales and manufacturing are willing to activate MAP, then the Group can take into account the reduced impact as a result of possible tax deduction through MAP if there are DTAs between jurisdictions of the Group members involved in the intra-group sales and manufacturing (the "**Testing**"), the Directors are of the view that the potential tax exposure of approximately RMB0.2 million is minimal and therefore the transactions by these Group members were carried out at arm's length basis as a whole according to OECD TPG. Our Directors believe that the insignificant amount of potential tax exposure would have no material adverse impact on the business operations and financial position of the Group and the possibility of potential claims from the relevant tax authorities against our Group members is remote, based on the fact that (i) our Directors were not aware of any ongoing enquiry, audit or investigation by any tax authority in the PRC, Vietnam, Hong Kong, or the jurisdictions in which our Overseas Subsidiaries operated as at the Latest Practicable Date with respect to transfer pricing procedures carried out by our Group, (ii) we have not been called upon to demonstrate to any relevant tax authorities of our transfer pricing arrangements as at the Latest Practicable Date, as none of the entities within the Group have been requested or required to do so in accordance with applicable law, rules and regulations in the relevant jurisdictions in which they operated, and (iii) the transaction prices for the intra-group sales and/or manufacturing activities are determined based on market production costs and/or the market price for the demand of relevant products, which is considered as commercially reasonable.

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The Tax Consultant has considered, (i) the above comprehensive assessment basis by referencing to similar market transactions and applying the profit margin ranges derived from comparable companies during the Track Record Period in accordance with the OECD TPG, and (ii) only if the two tax authorities in the jurisdictions of the Group members involved in the intra-group sales and manufacturing are willing to activate MAP, then the Group can take into account the reduced impact as a result of possible tax deduction through MAP if there are DTAs between jurisdictions of the Group members involved in the intra-group sales and manufacturing, (a) the results of the Analysis that among the Analysed Intra-Group Sales and Manufacturing Companies, only the subsidiaries in India, Russia, and Vietnam may have potential transfer pricing exposure in certain periods during the Track Record Period and the quantification of which would be an additional tax payable in the amount of approximately RMB0.3 million in aggregate, and (b) the result of the Testing that the potential tax exposure of the Group members other than the Analysed Intra-Group Sales and Manufacturing Companies is approximately RMB0.2 million. Considering that if the tax authorities of some of these Group members (i.e. both (a) and (b) above) were to impose any transfer pricing adjustments and double taxation could be avoided if the aforementioned MAP is entered into and agreed by the relevant tax authorities for both the transfer pricing adjustments and the corresponding tax deduction, the potential additional tax liabilities for our Group would not exceed approximately RMB0.5 million, which is not material from the Group's perspective according to the Directors. Based on such Directors' representation, plus the review of the Group's business operation, commercial substance and function of different Group members, the Tax Consultant is of the view that the intra-group sales and manufacturing transactions among the Group members do not breach the arm's length principle of OECD TPG, being the applicable transfer pricing rules and regulations, in all material respect.

Measures to ensure ongoing compliance

Our Group's transfer pricing arrangement is part of a normal trading operation where a transaction price needs to be established. We have implemented a general policy in this area to follow the arm's length principle and to achieve an arm's length outcome. We will regularly review the arrangements between each of the Group companies, and where necessary, appoint the Tax Consultant to review such transfer pricing arrangements to ensure compliance with the arm's length principle.

RAW MATERIALS AND SUPPLIERS

Purchase of raw materials and chemicals produced by third parties

We purchase a wide range of raw materials and chemicals produced by third parties from suppliers for our production and sales of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates, the details of which are set out as follows:

1. Polyurethane materials segment

Polymeric MDI and TDI are our principal products under the polyurethane materials segment. The aggregate revenue from sales of these two products constituted approximately 81.5%, 83.0%, 74.6% and 66.9%, respectively, of our segment revenue during the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019. We source polymeric MDI and TDI from third party manufacturers primarily based in the PRC and sell to our customers.

Polyether is the key raw material we used for manufacturing polymer polyether and polyurethane foam. We also source polymeric MDI and pure MDI from suppliers in the PRC for manufacturing modified MDI.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the cost of sales from the polyurethane materials segment was approximately RMB679.5 million, RMB1,015.1 million, RMB829.2 million and RMB289.6 million, accounting for approximately 47.1%, 54.6%, 45.0% and 35.6% of our total cost of sales during the Track Record Period, respectively.

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2. Animal nutrition chemicals segment

The key raw materials we purchase for the production of choline chloride and betaine include ethylene oxide and trimethylamine, which are purchased primarily in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the cost of sales for the animal nutrition chemicals segment, which primarily include the cost of raw materials for production of choline chloride and betaine, was approximately RMB270.1 million, RMB358.1 million, RMB498.5 million and RMB237.7 million, representing approximately 18.7%, 19.2%, 27.0% and 29.2%, respectively, of our total cost of sales during the Track Record Period. We also purchase raw materials for our production of trace mineral supplements, the costs of which accounted for an insignificant portion of our total cost of sales during the Track Record Period.

3. Fine chemicals segment

We mainly source our fine chemical products from third party manufacturers in the PRC, Japan, South Korea, Europe and the United States and then sell to our customers. Since 2016, we began to develop and manufacture our cashew nut shell oil related products by purchasing cashew nut shell oil in Vietnam. We also purchase absolute ethanol for the production of diethyl sulfate and octanol for the production of isooctanoic acid from our suppliers. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the cost of sales for the fine chemicals segment was approximately RMB277.5 million, RMB293.9 million, RMB268.4 million and RMB112.8 million, accounting for approximately 19.3%, 15.8%, 14.6% and 13.9% of our total cost of sales during Track Record Period, respectively.

4. Pharmaceutical products and intermediates segment

The key raw material used in the production of iodine derivatives is iodine, which is mainly imported from suppliers in Chile and Japan. Selenium dioxide is another major type of raw material which is used under our pharmaceutical products and intermediates segment to produce sodium selenite and we source selenium dioxide mainly from suppliers in the PRC. We primarily purchase our pharmaceutical products such as cefpodoxime dispersible tablets from suppliers located in the PRC. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the cost of sales of the pharmaceutical products and intermediates segment was approximately RMB206.8 million, RMB186.6 million, RMB237.8 million and RMB169.2 million, representing approximately 14.3%, 10.0%, 12.9% and 20.8%, respectively, of our total cost of sales during the Track Record Period.

Procurement

We source our raw materials and chemicals produced by third parties from suppliers based on the customers' demands for our products anticipated by our sales and marketing department. Our sales and marketing department prepares a monthly rolling sales forecast based on the actual sales performance for the previous quarter and the future market expectation, adjusted by the actual purchase order received from our customers each month. Our procurement department devises and regularly updates the requirement plan for the raw materials and chemicals produced by third parties with reference to the monthly rolling sales forecast provided by the sales and marketing department each month and the inventory level of raw materials and chemicals produced by third parties. Our procurement department then makes purchase order of the raw materials and chemicals produced by third parties pursuant to requirement plan. Generally, our requirement plan for the raw materials and chemicals produced by third parties is devised to aim at maintaining a sufficient level of raw materials and chemicals produced by third parties commonly used in our production for a period of approximately 15 to 30 days of production or sale (as the case may be) while minimising significant impact of price fluctuations of raw materials and chemicals produced by third parties on our profit margin.

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We are not dependent on any of our suppliers as we normally do not procure our raw materials for production of each of our products from a single source and we believe we have a good relationship with our suppliers through our long-term business relationship. Therefore, if there is any urgent need for instant procurement, we are of the view that we will not experience material difficulties to procure the required quantity of raw materials for production. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we had not less than 560, 670, 630 and 500 approved suppliers, respectively. We were able to source sufficient raw materials and chemicals produced by third party manufacturers for our production and sales under the segments of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates.

Our personnel in the procurement department can only request for price quotations from our list of approved suppliers. Our quality control department then conducts inspection on the procured materials based on the quality control guidelines under the quality management and control systems.

Suppliers

To ensure the quality of raw materials and chemicals produced by third party, each of our potential suppliers has to pass our assessment before they are included in our list of approved suppliers. We select the suppliers based on various factors including but not limited to their market reputation, scale, quality, pricing of products and their business relationship with us. Our procurement department conducts background checks of the potential suppliers before any sales transactions and evaluate the existing suppliers annually based on various factors such as quality and stability of the supply of raw materials, payment terms, delivery timeliness, quality of customer services.

During the Track Record Period, we obtained raw materials and chemicals produced by third party from suppliers based in various countries including but not limited to the PRC, Japan, South Korea, Chile, Taiwan, Europe and the United States for our production and sales of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. The type of suppliers primarily include chemicals manufacturers. As at the Latest Practicable Date, we have established the business relationship with some of our five largest suppliers for more than five years. We are generally granted credit terms of up to approximately 90 days. We closely monitor the quality of the raw materials and chemicals produced by third party provided by our suppliers. All raw materials and chemicals produced by third parties provided by our suppliers have to comply with the incoming quality control requirements set out under the paragraph headed "Quality Control" in this section.

During the Track Record Period, we entered into legally binding framework supply agreement for raw materials and chemicals produced by third party with some of our suppliers, followed by purchase orders setting out the relevant sales quantity and prices of each individual order. We also entered into supply agreement with some of our suppliers for each individual order.

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The table below sets forth the principal terms of such framework agreement and supply agreement for individual orders:

Duration:	Generally one year for framework supply agreements. Other supply agreements are entered into on a per-order basis without a specified term. However, suppliers may require collection of the purchased raw materials or chemicals within a specified time period ranging from one week to one month.
Pricing:	Parties of the framework supply agreements generally agree to determine the price based on the market price of the raw materials or the chemicals produced by third party at the time when the purchase orders are made. For other supply agreements, price is determined on an order-by-order basis by which a per unit base price of the raw materials or the chemicals is specified.
Currency:	Mainly payable in RMB for purchases from suppliers in the PRC, and U.S.\$ for purchases from foreign suppliers.
Rights and obligations of parties involved:	Raw materials or the chemicals shall generally be supplied by the suppliers in accordance with our specification (including quantity and quality standard) while we are required to fulfil our payment obligations as agreed in the supply agreements.
Payment and credit terms:	Payment shall be made by telegraphic transfer, bank acceptance bills or letter of credit. Credit period varies, mainly delivery against payment, payment in advance, payment within approximately 30 days from date of invoice or 90 days after date of bill of lading.
Delivery:	Depending on the agreement between the parties. If we are required to collect the purchased raw materials or chemicals from the suppliers, we generally bear our own cost. For the purchases where our major suppliers are responsible for delivery of the raw materials or chemicals, generally the suppliers are responsible to deliver the raw materials or chemicals to the carrier at the specified location and the suppliers must contract for and pay the costs of carriage necessary to bring the raw materials or chemicals to the specified location. The suppliers shall also contract for insurance cover against our risk of loss or damages to the raw materials or chemicals during the carriage.

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Price adjustment provision:	There is no such clause in the supply agreements.
Minimum purchase amount:	<p>Indicative minimum annual or monthly quantity of raw materials or chemicals such as ethylene oxide and trimethylamine to be purchased is generally stated in the framework supply agreements.</p> <p>There is no such clause in the supply agreement with suppliers for individual orders as the purchase quantity is clearly specified in the agreements.</p>
Penalty:	<p>Some of our suppliers may require a fixed amount of security deposit to be paid upon signing of the framework supply agreements. In the event that the indicative minimum purchase amount specified under such agreement cannot be fulfilled by us, the security deposit shall be forfeited. Some of our suppliers are also entitled to terminate the agreements if we fail to make the purchase order in accordance with the agreed amount and schedule.</p> <p>Any delay in payment by us will generally entitle the supplier to charge for a penalty, usually being a percentage of the invoice amount.</p>
Inspection/return policy:	Any quality issue in relation to the raw materials or chemicals shall be raised to the suppliers within the specified period as agreed between us and our suppliers upon collection of such raw materials or chemicals for replacement.
Termination:	Suppliers are generally entitled to terminate the supply agreement under certain circumstances such as failure to fulfil our payment obligations under the agreement, our failure to fulfil the minimum purchase amount or if we are subject to bankruptcy, liquidation, cessation of business operation, or other court orders.
Renewal:	There is no such clause in the supply agreements.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, purchases from our largest supplier were approximately RMB261.6 million, RMB458.9 million, RMB353.2 million and RMB109.1 million, respectively, which accounted for approximately 18.2%, 24.7%, 19.2% and 13.4% of our total cost of sales, respectively. For the same periods, purchases from our five largest suppliers were approximately RMB601.3 million, RMB1,008.0 million, RMB810.6 million and RMB320.8 million, respectively, which accounted for approximately 41.7%, 54.2%, 44.0% and 39.4% of our cost of sales, respectively. None of our Directors, their respective associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company's issued share capital) held any interest in any of our five largest suppliers during the Track Record Period. We have not experienced any material disruption or dispute in the supply of raw materials during the Track Record Period.

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The following table sets forth certain information with respect to our five largest suppliers (by affiliated group) during the Track Record Period.

Year ended 31 December 2016

Rank	Five largest suppliers	Supplier type/ Business scope	Total purchase amount for the year ended 31 December 2016 (RMB '000)	Approximate percentage to our total cost of sales	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Supplier A	A manufacturer based in Shanghai, which produces and sells isocyanates and TDI	261,648	18.2%	30 days	13 years
2.	Supplier B	A manufacturer based in Shanghai and Chongqing, which produces and sells MDI, TDI and related polyurethane materials	120,953	8.4%	Delivery against payment	14 years
3.	Anyang Jiutian Fine Chemical Co., Ltd.* (安陽九天精細化工有限責任公司)	A manufacturer based in Anyang, which produces and sells trimethylamine	74,148	5.1%	30 days	7 years
4.	Supplier C	A trading company based in Tokyo and Shanghai which sells MIBK and polyurethane materials	73,674	5.1%	Payment in advance or 90 days	7 years
5.	Supplier D	A manufacturer based in Shanghai, which produces and sells polymeric MDI, pure MDI and related polyurethane materials	70,833	4.9%	Delivery against payment	8 years

Year ended 31 December 2017

Rank	Five largest suppliers	Supplier type/Business scope	Total purchase amount for the year ended 31 December 2017 (RMB '000)	Approximate percentage to our total cost of sales	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Supplier A	A manufacturer based in Shanghai, which produces and sells isocyanates and TDI	458,884	24.7%	30 days	13 years
2.	Supplier B	A manufacturer based in Shanghai and Chongqing, which produces and sells MDI, TDI and related polyurethane materials	207,130	11.1%	Delivery against payment	14 years
3.	Anyang Jiutian Fine Chemical Co., Ltd.* (安陽九天精細化工有限責任公司)	A manufacturer based in Anyang, which produces and sells trimethylamine	138,796	7.5%	30 days	7 years
4.	Supplier D	A manufacturer based in Shanghai, which produces and sells polymeric MDI, pure MDI and related polyurethane materials	114,121	6.1%	Delivery against payment	8 years
5.	Lianhong Chemical Sales Co., Ltd.* (聯泓化工銷售有限公司)	A manufacturer based in Shandong, which produces and sells chemicals including ethylene oxide	89,073	4.8%	Payment in advance	4 years

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Year ended 31 December 2018

Rank	Five largest suppliers	Supplier type/Business scope	Total purchase amount for the year ended 31 December 2018 (RMB '000)	Approximate percentage to our total cost of sales	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Supplier A	A manufacturer based in Shanghai, which produces and sells isocyanates and TDI	353,239	19.2%	30 days	13 years
2.	Supplier B	A manufacturer based in Shanghai and Chongqing, which produces and sells MDI, TDI and related polyurethane materials	157,470	8.5%	Delivery against payment	14 years
3.	Anyang Jiutian Fine Chemical Co., Ltd.* (安陽九天精細化工有限責任公司)	A manufacturer based in Anyang, which produces and sells trimethylamine	137,839	7.5%	30 days	7 years
4.	Lianhong Chemical Sales Co., Ltd.* (聯泓化工銷售有限公司)	A manufacturer based in Shandong, which produces and sells chemicals including ethylene oxide	111,579	6.1%	Payment in advance	4 years
5.	Tosoh (Ryan) Polyurethane Co., Ltd.* (東曹(瑞安)聚氨酯有限公司)	A manufacturer based in Rui'an, which produces and sells MDI and other polyurethane materials	50,516	2.7%	Payment in advance	2 year

Six months ended 30 June 2019

Rank	Five largest suppliers	Supplier type/Business scope	Total purchase amount for the six months ended 30 June 2019 (RMB '000)	Approximate percentage to our total cost of sales	Credit terms	Approximate length of relationship with our Group as at the Latest Practicable Date
1.	Supplier A	A manufacturer based in Shanghai, which produces and sells isocyanates and TDI	109,079	13.4%	30 days	13 years
2.	Anyang Jiutian Fine Chemical Co., Ltd.* (安陽九天精細化工有限責任公司)	A manufacturer based in Anyang, which produces and sells trimethylamine	66,114	8.1%	30 days	7 years
3.	Supplier B	A manufacturer based in Shanghai and Chongqing, which produces and sells MDI, TDI and related polyurethane materials	56,697	7.0%	Delivery against payment	14 years
4.	Supplier E	A manufacturer based in Chile and Shanghai, which primarily produces iodine and iodine derivatives and nitrate-based products	49,006	6.1%	60 days	1 year
5.	TEWOO Products & Energy Resources (Hong Kong) Development Co., Limited (天物能源資源(香港)發展有限公司)	A distributor based in Hong Kong which primarily trades ore and steel products	39,951	4.9%	Delivery against payment	1 year

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OVERLAPPING OF CUSTOMER AND SUPPLIER

During the Track Record Period, our Group sourced pharmaceutical products, namely cefpodoxime dispersible tablets, from one of our major suppliers who was also our existing customer (the “**Major Customer – Supplier**”), while the Major Customer – Supplier procured cefpodoxime from us as the principal raw material for the production of cefpodoxime dispersible tablets. Such arrangement was in place between the Major Customer – Supplier and our Group during the Track Record Period mainly due to the reason that (i) our Group was a major player in the PRC in the supply of cefpodoxime, which is a principal raw material for producing cefpodoxime dispersible tablets, (ii) we do not possess the requisite production technology for producing cefpodoxime dispersible tablets as a self-manufactured product and our existing production facilities were not able to accommodate such production capacity, and (iii) we were able to maintain a stable sales of cefpodoxime dispersible tablets to third party customers with our reputation in the industry. We have no control over the Major Customer – Supplier on their sales, credit or pricing policies and marketing activities of the cefpodoxime dispersible tablets. We enter into such arrangement in order to satisfy the needs of our customers, to promote a stable business relationship with our customers and to further strengthen our reputation in the industry.

The table below sets forth the total sales and total purchases attributable to our Major Customer – Supplier during the Track Record Period:

	For the year ended			For the six months ended	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	30 June 2018 (RMB'000) (unaudited)	2019 (RMB'000)
Sales of cefpodoxime to Major Customer – Supplier					
Revenue	3,910	7,175	23,712	8,915	7,549
Percentage of our total revenue	0.2%	0.3%	1.1%	0.8%	0.8%
Cost of goods sold	3,288	3,523	10,587	3,885	3,878
Percentage of our cost of goods sold	0.2%	0.2%	0.6%	0.4%	0.5%
Gross profit margin	15.9%	50.9%	55.4%	56.4%	48.6%
	For the year ended			For the six months ended	
	2016	2017	2018	30 June 2018	2019
Sales volume (<i>tonnes</i>)	1.1	1.1	3.1	1.2	1.0
Average selling price (<i>RMB'000 per tonne</i>)	3,418.8	6,266.5	7,688.5	7,575.0	7,848.7

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	For the year ended			For the six months ended	
	2016	2017	2018	30 June 2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Purchases of cefpodoxime dispersible tablets from Major Customer – Supplier					
Purchase	7,307	9,750	6,751	4,569	2,095
Percentage of our cost of raw materials and inventories	0.5%	0.5%	0.4%	0.5%	0.3%

As shown in the table above, the gross profit margin of cefpodoxime sold to our Major Customer – Supplier increased from approximately 15.9% for the year ended 31 December 2016 to approximately 50.9% for the year ended 31 December 2017 and further increased to approximately 55.4% for the year ended 31 December 2018. The gross profit margin of cefpodoxime sold to our Major Customer – Supplier was 48.6% for the six months ended 30 June 2019. With the rising downstream demand of cefpodoxime dispersible tablets which in turn created demand for cefpodoxime (being the major raw material for producing the cefpodoxime dispersible tablets), we are able to charge a higher gross profit margin for the year ended 31 December 2017 by increasing the selling price of cefpodoxime. Such growth in downstream demand for cefpodoxime dispersible tablets was mainly attributable to industry-specific factors as well as the Group's competitive strengths over other suppliers including: (i) the increased usage of oral medication in hospitals and outpatient clinics as a result of the restriction of outpatient infusion under the health policy adopted by the PRC National Health and Family Planning Commission (國家衛生和計劃生育委員會) in order to strengthen the management of clinical application of antibiotics by combating the abuse of antibiotics for curbing bacterial resistance, (ii) in view of the moderate pricing and rapid and obvious medical effects of cefpodoxime, it has gradually taken up more market share from other types of oral cephalosporin, (iii) the Group promoted sales of cefpodoxime dispersible tablets through greater marketing efforts, such as online advertisements and medical publications, and by taking part in various national pharmaceutical trade fairs in the PRC, (iv) our sales personnel regularly visit our key customers to gather feedback on the cefpodoxime dispersible tablets in order to keep track of the up-to-date market information which facilitates the increase in sales orders and we attract new customers by expanding our sales network to more hospitals and clinics in the PRC, and (v) we believe that the stable supply of cefpodoxime as the major raw materials from our Group and the production process of cefpodoxime dispersible tablets of the manufacturers, together with our established reputation as an applied chemical intermediates provider in the integrated chemical services market, provide confidence to our existing and potential downstream customers, which form a solid foundation for the sales growth of cefpodoxime dispersible tablets. While the sales volume of cefpodoxime from our Major Customer – Supplier remained stable for the year ended 31 December 2017, the increase in the average selling price of cefpodoxime has driven the sales revenue generated from the Major Customer – Supplier to increase by approximately 83.5% to RMB7.2 million, which significantly outweighed the increase of our costs of goods sold in relation to cefpodoxime. According to Frost & Sullivan, continued growth in the cefpodoxime dispersible tablets market can be observed for the year ended 31 December 2018, in which our sales volume of cefpodoxime from the Major Customer – Supplier increased to 3.1 tonnes, compared with 1.1 tonnes for the year ended 31 December 2017. By gradually increasing our selling price which boosts up our sales revenue, the gross profit margin of cefpodoxime sold to our Major Customer – Supplier increased to approximately 55.4% for the year ended 31 December 2018.

The terms of transactions with the Major Customer – Supplier are similar to those transactions with our other customers. Our sales invoices issued to the Major Customer – Supplier were standard invoices consistent with those issued to other major customers of our Group.

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To the best knowledge and belief of our Directors after making all reasonable enquiries, the Major Customer – Supplier and its ultimate beneficial owner are Independent Third Parties. In addition, our Directors confirmed that during the Track Record Period, (i) negotiations of the terms of our sales to and purchases from the Major Customer – Supplier were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis, (ii) the sales to and purchases from the Major Customer – Supplier were neither inter-connected nor inter-conditional with each other, and (iii) none of the cefpodoxime dispersible tablets we purchased from the Major Customer – Supplier or cefpodoxime supplied by us to the Major Customer – Supplier were subsequently sold back to each other.

DELIVERY AND TRANSPORTATION

1. Local sales and procurement arrangements

During the Track Record Period, we arranged for transportation and delivery within the PRC through road transit for the purposes of (i) delivering our products to our local customers, and (ii) procuring the raw materials and chemicals produced by third party manufacturers from our local suppliers.

Generally, we engaged the logistic companies operated by our Group, namely Tianyu Transportation and Yueda Logistics, to arrange delivery of our products to our customers at designated locations through the vehicles of our Group. In addition, we bear the transportation costs of the raw materials and chemical produced by third party manufacturers we purchased from our local suppliers whereby our logistic companies transported them from warehouses of the suppliers to our warehouses.

Apart from adopting our own logistic arrangements, we also entered into delivery agreements with other transportation companies, which are Independent Third Parties to our Group. The terms of the delivery agreements were agreed following arm’s length negotiations and were entered into separately for each transportation assignment. Among the salient terms of these agreements, the transportation companies were responsible for transportation of our products to designated location in accordance with the delivery quantity, product type and delivery date as specified in the agreement and shall follow any of our specific loading instruction. The transportation companies shall be responsible for all losses and damages to our products during transit other than those caused by natural disasters including earthquakes or flood and all losses incurred by our Group in the event that the products cannot be delivered on time. The fees for the transportation assignment were charged on a per incident basis. We arranged payment of the fees upon presentation of documents which evidence the receipt of products by our customers.

2. Overseas sales and procurement arrangements

During the Track Record Period, we made overseas transportation and delivery arrangements for the purposes of (i) exporting our products to our overseas customers, and (ii) importing the raw materials and chemicals produced by third party manufacturers from our overseas suppliers.

As advised by our PRC Legal Advisers, while we are not required to obtain any permits, licences or approval under the relevant laws and regulations in the PRC for our export sales or import of raw materials and chemicals produced by third party manufacturers, we are required to undergo certain export or import customs procedures in the PRC for these items. Since our Directors consider it to be more efficient and cost effective for us to leverage the expertise of the logistic services providers to handle the relevant administrative matters for our products exporting from or importing into specified ports in the PRC, we normally engaged independent logistic services providers and custom brokers, which are Independent Third Party to our Group, to handle the administrative matters including the transportation arrangements and custom clearance procedures involved for these overseas sales to customers and procurement from suppliers. The agreements were agreed following arm’s length negotiations.

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Among the salient terms of the agreement with the aforesaid logistic services providers and custom brokers, the administrative services provided by the logistic services providers and custom brokers include arranging cargo shipping services and the associated road transit, arranging loading and unloading of the products, completing import or export customs clearance and handling the inspection and enquiry procedures in the PRC. The services fees of the logistic services together with the transportation fees and port charges were charged based on each transportation assignment and payable on monthly basis.

The term of the agreement was generally one year. There was renewal clause in some of our agreements with the logistics services providers and customs brokers where the term would be renewed for an additional year unless the parties agree otherwise.

As advised by our Vietnamese Legal Advisers, we are also required to arrange registration of customs declarations with the customs offices for import or export across Vietnam. Therefore, we adopted similar arrangement as that in the PRC where we engaged logistic services providers and custom brokers to handle the administrative matters including the transportation arrangement and customs clearance procedures.

QUALITY CONTROL

We believe that strict quality control is essential for us to maintain sustainable growth in the chemicals industry. Accordingly, we have implemented a quality control system for each stage in the production processes of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical intermediates. It is our policy to purchase raw materials from qualified and reputable suppliers. We have the quality control guidelines and conduct quality checks from supply of raw materials and chemicals produced by third parties to manufacturing and finished products testing to ensure that the quality of our products meet our customers' expectations.

As at the Latest Practicable Date, our quality control department, which consists of 32 employees in the PRC (with an average of approximately 10 years of experience in implementing quality control measures, 14 of whom has obtained certification in quality control of chemicals and/or chemical safety and four of whom is currently practicing as a pharmacist in the PRC) and five employees in Vietnam, is responsible for overseeing and maintaining the quality control of our production processes and the chemicals produced by third party manufacturers including pharmaceutical products. We also provide regular internal and external training programmes to our quality control personnel in order to standardise our quality control procedures.

Our quality management and control systems generally cover the following:

- **Incoming quality control:** When raw materials and chemicals produced by third party manufacturers are delivered to our warehouses, our quality control personnel will perform sample testing to ensure that the quality of the raw materials and chemicals produced by third party manufacturers meet our chemical qualities and specifications before they are accepted. If the sampled raw materials do not meet our standards, we either return any sub-standard raw materials and chemicals produced by third parties to our suppliers or (in the case of minor deviation from our standards), use such raw materials under the strict control and supervision of the quality control department.
- **In-process quality control:** We conduct quality inspections throughout the key production stages to ensure that our work-in-progress comply with the required standard. Unqualified work in progress are not allowed to enter the next phase of production and will be reported to our production department so that any reworking procedures can be carried out to rectify any quality issues.
- **Outgoing quality control:** We have established testing guidelines setting out the testing procedures and requirements for each batch of our finished products to ensure their specifications comply with the national and industry standards before despatching to our customers. These testing guidelines are reviewed and updated from time to time. Our testing procedures include checking the physical appearance and that other chemical indicators are satisfied.

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To facilitate close monitoring of our operations and ensure consistency of quality, we hold monthly quality review meetings where, under the overall supervision of our quality control department, various department are required to prepare detailed reports on relevant issues and concerns discovered during their regular quality checks.

We value our customers' feedback on product quality as we believe this will help us further improve our products and sustain long-term business relationship with our customers. We have designated a sales representative for each customer to make sure that we obtain and handle our customers' feedback in a timely manner. All customer complaints are handled by our quality control department in accordance with the internal customer complaints handling procedures, which involve discussion with the relevant departments and follow up with the customer directly in order to resolve any quality issues in a timely and effective manner.

We have received the following certifications in connection with our quality management system, food safety management system, feed safety management system, environmental management system and laboratory accreditation in relation to our production. Details regarding our currently valid certifications are set out below:

Title of certification	Certification body	Coverage	Validity period
GB/T 19001-2016/ISO 9001:2015 (production quality management system)	HSL Certification Service	Production of feed additives, mixed feed additives and chemical products	22 April 2019 – 21 April 2022
ISO 9001:2015 (management system)	SGS United Kingdom Ltd	Processing of polyurethane mixed components, iodine derivatives, chlorine chloride, cashew nut shell related products and cardanol	14 August 2017 – 14 August 2020
GB/T 22000-2006/ISO 22000:2005 (food safety management system)	HSL Certification Service	Production of feed additives and mixed feed additives	22 April 2019 – 29 June 2021
FAMI-QS Code (feed safety management system)	HSL Certification Service	Production of nutritional additives and premixtures	22 April 2019 – 1 October 2020
GB/T24001-2016 idt ISO 14001:2015 (environmental management system)	HSL Certification Service	Production of feed additives, mixed feed additives and chemical products, and environmental management activities involved in such production	6 March 2017 – 5 March 2020
ISO/IEC 17025:2005 General Requirements for the Competence of Testing and Calibration Laboratories CNAS-CL01 (Accreditation Criteria for the Competence of Testing and Calibration Laboratories)	China National Accreditation Services for Conformity Assessment	Research centre of Havay Group in compliance with the requirements of testing and calibration laboratories	26 May 2017 – 19 June 2022
Halal Certificate	Halal Foundation Centre	Choline chloride, betaine and betaine hydrochloride	28 June 2019 – 27 June 2022
GB/T28001-2011 idt OHSAS 18001:2007 (occupational health and safety management system)	HSL Certification Service	Production of feed additives, chemical products and its occupational health and safety management activities	8 April 2018 – 7 April 2021

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Product warranty

We generally give customers warranty terms in relation to product quality of up to seven days from the date of delivery of our products. We have adopted an internal policy to handle the claims or complaints from customers for defects of our products. Upon receipt of any claims or complaints from our customers within this period, we make internal investigations to understand the matter in this regard. If we find that we have to be responsible for the defects, we will negotiate with our customers by offering sales compensation such as exchanging the products, providing discount or price reduction in subsequent sales. The amount and nature of compensation are determined on a case-by-case basis. In the event that our products are damaged during the delivery and transportation process, we claim against our insurers for any losses incurred due to such product damages according to our arrangements with these insurers. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we claimed approximately RMB54,000, RMB26,000, RMB10,000 and RMB117,000, respectively, against our insurers for product damages resulted from the delivery and transportation process which contributed to our sales compensation for defective products.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not experience any material disputes with our customers, any material claim relating to our product liability or return of goods in relation to the quality of our products that had a material and adverse impact on our business, and did not record any large-scale product recall due to quality defects during the Track Record Period.

SEASONALITY

We experience seasonal fluctuations in demand for our products. Given that a large portion of our customers are located in the PRC, we normally experience a lower sale during the first quarter of each year as a result of the Chinese New Year holidays in the first quarter, where many of the customers in the PRC are in recess.

UTILITY

The major utilities consumed in our production are electricity and water. Our production plants in the PRC and Vietnam have access to electricity and water from local utility companies. During the Track Record Period, we did not experience any disruption or shortage of water or electricity.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our utilities costs were approximately RMB16.8 million, RMB19.9 million, RMB28.9 million and RMB15.5 million, representing approximately 1.2%, 1.1%, 1.5% and 1.9% of our total cost of sales during the Track Record Period, respectively.

COMPETITION

According to the Industry Report, the development of the global integrated chemical service market of applied chemical intermediates remains stable during recent years, which is attributable to the sustained global demands for chemicals in the global range. However, increasing market competition can be observed in the major global regions such as Europe and North America, with the PRC becoming a leading player in the global integrated chemical services market. Despite the fierce competition in the global market, our Group recorded a total revenue of approximately RMB2,152.9 million in 2018 and managed to rank 46th globally in terms of revenue in the global chemical sales market. On the other hand, the integrated chemical services market is fragmented and competitive in the PRC, with the top five players generating an aggregate revenue of approximately RMB269.1 billion in 2018, taking up the market share of approximately 2.4%. Set forth below are the competitive landscape of each of our business segments within the integrated chemical services market in the PRC and global market according to the Industry Report.

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1. Animal nutrition chemicals segment

Choline chloride is one of our key products under the business segment of animal nutrition chemicals. In 2018, the domestic sales revenue of choline chloride market in the PRC reached approximately RMB1,086.3 million, accounting for approximately 48% of the total market size of choline chloride market in the PRC.

The choline chloride market in the PRC is concentrated with a few players of large scale and a large number of local small-to-medium sized companies. In 2018, our Group was a leading player producing choline chloride in the PRC and we were the largest seller in the choline chloride market in terms of domestic sales revenue, with a domestic sales revenue in choline chloride of approximately RMB328.7 million in 2018 and took up a market share of approximately 30.3% within the PRC in the same year.

The concentrated global market of choline chloride had a market size of approximately U.S.\$569.7 million in 2018, with the five largest leading sellers accounted for approximately 73.4% in 2018. Our Group ranked the second among all the sellers of choline chloride globally in 2018, accounting for approximately 16.8% of the market share.

2. Polyurethane materials segment

In the global market of polyurethane materials, there are a few sellers with extensive industry experience and reputation and enterprises with small to medium size while the PRC market of polyurethane materials are quite fragmented in which there are thousands of small companies focusing on the production of a single product category and a few key sellers which have the ability to achieve economies of scale. In 2018, the top five sellers took up a share of approximately 23.5% and 25.8% of the global market and the PRC market, respectively. The largest seller in the global market, a German based company, contributed a total revenue of approximately U.S.\$8,245.4 million to the global market for the production of polyurethane, which accounted for approximately 11.8% of the global market share, while the largest seller in the PRC, a PRC based chemical company, recorded a total revenue of approximately RMB30,951.0 million in the domestic market for the sale of polyurethane, which accounted for approximately 20.9% of the market share in the PRC.

Our Group, despite the fierce competition in the PRC, was the fourth largest seller in the market of polyurethane materials in the PRC in 2018 in terms of domestic revenue, which took up a market share of approximately 0.6%, with a total revenue of RMB881.6 million.

3. Pharmaceutical products and intermediates segment

Driven by the increasing downstream demand due to the rising disposable incomes and ageing population, the domestic pharmaceutical intermediates market has shown continuous growth in the PRC, with an increase in recorded sales revenue of pharmaceutical intermediates from approximately RMB97.0 billion in 2014 to approximately RMB126.0 billion in 2018, respectively. Our Group has recorded sales revenue of approximately RMB183.3 million from pharmaceutical intermediates which primarily include iodine derivatives in 2018, constituting approximately 0.1% of the total market size in the PRC. It is anticipated that the pharmaceutical intermediates market in the PRC will continue to show a significant growth from 2018 to 2023 due to a major growth in the research industry despite the increasing regulatory barriers.

4. Fine chemicals segment

Over the period from 2014 to 2018, the revenue generated from the fine chemicals industry in the PRC recorded sustained growth from RMB255.6 billion to RMB378.6 billion at a CAGR of 10.3% due to the robust demand derived from the industrialisation in the PRC. Our Group has recorded sales revenue of RMB286.8 million from fine chemicals in 2018, which constitutes approximately 0.1% of the total market size in the PRC. The market for production of fine chemicals is expected to grow continuously due to the establishment of chemical industry parks as supported by the PRC Government, and the growing demand from the surrounding countries, especially those in the Asia Pacific region.

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Please refer to the section headed “Industry Overview” in this prospectus for further information about the competitive landscape of the chemicals industry globally and in the PRC.

AWARDS AND ACCREDITATIONS

Up to the Latest Practicable Date, the following major awards and accreditations had been granted to us:

Year awarded	Awards/Accreditations	Awarding authority
January 2013	Star Enterprise* (明星企業)	Committee of Chinese Communist Party in Manzhuang* (中共滿莊鎮委員會) Manzhuang People’s Government* (滿莊鎮人民政府)
August 2015	Council Member Unit of Tai’an Feed Industry Association* (泰安市飼料工業協會理事單位)	Tai’an Feed Industry Association* (泰安市飼料工業協會)
March 2016	Pioneer Award* (先進單位)	Tai’an Daiyue District Safety Production Committee* (泰安市岱岳區安全生產委員會)
March 2016	Pioneering Enterprise in Safety Production* (安全生產先進企業)	Tai’an Dawenkou Industrial Area Management Committee* (泰安市大汶口工業園管理委員會) Tai’an Daiyue District Manzhuang People’s Government (泰安市岱岳區滿莊鎮人民政府)
March 2016	Pioneer in Tax Payment* (納稅先進單位)	Tai’an Dawenkou Industrial Area Management Committee* (泰安市大汶口工業園管理委員會) Communist Party of China Tai’an Dawenkou Industrial Area Working Committee* (中共泰安市岱安區大汶口工業園工作管理委員會)
March 2016	Pioneer in Local Income* (實現地方財政收入先進單位)	Tai’an Dawenkou Industrial Area Management Committee* (泰安市大汶口工業園管理委員會) Communist Party of China Tai’an Dawenkou Industrial Area Working Committee* (中共泰安市岱安區大汶口工業園工作委員會)
April 2016	Specialised, Sophisticated, Distinctive and New Small and Medium Enterprise in Tai’an* (泰安市「專精特新」中小企業)	Tai’an Small and Medium Enterprise Bureau* (泰安市中小企業局)

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Year awarded	Awards/Accreditations	Awarding authority
June 2016	Tai'an Choline Chloride and Iodine Derivatives Production Technology Research Centre Award* (泰安市氯化膽鹼及碘系列產品技術研究院)	Tai'an Science and Technology Bureau* (泰安科學技術局)
November 2016	Tai'an Engineering Laboratory* (泰安市工程實驗室)	Tai'an Development and Reform Bureau* (泰安市發展和改革局)
December 2016	New and Advanced Technology Enterprise* (高新技術企業)	Shandong Provincial Department of Science and Technology Department* (山東省科學技術廳) Shandong Provincial Finance Department* (山東省財政廳) State Administration of Taxation of Shandong Province* (山東省國家稅務局) Local Administration of Shandong Province* (山東省地方稅務局)
December 2016	Professional, Specialised and New Small and Medium Enterprise in Shandong Province* (山東省專精特新中小企業)	Shandong Provincial Small and Medium Enterprise Bureau* (山東省中小企業局)
February 2017	Pioneer in Innovative Enterprise Management* (企業管理創新先進單位)	Tai'an Dawenkou Industrial Area Management Committee* (泰安市大汶口工業園管理委員會) Tai'an Daiyue District Manzhuang People's Government* (泰安市岱岳區滿莊鎮人民政府)
June 2017	Work Safety Standardisation – Level Three Enterprise* (安全生產標準化三級企業)	Tai'an Safety Production Regulatory Bureau* (泰安市安全生產監管局)
December 2017	Small and Medium Technology Enterprise in Tai'an* (泰安市科技型中小企業)	Tai'an Science and Technology Bureau* (泰安市科學技術局)
December 2017	Daiyue District Science and Technology Award* (科學技術獎)	Tai'an Daiyue District People's Government* (泰安市岱岳區人民政府)
January 2018	Creditworthy Enterprise Award* (誠信泰山•信用企業)	Tai'an Enterprise Credit Rating Certification Office* (泰安市企業中評征信辦公室)
August 2018	Shandong Feed Additives Enterprise – AAA Credit Rating* (山東飼料企業信用等級 – AAA)	Shandong Provincial Feed Additives Industry Association* (山東飼料行業協會)

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Year awarded	Awards/Accreditations	Awarding authority
August 2018	Shandong Province Water Saving Enterprise* (山東省節水型企業)	Shandong Provincial Department of Housing and Urban-Rural Construction* (山東省住房和城鄉建設廳), Shandong Provincial Development and Reform Commission* (山東省發展和改革委員會) and Tai'an Economic and Informatisation Committee* (山東省經濟和信息化委員會)
November 2018	Science Progress Award – Second Class* (科技進步二等獎)	China Petroleum and Chemical Industry Association (中國石油和化學工業聯會)
December 2018	Scientific Technology Result Registration Certificate* (科學技術成果登記證書)	National Industrial Information Security Development Research Centre* (國家工業信息安全發展研究中心)
January 2019	Shandong Province Gazelle Enterprise* (山東省瞪羚企業)	Department of the Ministry of Industry and Information Technology of Shandong Province (山東省工業和信息化廳), Department of Industry and Information Technology of Shandong Province (山東省科學技術廳), Department of Finance of Shandong Province (山東省財政廳), Shandong Provincial Financial Regulatory Bureau (山東省地方金融監管局) and The People's Bank of China Jinan Branch (中國人民銀行濟南分行)
April 2019	Shandong Province Engineering Laboratory* (山東省工程實驗室)	Shandong Provincial Development and Reform Commission* (山東省發展和改革委員會)

RESEARCH AND DEVELOPMENT

We believe that improvement of production technology and management is of great importance to our industry, as the level of competition in respect of production costs and processes has increased considerably over the past years.

As at the Latest Practicable Date, our research and development centre comprised 28 employees and over 80% of them have obtained education at university level or above. Our research and development department is led by our head of research and development centre, Mr. Wang Jiawang (王加旺) who has approximately 13 years of experience in research and development and chemicals industry. The centre is responsible for research on our production technology and management of our equipment. Specifically, it researches, proposes and introduces new projects appropriate for the development of our Group and oversees their implementations. Over the years, we have primarily focused our research and development efforts on improving our existing production processes. This includes development of new experimental process and introduction of new production equipment. We have also utilised various advanced production technologies and equipment in our production processes to improve our production efficiency and quality. Our research centre in Tai'an, Shandong Province has been accredited by the Chinese National Accreditation Service for Conformity Assessment for its competence of testing and calibration.

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For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our expenses in relation to our research and development activities amount to approximately RMB22.7 million, RMB32.8 million, RMB40.4 million and RMB14.1 million, respectively, which includes salaries for our research and development staff and procurement costs for materials used in our research centre for experiments.

Specific research and development projects

Set forth below are some of our research and development projects that have been utilised in our production processes.

- **Production, compression and evaporation of choline chloride:** We enhance our product quality and develop an energy saving production process of choline chloride by optimising the design of production equipment for production, compression and evaporation of choline chloride. The production equipment expedites the process for the reaction of ethylene oxide with trimethylamine hydrochloride by altering the position where ethylene oxide is added for reaction and avoids overheating of the equipment during reactions. Through research on the production equipment for compression and evaporation of choline chloride, we improve the colour of our products by using the falling film evaporator where the cooling time of choline chloride in liquid state is shortened.
- **Waste disposal and cooling during the production process of polyurethane materials:** We minimise the environmental impact caused by our waste gas disposal during the production process of polyurethane materials by developing equipment with a discharging device at the top of the absorption tower to ensure that waste gas is only emitted after treatment. In addition, through research on production equipment which is used to lower the temperature of raw materials during reaction, we have minimised the chance of raw materials from being volatile at high temperature during production process.
- **Production of potassium iodide:** Through research on production equipment used for dissolution of iodine during the production of potassium iodide, we have improved the yield rate by using the equipment with an electronic stirring mixer which enhances the evenness of raw materials during the melting process. We have also reduced the loss of raw materials and pollution during the production process by using the equipment with a bottom tube to ensure that iodine solution reacts with the reaction solution immediately after addition.
- **Production of diethyl sulfate:** We streamline the production process, increase the product yield and improve the product quality of diethyl sulfate by adopting the tubular thin film distillation process in the production of diethyl sulfate. Through our research and development efforts, we develop a new production technology which uses sulfur trioxide and ethanol as raw materials to produce ethyl hydrogen sulfate and subsequently heating ethyl hydrogen sulfate with sulfuric acid to produce diethyl sulfate as end product. Such new production technology creates sulfuric acid as a by-product which contains no or little carbides, and can be recycled for use in the production of diethyl sulfate and other chemicals. This results in lower production costs and higher product yield which enhances our production and economic efficiency.
- **Synthesis of hydriodic acid:** Our research and development team has introduced a new method for synthesising hydriodic acid, replacing the traditional reduction method from red phosphorus which is a highly flammable chemical and difficult to handle. The new synthesis method involves the electrolysis of iodine and water under optimal process conditions for the production of hydriodic acid that meets the product quality requirement. High degree of automation is involved in this synthesis process and no industrial waste is produced which harm the environment. By utilising high quality electrodes and membrane materials in the electrolysis process, the side reaction of hydrogen evolution is inhibited which creates an optimal process conditions for the synthesis of hydriodic acid. The new synthesis method also prevents the safety hazards posed by red phosphorus and the environmental problem of creating phosphoric acid waste in the traditional production process, which enables us to improve production safety and reduce environmental pollution.

Research collaboration with tertiary institutions

We believe that establishing research collaboration with tertiary institutions is important to our research and development as that would enable us to have access to the latest production technology and chemical knowledge from the tertiary institutions. Therefore, we have had various collaboration arrangements with domestic tertiary institutions since 2014. The terms of our collaboration arrangements for research projects vary, depending on the subject and nature of the research and our arrangements with our research partners. Since 2014, we have worked with various domestic institutions including Nanjing Tech University and Nanjing Forestry University.

Set forth below are the details of our major collaboration arrangements with tertiary institutions.

1. *Research and development on the production of choline chloride using peanut shells as the carrier and new technology for synthesis of potassium iodide with high yield*

We entered into two long-term research and development cooperation agreements with a university in the PRC (the “**University**”) in June 2014 and September 2014, respectively.

Pursuant to the cooperation agreements, we delegated to the University the research work on the production of choline chloride using peanut shells as the carrier and new technology for synthesis of potassium iodide with high yield. The University is responsible for providing us technical support, talents training and the rights to get access to the research results while we are responsible to provide production facilities for facilitating the University to conduct testing on the research. The patent created in the course of research and development conducted pursuant to such cooperation agreements belong to both us and the University. The licencing fees and arrangements for the patent created in the course is determined jointly by us and the University. There is no profit sharing arrangement between us and the University.

As at the Latest Practicable Date, our Directors confirm that no patent has been created in the course of research and development conducted pursuant to the cooperation agreement. As advised by the PRC Legal Advisers, in the event that any joint-owned patent is created under the cooperation agreement, we may use such patents independently or grant an ordinary licence to use such patent to any third parties, however, any usage of such patent other than the aforesaid (including but not limited to, grant of sole licence or exclusive licence and transfer of the patent) shall be agreed by both us and the University. Under the Patent Law of the PRC, an ordinary licence refers to a non-exclusive licence that authorise the licensee to exploit the patent within a prescribed scope while the right to exploit the patent and to grant further ordinary licence is maintained by the patentee.

2. *Research, development and application of synthesis of fire retardant polyether*

We participated jointly with Nanjing Tech University in a programme funded by the Foreign Economic Cooperation Office, the Ministry of Environmental Protection. Under this collaboration, Nanjing Tech University had researched on the synthesis and reaction mechanism for fire-retardant polyether and the application of polyether in the building materials industry.

In addition, we also participated with Nanjing Forestry University in a programme funded by the Foreign Economic Cooperation Office, the Ministry of Environmental Protection. Under the collaboration, Nanjing Forestry University had researched on the structural fire-retardant polyols, additive fire retardant and chemical analysis of polyether.

We believe that these collaborations can help us further enhance development of our products under the segment of polyurethane materials.

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INVENTORY CONTROL

Our inventory comprises primarily our raw materials and finished goods, which we store in our own or third party warehouses. We formulate monthly plans for production in conjunction with our procurement and sales planning. We have an inventory control policy to monitor and control our inventory level. Our procurement and production departments keep track of the inventory movements and updates the inventory level of our raw materials and finished products on a daily basis in our ERP system to ensure that such records are up-to-date. We adjust our production plan, raw material plan and sales plan based on the inventory level to help minimise obsolete or slow-moving inventory.

Our staff in our finance department conducts monthly full stocktaking of the inventory level of raw materials and finished products and make necessary provision in accordance with our accounting policy.

Raw materials

Our general policy for maintaining the stock of raw materials for production was not less than approximately 15 days during the Track Record Period and we did not experience any material difficulty in the production at such level of raw materials.

We generally inform our suppliers of the expected demands and schedules of delivery for raw materials in advance so that our suppliers can make early and appropriate arrangements for timely delivery of raw materials to us.

Finished products

Our inventory of finished products comprises primarily the products pending delivery to customers. The logistic companies operated by our Group, namely Tianyu Transportation and Yueda Logistics, or other third party transportation companies engaged by us are generally responsible to arrange delivery of the finished products to the customers' designated locations in accordance with the delivery date as specified in the delivery orders. In general, we aim to maintain the finished products for both self-manufactured products and those produced by third party manufacturers not to be stocked in our warehouse for more than 15 to 30 days. To minimise the cost impact to our Group in respect of the potential increase of tariff imposed by the U.S., we have procured more inventory of finished goods from third party manufacturers in the PRC commencing from 2019, which increases the time for these inventories to be stocked in our warehouse.

Warehouse management

As our business operations involve the use and production of chemicals that are potentially hazardous, we design our warehouse for storing hazardous chemicals with toxicity leakage and contamination prevention in mind and in accordance with the relevant standard relating to pollution control on storage of hazardous chemicals. We also store the raw materials and finished products with clear segregation in the warehouse with clear labelling. We adopt the same arrangement for the storage of chemicals in the warehouses operated by the third party warehousing service providers by specifying our instructions on the packaging and labelling for each batch of chemicals. We also ensure that the service providers are holders of hazardous chemicals operation permit before we engage them for warehousing service.

INSURANCE AND PRODUCT LIABILITY

We have purchased property all risks insurance policies that cover the assets that we own or operate. We have also obtained employer's liability insurance and public liability insurance to insure against our economic compensation for the work-related injury or death of our employees and the injury or property loss of third parties caused by accidents in our business operations, respectively. However, we are not generally insured against damages or losses caused by our fraud and gross negligence, terrorist acts and war related events, earthquakes, tsunamis, nuclear radiation and changes, environmental pollution, wear and tear of the assets, theft, disruption of electricity, water, gas and energy supply, improper operation of the assets and use of radioactive materials and asbestos by our staff.

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In addition, we have obtained cargo transportation insurance against the loss or damage of the cargo by which our products are transported. We are not insured against the damages or losses caused by war related events, nuclear explosion, inherent defects, wear and tear of the products, our fraud and negligence and theft during road transit.

We normally consider to grant a credit period for potential customers which are manufacturers having established and operated for two years or more unless the relevant potential customers are related enterprises or subsidiaries of our existing customers. As such, we have purchased trade credit insurance against the risk of our customers' default in payment for our products. Our Directors believe that such insurance is effective to minimise the impact of bad debts on our Group. We are not insured against the losses if there is an occurrence of events including our default of contractual obligations, natural disaster, nuclear related incidents, war related events, termination of the agreement with our customers, loss of our import/export permit, our transfer of payment obligations from our customers to a third party without consent of the insurers, failure of our customers to pay the extra amount due to currency fluctuations or delivery of products to a country other than specified without written consent of insurers.

We have not maintained any product liability insurance for our products, as we are not legally required to have such insurance under the PRC laws. Our Directors believe that it is not a common practice in our industry to procure product liability insurance. We did not experience any material claim relating to our product liability during the Track Record Period. After taking into consideration the costs and benefits of purchasing such insurance, our Directors believe that such product liability insurance is not necessary. We would consider procuring product liability insurance if market practice is to deem such procurement appropriate.

Our Directors are of the view that we have adequate insurance coverage for our current operations and is in line with industry norm based on their knowledge of the industry practice in the PRC and their experience gained in running our business. During the Track Record Period, we had not made or been the subject of any material insurance claims. For risks associated with insurance of the Group, please see the paragraph headed "Risk Factors – Our insurance coverage might not be adequate to cover all the risks we may face and if we were no longer covered by our existing insurance, it may be difficult to obtain replacement insurance on acceptable terms or at all" in this prospectus.

ENVIRONMENTAL AND SAFETY REGULATIONS

We have been, and intend to continue to be, committed to observing environmental protection and safety regulations in all of our business activities to ensure our operations are in compliance with those regulations. According to the PRC environmental laws and regulations, chemical manufacturers in China must comply with environmental laws and regulations stipulated by the state and the local environmental protection authorities. According to the Vietnamese law on environmental protection, enterprises need to make and apply reports on assessment of environmental impact or environmental protection plan to the competent authority. For further information about the applicable PRC and Vietnam laws and regulations, please refer to the section headed "Regulatory Overview" in this prospectus. During our production processes, sewage, waste gas and solid waste are regularly discharged. Our operations are therefore subject to numerous national and provincial environmental laws and regulations governing the discharge of waste water, waste gas emission and hazardous chemicals.

In order to comply with the relevant laws and regulations in the PRC and Vietnam, we have established the safety and environmental protection department (consisting of 22 staff members as at the Latest Practicable Date) which is in charge of the preparation and implementation of our environmental, health and safety policies in our daily operations. The environmental, health and safety policies cover various aspects of our operations, including production, storage and transportation of our products and raw materials, repair of our equipment, prevention of pollution, training and protection of employees' health.

Our environmental policies focus on ensuring that our production emission control, treatment of waste water are in compliance with the relevant regulations and policies of national and local governments. In addition, we have installed waste treatment facilities on our production plants to handle our discharges from the manufacturing process.

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During the Track Record Period and up to the Latest Practicable Date, we had produced the following waste materials, which have been dealt with through the implementation of corresponding environmental measures:

Sewage

We have installed sewage treatment facilities at our production plants to treat all sewage generated during the production process of our products until its quality reaches the national standard and the relevant standard specified by the sewage treatment company which will handle treated sewage for further treatment and discharge.

In addition, we have constructed a reservoir of more than 400 cubic metres to ensure that there is minimal discharge of sewage in the event of accidents.

Waste gas

Waste gas is generated during the production process. We adopt the following measures to minimise the impact of the waste gas.

- Tail gas in storage tank or measuring tank of certain chemicals including trimethylamine, hydrochloric acid, ethylene oxide and the waste gas generated from the decarboxylated cashew nut shell oil is permitted to be emitted only after absorption, combustion or purification in the absorption tower;
- Certain gas generated during production are absorbed or purified to ensure its concentration and emission rate meets the relevant emission standard of air pollutants;
- Pipes and equipment are tightly welded and more trainings are provided to the staff who are responsible for operating the equipment to perform annual leakage detection and repair on the pipes and equipment in order to minimise fugitive emission; and
- The LDAR management system is utilised at our production plants to detect and repair any possible gas leakage so as to minimise emission of volatile gases.

Solid waste

We generated solid waste during our production processes. Some of them are potentially hazardous, including waste activated carbon, potassium chloride, cashew nut oil sludge, sodium nitrate and sludge at the sewage treatment facilities. We have engaged qualified hazardous waste treatment companies to dispose such waste. In the course of production, we also generate sodium chloride as a by-product, which is principally sold to an industrial salt manufacturer in Tai'an, Shandong Province. Other domestic waste is collected and disposed by environmental hygiene government departments. Non-hazardous domestic wastes are collected and disposed of by our environmental protection department.

According to the environmental impact assessment report and the confirmation letter issued by the relevant PRC environmental authorities, and as advised by our PRC Legal Adviser, we are in compliance in all material respects with the applicable PRC environmental, health and safety laws and regulations with regard to environmental protection during the Track Record Period. All of our products meet the relevant environmental requirements under the PRC laws and we were not subject to any fines or legal action involving material non-compliance with any relevant environmental regulation, nor are we aware of any threatened or pending action by any environmental regulatory authority during the Track Record Period. We have passed the inspection for the completion of environmental protection for our production plants as required by the applicable PRC laws and regulations.

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We have also developed a series of internal policies and programs for environmental risk prevention to ensure compliance with the requirements of the applicable national, industrial and local standards, laws, regulations and policies. Such policies include report on the emission level of gas pollutants, waste water and solid waste to our environmental protection department and evaluation of such emission levels on a regular basis. If there is any deviation from the applicable emission standard, we will investigate the cause and will take rectification measures accordingly. Our discharge of waste water and solid waste and emission of gas pollutant is also monitored by the local environmental monitoring centre. During the Track Record Period, the discharge of each key pollutant remained within its respective prescribed regulatory limits.

We have obtained the certificate of GB/T24001-2016 idt ISO14001:2015 on 6 March 2017 for our environmental management system in the production of feed additives (including betaine and choline chloride), mixed feed additives and chemical products (including sodium periodate, diethyl sulfate, potassium iodide and sodium iodide) in our production plant in Tai'an, Shandong Province, which is valid until 5 March 2020.

Our environmental compliance expenses incurred for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were approximately RMB0.2 million, RMB3.2 million, RMB0.8 million and RMB0.3 million, respectively. Going forward, we expect our annual costs of compliance with applicable environmental matters in the near future will not experience significant changes from that during the Track Record Period, subject to any future changes in the applicable environmental laws and regulations which may arise.

In view of our measures to the waste materials as detailed above, our Directors believe that our business operations do not have a material adverse impact on the environment.

As at the Latest Practicable Date, we did not receive any notifications or warnings and were not subject to any fines or penalties in relation to any breach of any applicable environmental laws or regulations that could have a material adverse effect on our production. For the details of the relevant permits, licences and approvals, please refer to the paragraph headed "Licences and Permits" in this section.

OCCUPATIONAL HEALTH AND SAFETY

We have implemented a system of occupational health and safety measures. All of our production plants and employees are required to adhere to the principles of safety measures outlined by the safety protection department.

We have established a team of 19 employees in the PRC as at the Latest Practicable Date, to oversee safety management, among whom 12 have obtained the necessary qualification certificates issued by the relevant authorities, and are responsible for the management of production safety. We have also set up a system to ensure safe production. Under the system, we have defined clearly the responsibilities of each of the members in the team, the rules and procedures required for ensuring safety in our operations.

In order to maintain our production safety, the safety protection department conducts production safety checks regularly and investigation of any accidents during the production processes and keeps proper record of the production safety checks. In addition, regular safety production trainings are provided to our employees to keep them abreast of the Group's safety production guidelines and the measures taken during emergency.

In addition, we have implement safety infrastructure and safety measures to ensure safety of our employees and properties, to prevent or minimise community exposure to hazardous materials, and to avoid exacerbation of natural hazards. We have also obtained a renewed certificate of compliance with FAMI-QS Code on 22 April 2019 for our feed safety management system with good manufacturing practice in our production plant in Shandong Province, which is valid until 1 October 2020 and a renewed certificate of GB/T22000-2006/ISO22000:2005 on 22 April 2019 for our feed safety management system in the production of feed additives (including betaine, choline chloride, potassium iodide) and mixed feed additives in our production plant in Tai'an, Shandong Province, which is valid until 29 June 2021.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we had not had any major accidents, claims or complaints relating to work safety which had materially and adversely affected our operations.

In respect of the safety protection matters, our expense incurred for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively, were approximately RMB3.2 million, RMB5.0 million and RMB5.1 million and RMB1.5 million. We expect our annual costs of compliance with the applicable safety protection matters in the near future will not experience significant changes from that of the Track Record Period, subject to any future changes in the applicable laws and regulation on occupational health and safety which may arise.

EMPLOYEES AND STAFF TRAINING

As at the Latest Practicable Date, we had 881 full-time employees, of whom 734, 116, five, one, one, five, one, five, 10 and three are based in the PRC, Vietnam, the United States, Canada, Slovakia, India, Hong Kong, Russia, Ukraine and Mexico, respectively. The following table shows the breakdown of employees by main categories of function as at the Latest Practicable Date:

Functions	Number of employees
Management	9
Procurement	8
Production	377
Sales and marketing	101
Logistics, transportation, supply chain management	90
Warehousing	26
Quality control	37
Research and development centre	28
Information technology	10
Safety and environmental protection	22
Equipment maintenance, electronic instruments control and project infrastructure	51
Finance and treasury management	48
Human resources	9
General administration and operation	58
Legal	7
Total	881

During the Track Record Period, we have not experienced any significant labour disputes and consider our relationship with our employees to be good. Our employees are not covered by any collective bargaining agreement.

In addition to salaries and bonus, we provide employees supplementary compensation benefits, such as night shift allowance, high temperature allowance and health checkup reimbursement. For the employees in the PRC, we are required to make contributions to various government sponsored employee benefit funds, which include social insurance funds, basic pension insurance fund and maternity and work-related insurance funds in accordance with the applicable PRC laws and regulations.

As we continue to expand our business, we believe it is critical to hire and retain top talent. We believe we have the ability to attract and retain high quality personnel based on our competitive salaries, allowances and performance-based bonus. We recruit our employees through the means including but not limited to our website, jobs fairs, recommendation by the academic institutions and recruitment agency companies which are Independent Third Parties.

Furthermore, our human resources department is responsible for organising and implementing the training plan for the employees of our Group. The training plan shall be designed with reference to the development of the Group and the employees' seniority. Specifically, we provide trainings including management skills, corporate strategy planning, industry analysis, corporate loyalty, communication skills and technical skills. Trainings are conducted internally and externally and provided to new employees and current employees.

BUSINESS

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our employee benefit expenses including employees' salaries and benefits and social insurance were approximately RMB37.7 million, RMB55.6 million, RMB69.8 million and RMB32.6 million, respectively.

INTEGRATED DATA OPERATION PLATFORM

We believe that advanced integrated data operation platform is crucial to enhance the efficiency of our business operations and production. Currently, we have the integrated data operation platform comprising the following systems to facilitate our business operations.

Our ERP system

We have been using our ERP system since January 2001 to increase our operational efficiency and enhance management across certain key components in our operations, including inventory management, sales and delivery and financial management as demonstrated below:

Inventory management

Our ERP system enables us to monitor the inventory movements of our raw materials and finished products closely. Our procurement department and production department update the inventory levels with reference to their records on a daily basis to ensure that such records in our ERP system are up-to-date and make timely purchases where necessary. The production plan is also available in the ERP system. Since the data relating to inventory levels and production in the ERP system is accessible to other departments including the finance department and the sales and marketing department, the procurement department and the production department can coordinate with other departments to ensure that every stage of our supply chain runs smoothly.

Sales and delivery of products to customers

At the sales stage, the staff in the sales and marketing department input the key terms of each of the sales transaction in the PRC into our ERP system, including the identity of the customer, the types of products to be purchased, pricing, purchase quantity and the payment terms which have been negotiated with the customers.

Once a sales agreement is executed by a customer, it is logged into the ERP system by our staff in the sales and marketing department. The database in our ERP system therefore records every transaction (save for the sale of pharmaceutical products which is logged under the designated system as complied with the *Good Supply Practice* (GSP)(藥品經營質量規範), which is the national standard for regulating pharmaceutical distribution activities in the PRC). This allows our management to keep track of and analyse the market trend, our sales performance and pricing during the Track Record Period so as to generate further plans on boosting productivity and profitability.

Given that the ERP system allows us to access information regarding every sale, delivery arrangement and schedule and whether a sale has been completed, we are able to respond to enquiries from our customers regarding their respective orders on a timely basis, which we believe is important to enhance our customers' confidence in purchasing our products.

Financial management

Our ERP system also facilitates the preparation of the financial statements where our staff in the finance department can retrieve the sales records throughout the year. It enables the finance department to keep track of the status of each order and unpaid invoices for management of the trade receivables of the Group.

BUSINESS

Our ERP system for pharmaceutical business

We employ an advanced ERP system which is tailor-made for the operation and management of our pharmaceutical business. In particular, such ERP system is designed and configured based on the requirements of the *Good Supply Practice* (GSP)(藥品經營品質管制規範) issued by the State Food and Drug Administration (SFDA)(國家食品藥品監督管理局)(currently known as China Food and Drug Administration (CFDA)(國家食品藥品監督管理總局)) which includes a set of quality guidelines applicable to the distribution of pharmaceutical products. The major features of this specific ERP system for pharmaceutical business ranges from the process of procurement, storage, inventory management, quality control and delivery of the pharmaceutical products. It also provides a centralised system for our Group to monitor and co-ordinate our sales activities in relation to pharmaceutical products including recording of sales transactions and tracking of purchase orders. Since a GSP licence is only issued to an enterprise whose operations have passed the assessment by the relevant administrative authorities, the continued adoption of this specific ERP system for pharmaceutical products is considered as a necessary condition for the renewal of our current GSP licence.

Our OA system

We have achieved the centralised management of our daily administrative operations with the use of OA system which was launched in April 2007. Our OA system facilitates the sharing and management of internal information of our Group through internal communications, information release, business management and information integration functions. Through the OA system, we can achieve efficient operation and group collaboration work by real-time tracking and monitoring of office activities among multiple positions, departments and regions. Our OA system also assists us in managing our human resources where our management team can make use of the system to arrange the work allocation and check the attendance record of our staff. The system enables our management to approve the expense requests made by different departments and facilitates the communication among the staff in all of our places of operations.

Production process control system

To enhance the interlinkage of various steps in our production process, we have adopted the production process control system in February 2012 to track, monitor and manage our production process flow. Quality control of work in progress or finished products are performed throughout the key production stages. All data collected in the production processes is integrated with our production process control system for further data consolidation and analysis. This allows our production and quality control departments to check if each step of our production processes is under the optimum condition and monitor the product quality within a short period of time. Our production process control system also has the capability of detecting and alerting us of any possible gas leakage during the production processes, which enables us to take immediate actions to prevent any accidents.

Information security and systems maintenance

To balance our business needs with the security of information and data, access to information and records in the integrated data operation platform are restricted to certain employees dedicated to specific departments and functions. We have also adopted internal policies and restricted access rights to ensure that authorisation is tailored to employees seniority and department function, so that the selected information can only be obtained by different departments on a need-to-know basis.

As at the Latest Practicable Date, we have a team of 10 staff in our information technology department which is in charge of the maintenance of the integrated data operation platform and provision of information technology trainings and support relating to the use of the systems in our operations. Daily on-site surveillance monitoring is in place to ensure that only authorised persons can gain access to our servers. Any upgrade of the system configurations must be approved by the head of information technology department. We conduct backup storage of all the data in the integrated data operation platform on a weekly basis.

BUSINESS

We believe that our integrated data operation platform is important to maintain our growth of our business. Therefore, we have upgraded our integrated data operation platform by developing an e-commerce platform connected to our ERP system, as well as a mobile application of our OA system. Through our e-commerce platform, our customers are able to place their purchase orders anytime and anywhere and to track the status of their purchase orders in real-time. On the other hand, our staff can indicate their approval of the sales agreements through their own login interface on the mobile application of the OA system, where there is a real-time tracking function of the order status by our staff. Upon approval of the sales agreements, our staff can proceed to the next step through the ERP system. Acknowledgement of approval regarding the sales will be displayed and recorded and rejected sales agreement will not be processed further. We believe that the e-commerce platform connected to our ERP system will further enhance the efficiency of our sales process. The e-commerce platform and the mobile application of our OA system had been launched in August 2019.

During the Track Record Period, we did not suffer any major information technology system failures or related losses. However, we may face information technology risks arising from improper performance or malfunction of our integrated data operation platform on which our business operations rely on. For details, please refer to the paragraph headed “Risk Factors – Failure in our integrated data operation platform could result in deficiencies in our business operations” in this prospectus.

PROPERTIES

Land use rights

Under the PRC law, land is owned by the State Government, and parcels of land in rural areas, known as collectively-owned land, is owned by the rural collective economic organisation. Land use rights are granted to an individual or entity after payment of a land use right fee is made to the applicable state or rural collective economic organisation. Land use rights allow the holder of the right to use the land for a specified long-term period. In relation to the land use rights in Vietnam, please refer to the paragraph headed “Regulatory Overview – Vietnamese Laws and Regulations – Land Law” in this prospectus.

Owned land

As at the Latest Practicable Date, we held land use rights for three parcels of land in the PRC with an aggregate site area of approximately 96,485 sq.m..

The table below shows the details of our owned land interests in the PRC as at the Latest Practicable Date:

No.	Location	Usage	Approximate site area
<i>The PRC</i>			
1.	Zhifang Village, Manzhung Town, Daiyue District, Tai'an City, Shandong Province (泰安市岱岳區滿莊鎮紙坊村)	Production	29,951 sq.m.
2.	West to No. 104 National Road, Manzhung Town, Daiyue District, Tai'an City, Shandong Province (泰安市岱岳區滿莊鎮104國道以西)	Production	30,468 sq.m.
3.	Xinzhuang Village and Zhifang Village, Manzhung Town, Daiyue District, Tai'an City, Shandong Province (泰安市岱岳區滿莊鎮新莊村、紙坊村)	Production	36,066 sq.m.

As advised by our PRC Legal Advisers, we are entitled to legally occupy and use these three parcels of land within the scope of use specified in the relevant land use right certificates and in accordance with the relevant PRC laws and regulations regarding the use of land.

BUSINESS

Leased Land

As at the Latest Practicable Date, we leased two parcels of land in the PRC with an aggregate site area of approximately 25.1 mu (畝) and we leased one parcel of land in Vietnam with an aggregate site area of approximately 10,000.5 sq. m. under a statutory sub-lease.

No.	Location	Lease Term	Usage	Approximate site area
<i>The PRC</i>				
1.	North to Songlou Town Government and East to Fenghuang Road, Yuanguocha Factory, Xuzhou City, Jiangsu Province (宋樓鎮政府以北、豐黃路以東原果茶廠)	16 June 2003 to 15 June 2023	Office and production	17.8 mu (畝)
2.	North to Songlou Town Government and East to Fenghuang Road, Yuanguocha Factory, Xuzhou City, Jiangsu Province (宋樓鎮政府以北、豐黃路以東原果茶廠)	16 June 2003 to 15 June 2023	Office, production and warehouse	7.3 mu (畝)
<i>Vietnam</i>				
3.	Land plot No. 361, map No. 26, Vietnam – Singapore Industrial Park II, Vinh Tan Commune, Tan Uyen District, Binh Duong Province, Vietnam	29 November 2013 to 19 March 2058	Production, office and parking lot	10,000.5 sq.m.

As advised by our PRC Legal Advisers, we have entered into a sub-lease agreement for our leased land located in Xuzhou, Jiangsu Province, the PRC, in which the lessor's rights to grant the sub-lease to us are in doubt. For further details, please refer to the paragraph headed "Properties – Title defects" in this section. As advised by our Vietnamese Legal Adviser, we are entitled to legally occupy and use the parcel of land within the lease term and the scope of use specified in the relevant land use right certificate and in accordance with the relevant Vietnamese laws and regulations regarding the use of land.

Buildings

We are headquartered in Nanjing, Jiangsu Province in the PRC, with two production plants in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, respectively, and one production plant in Binh Duong Province, Vietnam.

Owned properties

As at the Latest Practicable Date, we owned three buildings in the PRC, one building in Vietnam and two buildings in Ukraine, respectively. We also own one residential premises in Hong Kong. Our buildings are mainly utilised for production, warehousing, office and staff dormitory.

BUSINESS

The table below shows a summary of the buildings owned by us in the PRC, Vietnam, Hong Kong and Ukraine at the Latest Practicable Date:

No.	Location	Usage	Approximate GFA
<i>The PRC</i>			
1.	West to No. 104 National Road, Manzhuang Town, Daiyue District, Tai'an City, Shandong Province (泰安市岱岳區滿莊鎮104國道以西)	Production	10,317.4 sq.m.
2.	Nanlin Garden, Sewage Treatment Facilities, North to Xingye Street and East to Xiaodaheng Road, Manzhuang Town, Daiyue District, Tai'an City, Shandong Province (泰安市岱岳區滿莊鎮興業街以北、肅大亨路以東污水處理廠南鄰院)	Production, office and warehouse	11,567.9 sq.m.
3.	North to Songlou Town Government and East to Fenghuang Road, Yuanguocha Factory, Xuzhou City, Jiangsu Province (宋樓鎮政府以北、豐黃路以東原果茶廠)	Production and warehouse	13,500 sq.m.
<i>Vietnam</i>			
4.	Land plot No. 361, map No. 26, Vietnam-Singapore Industrial Park II, Vinh Tan Commune, Tan Uyen District, Binh Duong Province, Vietnam	Production, office and parking lot	5,779.4 sq.m.
<i>Hong Kong</i>			
5.	Flat B, 56th Floor, Block 1, Seaview Crescent, No.8 Tung Chung Waterfront Road, Tung Chung, Lantau Island, New Territories	Staff dormitory for business travel	80 sq.m. (saleable area)
<i>Ukraine</i>			
6.	Kyiv, Knyazhyi Zaton 9	Office and parking lot	319.7 sq.m.
7.	Kyiv, Knyazhyi Zaton 21	Office	113.8 sq.m.

As advised by our PRC Legal Advisers and Vietnamese Legal Advisers, and as confirmed by our Directors, save as disclosed in the paragraph headed "Properties – Title defects" in this section, we held all building ownership rights in the jurisdictions where our Group owns these buildings and we are entitled to occupy and use these buildings.

Leased properties

As at the Latest Practicable Date, we leased certain buildings in the PRC, Vietnam, Hong Kong, India, the United States, Russia, Slovakia and Mexico and save as disclosed in the paragraph headed "Properties – Title defects" in this section, the relevant owners of these buildings had valid title ownership certificates. The leased properties are mainly utilised for production, warehousing, office and staff dormitory.

BUSINESS

The table below shows a summary of properties leased by our Group in our places of operation as at the Latest Practicable Date:

No.	Location	Lease term	Usage	Approximate GFA
<i>The PRC</i>				
1.	Block 6, No. 69 Aoti Avenue, Jianye District, Nanjing City (南京市建鄴區奧體大街69號6幢)	1 January 2019 to 31 December 2021	Office	1,310 sq.m.
2.	Block 6, No. 69 Aoti Avenue, Jianye District, Nanjing City (南京市建鄴區奧體大街69號6幢)	1 January 2019 to 31 December 2021	Office	800 sq.m.
3.	Block 6, No. 69 Aoti Avenue, Jianye District, Nanjing City (南京市建鄴區奧體大街69號6幢)	1 January 2019 to 31 December 2021	Office	500 sq.m.
4.	Room 1509, Petrochemical Exchange Building, Zhangjiangang Free Trade Zone (張家港保稅區石化交易大廈1509室)	1 September 2019 to 31 August 2020	Office	53.3 sq.m.
5.	Room 407, 4/F, Block B, No. 189 Xinda Road, Sea View Observation Tower Street, Hebei District, Tianjin City (天津市河北區望海樓新大路189號B座4樓407室)	22 March 2019 to 21 March 2020	Office	17.5 sq.m.
6.	Room 602 and F08, Office Building, CFD Time Finance Centre, Wuhan City (武漢市CFD時代財富中心寫字樓6層602室及F08層)	30 June 2019 to 29 June 2021	Office	126.7 sq.m.
7.	Room 1211, No. 140-148 Tiyu East Road, Guangzhou City (廣州市天河區體育東路140-148號1211房)	1 March 2017 to 28 February 2020	Office	152.1 sq.m.
8.	Room 668, Zhanshui Road, Yanjiang Industrial Development Zone, Nanjing City (南京市沿江工業開發區湛水路668號房屋)	1 September 2019 to 31 August 2020	Office, staff dormitory and parking lot	200 sq.m.
9.	Block 8, No. 2, Jiuzhu Road, Moling Street, Jiangning District, Nanjing (南京市江寧區秣陵街道九竹路2號8幢)	22 June 2019 to 22 April 2025	Office	2,100 sq.m.
10.	North to Songlou Town Government and East to Fenghuang Road, Yuanguocha Factory, Xuzhou City, Jiangsu Province (宋樓鎮政府以北、豐黃路以東原果茶廠)	16 June 2003 to 15 June 2023	Office	240 sq.m.
<i>Vietnam</i>				
11.	8th Floor, 111D Ly Chinh Thang Street, District 3, Ho Chi Minh City	4 May 2017 to 3 May 2021	Office	68 sq.m.
12.	Factory Cluster No. 7, N6b Street, Phu Chanh I Industrial Cluster, Phu Chanh Commune, Tan Uyen District, Binh Duong Province	1 July 2018 to 1 February 2020	Production and warehouse	3,000 sq.m.
13.	No.7, Doc Lap Avenue, Song Than Industrial Area, Di An Town, Binh Duong Province	22 June 2018 to 30 June 2020	Warehouse	500 sq.m.
14.	Long Vy Area, Dinh Bang Ward, Tu Son Town, Bac Ninh Province	1 October 2018 to 1 October 2020	Warehouse	200 sq.m.
15.	3A-A1a, Becamex IJC Aroma Block A, Binh Duong New City, Lot No. 5, Zone 3, Ton Duc Thang Street, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	1 January 2020 to 31 December 2022	Staff dormitory	148.3 sq.m.

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No.	Location	Lease term	Usage	Approximate GFA
16.	3A-B1b(0303), Becamex IJC Aroma Block B, Binh Duong New City, Lot No. 5, Ton Duc Thang Street, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	16 December 2018 to 31 December 2020	Staff dormitory	90 sq.m.
17.	11B1b(01104), Becamex IJC, Aroma Block B, Binh Duong New City, Lot No. 5, Ton Duc Thang Street, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	20 October 2018 to 31 December 2022	Staff dormitory	90 sq.m.
18.	12BB1B, 12B Floor, Block B IJC Aroma Apartment, Binh Duong New City, Lot No. 5, Ton Duc Thang Street, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	14 January 2019 to 13 January 2021	Staff dormitory	90 sq.m.
19.	12B1D-1208A, Becamex IJC Aroma Block B, Binh Duong New City, Lot No. 5, Ton Duc Thang Street, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	9 January 2019 to 31 December 2021	Staff dormitory	90 sq.m.
<i>Hong Kong</i>				
20.	Room 1604, 16/F OfficePlus@Sheung Wan, No. 93-103 Wing Lok Street, Hong Kong	1 November 2019 to 30 April 2020	Office	400 sq. ft.
<i>India</i>				
21.	Unit No. 207, Banarasi Heritage, Chincholi Bunder Road, Behind Inorbit Mall, Off Link Road, Malad (W), Mumbai-400064	1 March 2019 to 28 February 2022	Office	360 sq. ft.
<i>The United States</i>				
22.	10015 Windfern Road, Houston, Harris, Texas 77064	5 November 2015 to 30 November 2020	Office and warehouse	5,400 sq. ft.
<i>Russia</i>				
23.	28 Koli Tomchaka Street, lit. A office 311, Third floor St Petersburg, 196006, the Russian Federation	1 December 2019 to 31 October 2020	Office	33.7 sq.m.
<i>Slovakia</i>				
24.	Cukrová No.14, Bratislava, Slovakia	Indefinite term from 14 October 2015	Office	20 sq.m.
<i>Mexico</i>				
25.	Salvador Madariaga, No. 5225, interior 1, Jardines Universidad, 45110 Zapopan, Jalisco, Mexico	11 September 2018 to 10 September 2020	Office	156 sq.m.

BUSINESS

As advised by our PRC Legal Advisers and Vietnamese Legal Advisers, and as confirmed by our Directors, save as disclosed in the paragraph headed “Properties – Title defects” in this section, we have all the requisite licences, permits, authorisations and consents in connection with the use and occupancy of the above leased properties. Our PRC Legal Advisers are of the view that there is no legal impediment for the Group to renew our leases with a term expiring in 2020 provided that consensus is reached between the Group and the respective lessor or no objection has been raised by the lessor in relation to the Group’s continued use of the leased properties upon expiration of the lease. We normally start negotiating with the landlord of our leased properties for the leases renewal shortly before the expiration of the respective lease term. In the event that we fail to renew any of our leases in the future, we will seek relocation of our offices and warehouses immediately in order to minimise any disruption to our business operation to the least extent possible.

Title defects

Songlou Town People’s Government in Feng County, Xuzhou* (徐州市豐縣宋樓鎮人民政府)(the “**Town People’s Government**”), as lessee of the Land and Office Building, entered into sub-lease agreements (the “**Sub-lease Agreement**”) with Hayay Feeds for use of two adjacent state-owned land parcels (the “**Land**”) of approximately 25.1 mu (畝) in aggregate and the office building (the “**Office Building**”) on rent free basis in June 2003 for a lease term until June 2023. We commenced construction of production building (the “**Xuzhou Production Building**”) for our Xuzhou Production Plant on the Land in 2005. Based on the interview with the Town People’s Government on 21 December 2018, it leased the Land and the Office Building from its landlord who had not obtained the land use right certificate (土地使用權證) in respect of the Land and the building ownership certificate (房屋所有權證) in respect of the Office Building and failed to provide the construction planning permit (建設工程規劃許可證) and the construction building permit (建築工程施工許可證). Based on the relevant approvals of agricultural land requisition (徵用土地批准證書), the agreements for land requisition (徵地合同書) and the construction land use permit (建設用地規劃許可證) for the construction of the Office Building, the landlord for the Land would be subsidiaries of Federation of Supply and Sales of Feng County, Xuzhou* (豐縣供銷合作總社)(the “**Landlord**”). In addition, we have not obtained the construction land use permit (建設用地規劃許可證), the construction planning permit (建設工程規劃許可證), the construction building permit (建築工程施工許可證) and the building ownership certificate and have not conducted the completion acceptance procedure (竣工驗收) for the Xuzhou Production Building (the “**Relevant Permits**”) (collectively, the “**Title Defects**”). As confirmed by our Directors, we have been leasing the Land for more than 15 years since 2003, (i) there has not been any dispute over the use of the Land, the Office Building or the Xuzhou Production Building, (ii) we have not received any notice, demand or order from the Landlord or any PRC government authorities requiring us to vacate from the Land and the Office Building or demolish the Xuzhou Production Building, and (iii) we have not been subject to any administrative penalty as a result of the use of the Land, the Office Building or the Xuzhou Production Building.

BUSINESS

Implications

As advised by our PRC Legal Advisers, the implications of the Title Defects are as follows:

(a) Lack of the land use right certificate of the Land and building ownership certificate of the Office Building

Based on the interview with the Bureau of Natural Resources and Planning Administration of Feng County (豐縣自然資源和規劃局)(the “**Feng County Planning Bureau**”) on 7 March 2019 (the “**Feng County Planning Bureau Interview**”), which is the competent authority in respect of urban and rural planning and land resources management in Feng County, the Land was requisitioned by the State and granted to the Landlord for industrial construction purpose in 1996 and is a state-owned land parcel. The Landlord failed to obtain the land use right certificate of the Land and the building ownership certificate of the Office Building. Our PRC Legal Advisers are of the view that (i) given that the Land is duly requisitioned by the State for industrial construction purpose and that there is generally no restriction on the transfer (including lease) of state-owned land provided by the laws and regulations of the PRC, our lease of the Land and the Office Building is in compliance with the laws and regulations in respect of rural planning and land resources management of the PRC, and (ii) the lack of the land use right certificate of the Land and the building ownership certificate of the Office Building which constitute title defects under the relevant PRC laws and regulations, was caused by the omission of the Landlord and will not lead to any penalty of the Group.

(b) Lack of the construction planning permits of the Land and the Office Building

According to the Interpretation by the Supreme People’s Court about the Specific Application of Law on Certain Issues in the Hearing of the Contractual Dispute Cases on the Leasing of the Properties in Towns and Cities (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》), if a landlord enters into a lease with a tenant for a property which has not been issued with the construction planning permit or was not built in accordance with the provisions of the construction planning permit, such lease shall be invalid. As such, as a result of the lack of the construction planning permits of the Land and the Office Building, our PRC Legal Advisers are of the view that (i) there is a risk that our Sub-lease Agreement may be deemed invalid and we may be required to vacate from the Land and/or the Office Building under the PRC laws, (ii) the lack of construction planning permits of the Land and the Office Building constitutes a non-compliance with applicable laws and regulations by the Landlord given that the Landlord, who constructed the Office Building, has the obligation to apply for construction planning permits of the Land and the Office Building, and (iii) the lack of the construction planning permits of the Land and the Office Building was caused by the omission of the Landlord and therefore will not lead to any penalty of the Group.

(c) Lack of the construction land use permit, construction planning permit, construction building permit and completion acceptance for our Xuzhou Production Building

Pursuant to the relevant PRC laws and regulations, the Relevant Permits for the Xuzhou Production Building will only be granted to the Landlord and we are not able to apply for such Relevant Permits in our capacity as the lessee of the Land. As a result of the failure of the Landlord to obtain the land use right certificate of the Land, the building ownership certificate of the Office Building and the construction planning permits of the Land and the Office Building, which are the pre-requisites to apply for the Relevant Permits in respect of the Xuzhou Production Building, we had not been able to obtain the title ownership documents and the Relevant Permits and conduct the completion acceptance procedure with respect to the Xuzhou Production Building. As advised by our PRC Legal Advisers, we may be demanded by the relevant government authority to suspend or demolish the construction and subject to fine up to approximately RMB144,000. Based on the Feng County Planning Bureau Interview, our PRC Legal Advisers has further advised us that the likelihood for us to be penalised in relation to such non-compliance is remote. For details, please refer to the paragraph headed “Business – Legal Non-compliance and Proceedings” in this prospectus.

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Remedial actions taken or to be taken

In relation to the remedial actions taken or to be taken in relation to the Title Defects, as advised by our PRC Legal Advisers, the lack of land use right certificate of the Land and building ownership certificate of the Office Building is caused by the omission of the Landlord and is beyond the control of our Group. As confirmed by the Feng County Planning Bureau, the lack of the land use right certificate of the Land and the building ownership certificate of the Office Building will not result in any non-compliance of the laws and regulations in relation to urban and rural planning and land management in the PRC. As at the Latest Practicable Date, to the best knowledge of our Group and the Directors, the Landlord had not received the relevant notice from the relevant authorities. Given that (i) our Group is only a sub-lessee of the Land and the Office Building, and (ii) the lack of the Relevant Permits was caused by lack of certificates from the Landlord, it is beyond our Group's control to take any remedial action to rectify the title defects in respect of the Land, the Office Building and the Xuzhou Production Building.

As at the Latest Practicable Date, our Directors were not aware of any factors which would cause material difference in any rental payment term should the leased Land and Office Building have any defective titles. Our Directors also confirmed that the safety conditions of our Xuzhou Production Plant are not negatively impacted by the Title Defects. From the commencement of the Sub-lease Agreement in 2003 and up to the Latest Practicable Date, there has been no material incident to our knowledge that would raise questions as to the safety conditions of our Xuzhou Production Plant. In addition, the Fire Department of the Public Security Bureau of the Feng County* (豐縣公安消防大隊), which is the competent authority, issued us the fire safety certificates in respect of our Facilities in July 2007. We also inspect and maintain the Facilities on a regular basis to ensuring satisfactory safety conditions. Based on the safety records and the measures that we have taken, we believe that our Xuzhou Production Plant has been and will continue to be fit and safe for production purpose. During the Track Record Period and up to the Latest Practicable Date, we have not received any complaint, claim or order in relation to compliance with the fire control and safety regulations in material respect.

As mentioned in the paragraph headed "Business Strategies – Increase our production capacity by upgrading our production facilities in the PRC" in this section, we have expanded our production capacity of choline chloride and betaine, which are currently the main products produced at our Xuzhou Production Plant, at our Tai'an Production Plant by performing technological enhancement to adjust and recalibrate the existing machinery and equipment to upgrade the production facilities, which was fully funded by our internal financial resources. Therefore, in the event that the Sub-lease Agreement is terminated or we are requested by the relevant PRC authorities to relocate our production facilities at the Xuzhou Production Plant as a result of the alteration of the overall land use planning in respect of the Land, we could leverage our increased production capacity and proceed to use the Tai'an Production Plant to satisfy the demand from our customers.

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Based on the Feng County Planning Bureau Interview, the overall planning use of the Land has been changed from industrial construction purpose to commercial and residential purpose in 2014 and 2015 (the “**Land Use Alternation**”). As at the Latest Practicable Date, as confirmed by the Feng County Planning Bureau, the detailed land use planning of the Land has not been finalised yet and there is no concrete plan of relocation as a result of the Land Use Alternation. Our PRC Legal Advisers are of the view that: (i) based on the construction land use permit (建設用地規劃許可證) for the construction of the Office Building and the Feng County Planning Bureau Interview, the Land was used as industrial construction purpose at the time when our Group constructed the Xuzhou Production Building on the Land, which is in compliance with the original planned land use of the Land and does not constitute any breach of the relevant laws and regulations in respect of urban and rural construction in the PRC, (ii) in order to comply with the Urban and Rural Planning Law (城鄉規劃法) and the Land Administrative Law (土地管理法) of the PRC, which requires strict compliance with the prescribed land use of the Land under the overall land use planning, our Group may not be able to continue to use the Land for industrial construction purpose and may be required by the relevant PRC authorities to relocate once the detailed land use planning of the Land is finalised, and (iii) the relevant PRC authorities will compensate the loss incurred by our Group as a result of the Land Use Alternation, in accordance with the Urban and Rural Planning Law (城鄉規劃法). In view of the Land Use Alternation as mentioned above, in the event that we are forced to relocate from the Xuzhou Production Plant, our Directors estimate that there will be an aggregate cost of RMB2.5 million for write-off of factory building and fixed assets and the relocation of fixed assets to our Tai’an Production Plant can be completed within approximately one month. For details of certain risks in relation to the relocation, please refer to the paragraph headed “Risk Factors – Risks Relating to our Business – We are dependent on the three production plants located in the PRC and Vietnam. Any operational disruption in our production plants may result in a reduction of sales volumes and may cause us to incur substantial expenditure” in this prospectus.

For the six months ended 30 June 2019, the production volume at the Xuzhou Production Plant accounted for approximately 13.2% of our total production volume. As such, our Directors believe that there will be no material adverse impact on our operations and financial results in the event of relocation of the Xuzhou Production Plant.

Indemnity provided by the Controlling Shareholders

Each of the Controlling Shareholders has jointly and severally undertaken to indemnify and keep our Group fully indemnified against all claims, losses, liabilities, damages, costs, charges, fees, expenses (including relocation cost), fines suffered or incurred by our Group as a result of or in connection with, among others, (i) any dispute as to the rights to lease and use of the Land and the Office Building by us as sub-lessee, because the Landlord does not possess the collectively-owned land use right certificate of the Land, the construction planning permit, the construction building permit and the building ownership certificate in respect of the Office Building, (ii) our non-compliance in respect of failure to obtain the construction land use permit, the construction planning permit and the construction building permit for our Facilities, and (iii) the potential amount of aggregate cost for write off of factory building and fix assets (estimated at RMB2.5 million), in the event of relocation of the Xuzhou Production Plant.

The Directors are of the view that the Xuzhou Production Plant is crucial to our operation. Nevertheless, in light of (i) the increase in production capacity of choline chloride and betaine at our Tai’an Production Plant as a result of the technological enhancement, (ii) indemnity from the Controlling Shareholders as particularised above, and (iii) the potential amount of aggregate cost for write off of factory building and fix assets and relocation of fixed assets and the estimated time of relocation, in the event of relocation of Xuzhou Production Plant, our Directors are of the view that any loss due to the potential risk of relocation, should it materialise, would not cause any material adverse effect on our business or financial position or results of operation.

INTELLECTUAL PROPERTY

We primarily rely on a combination of trademarks and confidentiality agreements to protect our intellectual property. For further information relating to the intellectual property rights of our Group, please refer to the paragraph headed “Statutory and General Information – B. Further information about Our Business – 2. Intellectual property rights” set out in Appendix IV to this prospectus.

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With respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on, among other things, trade secret protection and confidentiality agreements to safeguard our interests. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our associates to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. We are not aware of any material infringement of our intellectual property rights.

During the Track Record Period, we were not involved in any dispute or litigation relating to infringement of trademarks and patents nor to the best of our knowledge did we infringe any trademarks and patents belonging to other parties.

LICENCES AND PERMITS

We are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licences, permits, approvals and certificates in order to operate our facilities and conduct our business. A summary of such relevant laws and regulations which our business operations are subject to is set out in the section headed “Regulatory Overview” in this prospectus. As advised by our PRC Legal Advisers and Vietnamese Legal Advisers and as confirmed by our Directors, save as disclosed in the paragraph headed “Legal Non-compliance and Proceedings” in this section, we had obtained all necessary licences, permits, approvals and certificates to conduct our business in material respects and such licences, permits, approvals and certificates are valid and remain in effect as at the Latest Practicable Date. We did not experience any difficulties in renewing the necessary licences, permits, approvals and certificates during the Track Record Period, and we do not expect to have any material difficulty in renewing them when they expire. The following table sets forth details of our material licences and permits for our operations in the PRC and Vietnam:

The PRC:

Licence and permit	Issuing authority	Date of issue	Date of expiry
Road Transport Operation Permit* (道路運輸經營許可證)	Nanjing Road Transport Management Office* (南京公路運輸管理處)	28 April 2018 (effective on 13 May 2018)	12 May 2022
Hazardous Chemicals Operation Permit* (危險化學品經營許可證)	Nanjing Jianye District Safety Production Supervision and Administration Bureau* (南京市建鄴區安全生產監督管理局)	27 February 2018 (effective on 28 February 2018)	27 February 2021
Pharmaceutical Operation Permit* (藥品經營許可證)	Jiangsu Provincial Food and Drug Administration* (江蘇省食品藥品監督管理局)	10 December 2019	9 December 2024
Pharmaceutical Operation Quality Management Certificate* (藥品經營質量管理規範認證證書)	Jiangsu Provincial Food and Drug Administration* (江蘇省食品藥品監督管理局)	3 January 2016	3 January 2021
Hazardous Chemicals Operation Permit* (危險化學品經營許可證)	Nanjing Jianye District Emergency Management Bureau* (南京市建鄴區应急管理局)	25 November 2019	24 November 2022
Feed Additives Production Permit for Feed Additives* (飼料添加劑生產許可證 – 飼料添加劑)	Shandong Provincial Animal Husbandry and Veterinary Bureau* (山東省畜牧獸醫局)	17 January 2019	16 January 2024
Hazardous Chemicals Operation Permit* (危險化學品經營許可證)	Tai'an Safety Production Supervision and Administration Bureau* (泰安市安全生產監督管理局)	6 March 2017	5 March 2020

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Licence and permit	Issuing authority	Date of issue	Date of expiry
Hazardous Chemicals Operation Permit* (危險化學品經營許可證)	Nanjing Jianye District Safety Production Supervision and Administration Bureau* (南京市建邺區安全生產監督管理局)	28 April 2017	27 April 2020
Road Transport Operation Permit* (道路運輸經營許可證)	Road Transport Management Office, Tai'an Transportation Bureau* (泰安市交通運輸局道路運輸管理處)	12 May 2017	29 December 2020
Feed Additives Production Permit for Mixed Feed Additives* (飼料添加劑生產許可證 – 混合型飼料添加劑)	Shandong Provincial Animal Husbandry and Veterinary Bureau* (山東省畜牧獸醫局)	31 August 2017	1 April 2020
Hazardous Chemicals Registration Certificate* (危險化學品登記證)	Shandong Provincial Hazardous Chemicals Registration Centre, State Administration of Work Safety Chemicals Registration Centre* (山東省危險化學品登記中心, 國家安全生產監督管理總局化學品登記中心)	19 October 2017	18 October 2020
Safety Production Permit* (安全生產許可證)	Shandong Provincial Safety Production Supervision and Administration Bureau* (山東省安全生產監督管理局)	21 November 2017	20 November 2020

* For identification purposes only

Vietnam:

Licence and permit	Issuing authority	Date of issue	Date of expiry
Certificate of appraisal on fire prevention and fire-fighting designs	Department of Fire Prevention and Fire-Fighting Police of Binh Duong Province, Vietnam	6 November 2014	Not applicable ⁽²⁾
Decision No. 4429/QD-UBND approving the environmental impact assessment report	People's Committee of Binh Duong Province, Vietnam	30 December 2014	Not applicable ⁽²⁾
Enterprise Registration Certificate	Department of Planning and Investment of Ho Chi Minh City, Vietnam	17 June 2019	Not applicable ⁽¹⁾
Certificate of acceptance on fire prevention and fire-fighting designs	Department of Fire Prevention and Fire-Fighting Police of Binh Duong Province, Vietnam	16 December 2016	Not applicable ⁽²⁾
Register of owner of hazardous waste generator	Department of Natural and Resources and Environment of Binh Duong Province, Vietnam	18 April 2017	Not applicable ⁽²⁾
Investment Registration Certificate	Department of Planning and Investment of Ho Chi Minh City, Vietnam	17 July 2019	7 May 2024
Trading Business Licence	Department of Industry and Trade of Ho Chi Minh City, Vietnam	20 September 2017	7 May 2024
Approval to measures on prevention of and response to chemical emergencies	Department of Industry and Trade of Binh Duong Province, Vietnam	23 November 2017	Not applicable ⁽²⁾

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Licence and permit	Issuing authority	Date of issue	Date of expiry
Enterprise Registration Certificate	Department of Planning and Investment of Binh Duong Province, Vietnam	12 September 2019	Not applicable ⁽¹⁾
Investment Registration Certificate	Department of Planning and Investment of Binh Duong Province, Vietnam	5 September 2019	19 March 2058
Decision No. 23/QD-BQL approving the environmental impact assessment report	The Management Board of the Vietnam – Singapore Industrial Park	13 March 2019	Not applicable ⁽²⁾
Decision No. 478/QD-STNMT approving the environmental impact assessment report	Department of Natural Resources and Environment of Binh Duong Province, Vietnam	23 April 2019	Not applicable ⁽²⁾
Certificate of eligibility for production of conditional industrial chemicals No. 96/GCN-SCT	Department of Industry and Trade of Binh Duong Province, Vietnam	7 May 2019	Not applicable ⁽²⁾

Notes:

- (1) Since the operational term is indefinite pursuant to the applicable laws on enterprises, there is no expiry date on these certificates.
- (2) These licences continue to take effect unless there is a change or update of the content prescribed in the existing licences or in the case of reobtaining or terminating the licences under the applicable laws.

In respect of the material licences and permits for our operations in the PRC with a term expiring in 2020, our PRC Legal Advisers are of the view that there is no legal impediment for the Group to renew such licences and permits provided that the Group has been in compliance with the legal requirement in respect of each of these licences and permits. The Group will submit applications to renew such licences and permits in accordance with the relevant PRC laws and regulations before the expiration of such licences and permits.

LEGAL NON-COMPLIANCE AND PROCEEDINGS

Non-compliance

The table below sets out the summary of certain incidents of historical non-compliance with applicable laws or regulations during the Track Record Period and up to the Latest Practicable Date. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Internal control measures taken to prevent recurrence of similar event
<p>Lack of construction permits before commencement of building construction work</p> <p>During the Track Record Period, we did not obtain the construction planning permit (建設工程規劃許可證) and construction building permit (建築工程施工許可證) for our warehouses located in Tai'an, Shandong Province ("Tai'an Warehouses") which are currently under construction, before commencement of such construction works. To commence construction works without obtaining the abovementioned construction permits was in contravention of the Urban and Rural Planning Law (《城鄉規劃法》)(the "Urban and Rural Planning Law"), the Construction Law (《建築法》)(the "Construction Law") and the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可證管理辦法》)(the "Construction Permits Measures") (collectively, the "Building Construction Law").</p>	<p>The non-compliance in respect of the relevant construction permits of the Tai'an Warehouses was mainly due to (i) the unfamiliarity with the regulatory requirements for building construction of our staff who was responsible for monitoring and managing permits and procedures for the construction works, and (ii) the processing time required for our application for the relevant permits by the responsible PRC government authority. We have been carrying out rectification actions since we were aware of this non-compliance incident including the submission of the application for the construction planning permits. However, as advised by our PRC Legal Advisers, the construction building permits will only be granted after the relevant construction planning permits are obtained. Due to the sequence of application and the processing time required for the application of the relevant permits by the responsible PRC government authorities, this non-compliance incident has not been fully rectified as at the Latest Practicable Date.</p>	<p>Pursuant to the Urban and Rural Planning Law, if a company occupies any land without the construction land use permit and in contravention of its purpose of use, such land shall be returned promptly to or seized by the relevant PRC authorities.</p> <p>Pursuant to the Urban and Rural Planning Law, if construction works are carried out without obtaining a construction planning permit, the relevant PRC government authority may demand us to (i) suspend the construction and impose a fine of not less than 5% but no more than 10% of the total construction costs, provided that the impact on the planning caused by such construction works may be eliminated, or (ii) demolish the building or structure, or for construction works that cannot be demolished, confiscate any illegal income or items therefrom and impose a fine of no more than 10% of the total construction costs, provided that the impact on the planning caused by such construction works cannot be eliminated.</p>	<p>As confirmed by our Directors, our Group has already obtained the land use rights on which the Tai'an Warehouses are located and the respective construction land use permits have been acquired. On 17 May 2019, we have obtained the construction planning permits from the relevant PRC authority and as at the Latest Practicable Date, we have submitted the application for the construction building permits to the relevant PRC authority. In addition, based on the interview with the Bureau of Administration Approval Service Dayue District, Tai'an City (泰安市區行政審批服務局) and the Government Service Centre of Dayue District, Tai'an City (泰安市岱岳區政務服務中心) on 8 March 2019, our PRC Legal Advisers are of the view that there is no legal impediment for us to obtain the relevant construction building permits in respect of our Tai'an Warehouses.</p>	<p>The Group is required to comply with the required procedures and formalities for obtaining the relevant construction permits in accordance with the applicable laws and regulations in the PRC and any construction work can only be carried out after the land use certificate, and the relevant construction and planning permits are obtained from the relevant PRC authorities. We have established a compliance management team in our legal department which will be responsible for monitoring compliance with the required procedures to ensure that that all necessary permits and approvals in respect of construction are obtained by us before the commencement of any new construction work. In view of the above, we have updated our internal policy in relation to management of construction work which requires approval of any construction project, on the basis of a feasibility analysis report, to be submitted to the competent authorities for review in accordance with the applicable laws and regulations in the PRC and our internal management procedures of the Group.</p>

Historical non-compliance	Reasons for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status	Internal control measures taken to prevent recurrence of similar event
<p>In respect of our Xuzhou Production Building, as at the Latest Practicable Date, we have not obtained the construction land use permit (建設用地規劃許可證), construction planning permit (建設工程規劃許可證) and construction building permit (建築工程施工許可證) pursuant to the Building Construction Law. In addition, we have not conducted the completion acceptance procedure (竣工驗收) for the Xuzhou Production Building in accordance with the Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》)(the “Quality Management Regulation”).</p>	<p>Pursuant to the relevant PRC laws and regulations, the relevant construction permits of the Xuzhou Production Building will only be granted to the Landlord and we are not able to apply for such construction permits in our capacity as the lessee of the Land.</p> <p>The non-compliance in respect of the relevant construction permits of the Xuzhou Production Building was mainly due to the omission by the Landlord to obtain the land use right certificate of the Land, the building ownership certificate of the Office Building and the construction planning permits of the Land and the Office Building, which are the prerequisites to apply for the relevant construction permits for our Xuzhou Production Building. For details, please refer to the paragraph headed “Properties – Title Defects” in this section.</p>	<p>Pursuant to the Construction Law and the Construction Permits for Construction Measures, if construction works are carried out without obtaining a construction building permit, the relevant PRC government authority may, (i) demand us to suspend the construction; and (ii) impose a fine of not less than 1% but not more than 2% of the total construction costs.</p> <p>Pursuant to the Quality Management Regulation, if any of our construction unit is put into use without conducting the completion acceptance procedure, the relevant PRC government authority may demand us to suspend the use of such construction unit and impose a fine of not less than 2% but not more than 4% of the total construction costs.</p> <p>Despite the lack of relevant construction permits in respect of the Xuzhou Production Building was caused by the omission of the Landlord, our Group will still be subject to the potential penalty as described above because the construction works of the Xuzhou Production Building were carried out by us.</p> <p>As advised by our PRC Legal Advisers, based on the respective total construction costs of the Tai’an Warehouses and the Xuzhou Production Building, the maximum fine which may be imposed on our Group in respect of the non-compliance of the Tai’an Warehouses and the Xuzhou Production Building amounts to approximately RMB422,000 and RMB144,000, respectively.</p>	<p>Based on the interview with the Housing and Urban-Rural Development of Feng County (豐縣住房和城鄉建設局) on 7 March, 2019 and the Feng County Planning Bureau Interview, our PRC Legal Advisers have advised us that the likelihood that the relevant PRC authorities will demand us to demolish the construction works in respect of the Tai’an Warehouses or impose any penalty on us including fines, is remote.</p> <p>In respect of the Xuzhou Production Building, given that (i) the lack of the relevant construction permits was caused by the omission of the Landlord to obtain the land use right certificate of the Land and the building ownership certificate of the Office Building and the construction planning permits of the land and the Office Building, and (ii) the overall land use planning in respect of the Land where the Xuzhou Production Building is located has been changed from industrial construction purpose to commercial and residential purpose, in which we may be requested by the relevant PRC authorities to relocate our production facilities at the Xuzhou Production Plant and write off our factory building and fixed assets after the relevant detailed land use planning is finalised, it is beyond our Group’s control to take any remedial action to rectify this non-compliance. Since the procedures of land requisition by the State have been completed in respect of the Land used by the Xuzhou Production Building, our PRC Legal Advisers, based on the Feng County Planning Bureau Interview, have advised us that our lease of the Land and the Office Building was in compliance with the PRC laws and regulations in relation to rural planning and land resources management.</p>	<p>Please refer to the internal control measures as mentioned above.</p>

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In the unlikely event that the relevant authorities impose any penalties or fines on us due to the abovementioned non-compliance incidents, our Controlling Shareholders have entered into the Deed of Indemnity to indemnify our Group against all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by us in connection with the abovementioned non-compliance incidents.

Our Directors are of the view that, based on the confirmation from the relevant authorities, the advice of our PRC Legal Advisers and the indemnities provided by our Controlling Shareholders, none of the abovementioned non-compliance incidents will materially and adversely affect our business operations and financial conditions. As a result, no provision has been made in our consolidated financial statements in relation to the abovementioned non-compliance incidents.

As confirmed by our Directors, save as disclosed above, our Group is in compliance with all applicable laws and regulations in all material respects during the Track Record Period.

Legal proceedings

As at the Latest Practicable Date, save as disclosed below, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim was known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial conditions or results of operations. We may from time to time become a party to various litigation, arbitration or claims arising in the ordinary course of our business.

U.S. litigation

GHW Chemicals was named as one of the defendants in a litigation initiated in the United States, which arose in our ordinary course of business in relation to certain cargoes of goods sold by us (the “**Lawsuit**”). The plaintiff claims an amount of U.S.\$1,333,800 plus interest, cost and attorneys’ fees in damages arising from demurrage charges and storage expenses that were alleged consequence of the failure by GHW Chemicals and another defendant to take delivery of certain cargoes at the port of Los Angeles in the United States.

On 12 July 2019, we filed a motion with the U.S. court seeking dismissal of the plaintiff’s claims. The plaintiff filed an opposition to our motion on 30 August 2019, to which we filed a reply on 23 September 2019. Oral argument on the motion was scheduled for 8 December 2019.

However, after the plaintiff’s lawyer reviewed our moving papers, declarations and exhibits, they obtained the authorisation of the plaintiff to dismiss its lawsuit against GHW Chemicals without seeking any monetary contribution from GHW Chemicals, and without any court costs. Pursuant to the Stipulation and Order of Dismissal (the “**Order**”) that has been executed by the respective lawyers of the plaintiff and GHW Chemicals, the plaintiff and GHW Chemicals mutually releases each other from any and all claims of whatsoever nature in connection with the facts underlying the Lawsuit. Each party to the Lawsuit must bear their own fees and cost incurred in the Lawsuit. A federal judge executed the Order on 26 November 2019, and the Order was filed on the docket of the federal court.

As advised by the U.S. Legal Advisers, the Lawsuit is, therefore, now concluded with no liability, present or future, for GHW Chemicals in relation to the claim alleged by the Plaintiff.

View of our Directors and Sole Sponsor

Save as disclosed in the paragraph headed “Legal Non-compliance and Proceedings” in this section, to the best knowledge of our Directors, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant laws and regulations applicable to us in all material respects concerning our operations.

Our Controlling Shareholders have undertaken to indemnify our Group against, among others, any penalty that may be imposed on our Group as a result of the non-compliance with the applicable PRC laws and regulations disclosed herein. Please refer to the paragraph headed “Statutory and General Information – E. Other information – 1. Tax and other indemnity” set out in Appendix IV to this prospectus for details of the indemnity.

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Our Directors consider that the non-compliance incidents as mentioned in the paragraph headed “Non-compliance” above in this section would not affect the suitability of listing of our Company pursuant to Rule 8.04 of the Listing Rules having considered the fact that (i) we have taken various internal control measures to avoid recurrence of the non-compliance incident, as set out below in the paragraph headed “Internal control measures” in this section, (ii) no recurrence of similar material non-compliance incident has taken place since these measures are implemented, and (iii) the above non-compliance incidents was unintentional, did not involve any fraudulent act on the part of our executive Directors and did not raise any question as to the integrity of our executive Directors.

Taking into account the above and the fact that (i) none of the above non-compliances were committed wilfully, (ii) such non-compliances have all been rectified to the extent practicable, and (iii) any loss, fee, expense and penalty of our Group in relation to such non-compliance matters will be fully indemnified by our Controlling Shareholders, our Directors consider, and the Sole Sponsor concurs, that the impact of such non-compliance matters would be immaterial to our Group’s operation and financial position.

The Sole Sponsor, after considering the above and having reviewed the internal control measures adopted by our Group, concurs with the view of our Directors, that the abovementioned non-compliance incident would not affect the suitability of listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor considers that the non-compliance incidents would not give rise to the concerns on the ability of our executive Directors to oversee our Company’s operation and the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.

Internal control measures

Our Directors are responsible for monitoring our internal control system and for reviewing its adequacy and effectiveness. In order to continuously enhance our corporate governance and to prevent recurrence of the non-compliance incidents as set out in “Legal Non-Compliance and Proceedings” in this section:

- each of our Directors had attended a training session conducted by our Hong Kong legal advisers on directors’ responsibilities and duties;
- we have appointed Fortune Financial Capital Limited to act as our compliance adviser upon Listing to advise our Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules;
- we have established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules. The audit committee (which comprises Ms. Zheng Qing, Mr. Wang Guangji and Mr. Sun Hongbin), will supervise our internal control measures in order to better monitor our daily operations from the perspective of compliance with applicable rules and regulations;
- we have implemented our internal control policy to ensure that we regularly keep abreast of the latest developments in PRC laws and regulations in relation to social insurance and housing provident funds and timely update the relevant policy in light of any development;
- our legal and finance and treasury management departments will assist our human resources department to regularly evaluate our compliance with PRC laws and regulations in relation to social insurance and housing provident funds, and make amendments to our internal systems and procedures in light of legal developments where necessary;
- our human resources department will monitor payment status and prepare regular reports to ensure that social insurance and housing provident fund contributions are paid in full and on time in accordance with the relevant laws and regulations;
- we have established a compliance management team in our legal department which will be responsible for identifying, assessing, monitoring and reporting compliance risks, as well as compliance review, investigation, training and consulting; and

BUSINESS

- as an internal control measure, we will ensure that all necessary permits and approvals in respect of construction work are obtained in accordance with the applicable PRC laws and regulations and our compliance management team will inspect all such permits obtained by us before the commencement of construction operations.

Having taken into account that (i) our Group has designated relevant staff to closely keep track of the latest developments in law and regulations, the status of payment of the social insurance and housing provident fund contribution and obtaining all necessary permits and approvals, (ii) our Group has implemented (or will implement where applicable) the measures described above to avoid recurrence of the non-compliance incidents, (iii) the non-compliance incidents were unintentional, and did not involve any fraudulent act on the part of our executive Directors, and (iv) there was no recurrence of similar non-compliance incidents since the implementation of such measures; our Directors believe and the Sole Sponsor concurs that, the internal control measures are sufficient and could effectively ensure a proper internal control system of our Group and to prevent the recurrence of non-compliance incident.

Internal control review by independent internal control consultant

In preparation for the Listing, we engaged an internal control consultant (the “**Internal Control Consultant**”) in January 2018 to review our internal control systems and procedures and assist the Sole Sponsor in assessing the adequacy of the internal controls of our Group. In the course of its reviews, the internal control consultant conducted interviews with the designated responsible personnel and examined relevant documents to identify the deficiencies in our Group’s internal control procedures and develop recommendations for improvement. Our Group implemented the measures to improve our internal control systems with reference to those recommendations. Based on the result of the follow-up reviews performed by the Internal Control Consultant from October to November 2018, from January to February 2019 and in December 2019, the Directors confirmed, and the Internal Control Consultant concurred, that the Group has established all policies and procedures as recommended by the Internal Control Consultant for our internal control deficiencies and did not have any outstanding deficiencies in the internal control system as at the Latest Practicable Date.

RISK MANAGEMENT

We are exposed to various risks during our operations. For more details about these risks, please refer to the section headed “Risk Factors” in this prospectus. We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety.

To properly manage these risks, we have established the following risk management structures and measures:

- our Board is responsible and has the general power to manage the operations of our businesses, and is in charge of managing our overall risks. It is responsible for considering, reviewing and approving any significant business decision involving market risk exposures, such changes in interest rates and currency exchange rates, expansion into new geographical region, increase our rentals and fees, to acquire any businesses and lands for our businesses, and to enter into any joint venture with any parties;
- we maintain insurance coverage, which we believe is consistent with the customary practice of businesses of our size and type, and in line with the standard commercial practice in the relevant jurisdiction; and
- we are also accredited with a number of quality management system, food safety management system, feed safety management system, environmental management system and laboratory accreditation to minimise risks in our operations.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the financial year ended 31 December 2017 up until the time immediately prior to the completion of the Global Offering and the Capitalisation Issue (the “Relevant Period”)

As at 1 January 2017, Mr. Yin, through himself or companies controlled by him, held approximately 67.2820% of the equity interests in GHW International SCM. Upon completion of the Reorganisation and immediately prior to the completion of the Global Offering and the Capitalisation Issue, both Mr. Yin and Ms. Wu Hailing (being the spouse of Mr. Yin) will indirectly hold an aggregate of approximately 73.3391% of the issued share capital of our Company, with breakdown as follows:

- (a) both Mr. Yin and Ms. Wu Hailing through Commonwealth B Limited, being a company which is indirectly wholly-owned by both Mr. Yin and Ms. Wu Hailing, will hold 50% of the issued share capital of our Company; and
- (b) Mr. Yin through Commonwealth Happy Elephant Limited, being a company which is 98.2610% indirectly owned by Mr. Yin, will hold approximately 23.3391% of the issued share capital of our Company.

Under the Measures for the Administration of the Takeover of Listing Companies promulgated by the China Securities Regulatory Commission, spouses are deemed to be persons acting in concert. Although Ms. Wu Hailing, being the spouse of Mr. Yin, did not hold any equity interest in GHW International SCM until 31 July 2018 when GHW International SCM was transferred to GHW Holdings, being an intermediate holding company of our Group, both Mr. Yin and Ms. Wu Hailing can be viewed as a group of Controlling Shareholders (the “**First Group of Controlling Shareholders**”) as (i) both Mr. Yin and Ms. Wu Hailing have been deemed to be persons acting in concert during the Relevant Period by virtue of their marital relationship; and (ii) there has been no material change in the aggregate voting interests of both Mr. Yin and Ms. Wu Hailing in our Group during the Relevant Period.

As at 1 January 2017, Mr. Yin, through himself or companies controlled by him, held approximately 67.2820% of the equity interests in GHW International SCM, while Ms. Wang Wei, through herself, and Mr. Pan Bing, through himself, held approximately 0.4382% and 0.1095% of the equity interests in GHW International SCM, respectively. As such, Mr. Yin, Ms. Wang Wei and Mr. Pan Bing held an aggregate of 67.8297% of the equity interests in GHW International SCM as at 1 January 2017. Upon completion of the Reorganisation and immediately prior to the completion of the Global Offering and the Capitalisation Issue, Mr. Yin Yanbin, Ms. Wang Wei and Mr. Pan Bing will indirectly hold an aggregate of approximately 63.7522% of the issued share capital of our Company, with breakdown as follows:

- (a) Mr. Yin through Commonwealth B Limited and Commonwealth Happy Elephant Limited will hold approximately 63.3391% of the issued share capital of our Company as set out above;
- (b) Ms. Wang Wei through HMZ Holdings Ltd and Commonwealth Happy Elephant Limited will hold approximately 0.3098% of the issued share capital of our Company; and
- (c) Mr. Pan Bing through HappyBean Holdings Limited and Commonwealth Happy Elephant Limited will hold approximately 0.1033% of the issued share capital of our Company.

Mr. Yin, Ms. Wang Wei and Mr. Pan Bing can be viewed as a group of Controlling Shareholders (the “**Second Group of Controlling Shareholders**”) as (i) there has been no addition or departure of shareholders within this group of Controlling Shareholders during the Relevant Period; and (ii) there has been no material change in the aggregate voting interests of Mr. Yin, Ms. Wang Wei and Mr. Pan Bing in our Group during the Relevant Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Throughout the years when Mr. Yin, Ms. Wang Wei and Mr. Pan Bing were shareholders of GHW International SCM, (1) there was unanimous voting pattern among them and consensus on key decisions had been reached consistently as (a) each of Mr. Yin, Ms. Wang Wei and Mr. Pan Bing considered the resolutions proposed by the board were in the best interest of the company and the shareholders as a whole; (b) Ms. Wang Wei and Mr. Pan Bing had discussions with Mr. Yin on the view on key decisions in advance and reached their consensus by obtaining each other's concurrence on such decisions; and (c) they have developed long-term mutual trust and understanding among themselves in making decisions as Ms. Wang Wei and Mr. Pan Bing have been working together with Mr. Yin in GHW International SCM, its subsidiaries and/or associated companies for more than a decade and have jointly invested in GHW International SCM with Mr. Yin since December 2011; and (2) Mr. Yin and Ms. Wu Hailing have been deemed to be persons acting in concert by virtue of their marital relationship. Therefore, the First Group of Controlling Shareholders and the Second Group of Controlling Shareholders have been a group of Controlling Shareholders concurrently during the Relevant Period and therefore each of them should not be treated as an addition of Shareholders to the other.

Immediately following the completion of the Global Offering and the Capitalisation Issue

Immediately following the completion of the Global Offering and the Capitalisation Issue, Commonwealth B Limited and Commonwealth Happy Elephant Limited will be legally and beneficially interested in an aggregate of 55.31415% of the Shares in issue (assuming the Over-allotment Option is not exercised). Commonwealth B Limited is directly owned as to 20% by Commonwealth Violet Limited, which is directly and wholly owned by Ms. Wu Hailing, and as to 80% by Commonwealth Yanbin Limited, which is directly and wholly owned by Mr. Yin. Commonwealth Happy Elephant Limited is directly owned as to 98.2610% by Commonwealth YYB Limited, which is directly and wholly owned by Mr. Yin. Accordingly, Mr. Yin and Ms. Wu Hailing will, indirectly, through their respective holding companies, own a total of 55.31415% of the issued shares of our Company. Accordingly, Commonwealth B Limited, Commonwealth Yanbin Limited, Commonwealth Violet Limited, Commonwealth YYB Limited, Commonwealth Happy Elephant Limited, Mr. Yin and Ms. Wu Hailing will together be considered as a group of our Controlling Shareholders upon Listing. Please refer to the paragraphs headed "History, Reorganisation and Corporate Structure – Our Corporate Development – GHW International SCM" and "History, Reorganisation and Corporate Structure – Our Corporate Development – Our Company" in this prospectus for information relating to the aggregate shareholding of Mr. Yin and Ms. Wu Hailing in GHW International SCM as at 1 January 2017 and in our Company upon completion of the Reorganisation and immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

On the basis that Mr. Yin (through Commonwealth YYB Limited), Ms. Wang Wei (through her directly wholly owned subsidiary, namely HMZ Holdings Ltd) and Mr. Pan Bing (through his directly wholly owned subsidiary, namely HappyBean Holdings Limited) have decided to restrict their ability to exercise direct control over our Company by holding their interests through Commonwealth Happy Elephant Limited, Ms. Wang Wei, Mr. Pan Bing, HMZ Holdings Ltd and HappyBean Holdings Limited will, together with Mr. Yin, Commonwealth YYB Limited and Commonwealth Happy Elephant Limited, be considered as another group of our Controlling Shareholders upon Listing. Please refer to the paragraphs headed "History, Reorganisation and Corporate Structure – Our Corporate Development – GHW International SCM" and "History, Reorganisation and Corporate Structure – Our Corporate Development – Our Company" in this prospectus for information relating to the aggregate shareholding of Mr. Yin, Ms. Wang Wei and Mr. Pan Bing in GHW International SCM as at 1 January 2017 and in our Company upon completion of the Reorganisation and immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

As such, each of Mr. Yin, Ms. Wu Hailing, Ms. Wang Wei, Mr. Pan Bing, Commonwealth B Limited, Commonwealth Yanbin Limited, Commonwealth Violet Limited, Commonwealth YYB Limited, Commonwealth Happy Elephant Limited, HMZ Holdings Ltd and HappyBean Holdings Limited will be our Controlling Shareholder upon Listing. Except for their respective interests in our Company, each of our Controlling Shareholders confirms that he/she/it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with our Group's business upon Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

Financial independence

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our day-to-day operations.

During the Track Record Period and up to the Latest Practicable Date, our Group had relied principally on shareholder's equity and cash generated from operations to finance our business. Upon completion of the Global Offering, our Group expects that our future operations will be financed mainly by the net proceeds of the Global Offering, internally generated funds and borrowings from financial institutions.

The amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) and the outstanding loans to or from our Controlling Shareholders and their respective close associates (other than members of our Group) will be settled prior to the Listing Date. The loan guarantees to or from our Controlling Shareholders and their respective close associates (other than members of our Group) will be released prior to the Listing Date. Save as disclosed above, our Controlling Shareholders and their close associates had not entered into any financial arrangements with our Group as at the Latest Practicable Date.

Having considered that our future operations is not expected to be financed by our Controlling Shareholders, the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) will be fully settled prior to the Listing Date and the loan guarantees to or from our Controlling Shareholders and their respective close associates (other than members of our Group) will be released prior to the Listing Date, our Directors consider that our Group is financially independent of our Controlling Shareholders.

Operational independence

Sales, marketing and administrative functions relating to our business are carried out independently by our Group. We have sufficient operational capacity in terms of capital, equipment and employees to operate our businesses independently of our Controlling Shareholders and their respective close associates (other than members of our Group). Our Directors consider that our Group's operations are independent of our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Management independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises six executive Directors and three independent non-executive Directors. Other than being our executive Director, Mr. Yin is also the director of each of Commonwealth B Limited, Commonwealth Yanbin Limited, Commonwealth Happy Elephant Limited and Commonwealth YYB Limited, all of which are our Controlling Shareholders and investment holding companies without operations other than holding the Shares for Mr. Yin, his spouse, Ms. Wang Wei and Mr. Pan Bing. Save as disclosed above, none of our Directors serves any executive or managerial role in our corporate Controlling Shareholders.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the best interest of our Group and not to allow any conflict between his/her duties as a Director and his/her personal interest. Our independent non-executive Directors are all well-educated with extensive experience in different professions and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of Directors with different backgrounds provides a balance of views and opinions. Please refer to the paragraph headed “Directors and Senior Management – Directors” in this prospectus for the backgrounds of our Directors. Our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision making power unless otherwise authorised by our Board.

In the event that there is a potential conflict of interest arising from any transaction to be entered into between our Group and any of our Directors or their respective close associates (other than members of our Group), the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. In case Mr. Yin is required to abstain from voting at the Board meeting due to potential conflict of interest, our other executive Directors and our independent non-executive Directors will be able to form a quorum and will ensure that the decisions of our Board are made after due consideration of independent and impartial opinions.

In addition, our Group has a senior management team independent of our Controlling Shareholders and the backgrounds of our senior management personnel are set out in the paragraph headed “Directors and Senior Management – Senior Management” in this prospectus. None of our senior management serves any executive or managerial role in our corporate Controlling Shareholders.

In view of the aforesaid, our Directors are of the view that our management independence is upheld despite Mr. Yin also serving as the director of some of our corporate Controlling Shareholders as mentioned above.

DEED OF NON-COMPETITION

For the purpose of the Listing, our Controlling Shareholders have entered into with and in favour of our Company (for ourselves and as trustee for our subsidiaries) the Deed of Non-competition. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in, any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, each of our Controlling Shareholders has unconditionally and irrevocably undertaken in favour of our Company (for ourselves and for the benefits of our subsidiaries), on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective close associates and/or companies controlled by them (other than our Group) shall:

- (a) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business, or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

in the PRC and any other country or jurisdiction to which our Group provides such products and/or services and/or in which any member of our Group carries on business mentioned above currently and from time to time (the “**Restricted Activity**”);

- (b) not solicit any existing employee or then existing employee of our Group for employment by it/him or its/his close associates (excluding our Group);
- (c) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to its/his/her knowledge in its/his/her capacity as our Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Activity;
- (d) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any Restricted Activity;
- (e) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, solicit or endeavour to entice away from or discourage from dealing with our Group any person who was at any time during the period of one year preceding the date of the Deed of Non-competition a manufacturer for or supplier or subcontractor, customer or client of our Group;
- (f) if there is any project or new business opportunity (the “**Business Opportunity**”) that relates to the Restricted Activity and is offered or becomes aware to our Controlling Shareholders, they shall (i) promptly refer such project or new business opportunity to our Group in writing for consideration and provide such information as is reasonably required in order to enable our Group to come to an informed assessment of such opportunity, (ii) use its/his/her best endeavours to procure such opportunity offered to our Group on terms no less favourable than the terms on which such opportunity is offered to such Controlling Shareholder and/or its/his close associates, and (iii) with regard to any project or new business opportunity which shall have been rejected by our Group and the principal terms of which our Controlling Shareholders and/or any of his/its close associates and/or entities or companies controlled by him/it/her invest or participate shall be no more favourable than those made available to our Company;
- (g) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and
- (h) procure its/his/her close associates (excluding our Group) not to invest or participate in or carry on any project or business opportunity of the Restricted Activity.

The above undertakings under the Deed of Non-competition do not apply to:

- (a) the holding of, or interests in, the shares of any members of our Group; and
- (b) the holding of, or interests in, the shares of a company other than a member of our Group whose shares are listed on a recognised stock exchange provided that the total number of the shares held by the relevant Controlling Shareholder and/or its/his close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and its/his/her respective close associates, whether acting singly or jointly, would not participate in or be otherwise involved in the management of the company in question.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders has further unconditionally and irrevocably undertaken to our Company (for ourselves and for the benefit of our subsidiaries):

- (a) to allow our Directors, their respective representatives and our auditors to have sufficient access to the records of each of our Controlling Shareholders and their respective close associates to ensure compliance with the terms and conditions of the Deed of Non-competition;
- (b) to provide to our Group and our Directors (including the independent non-executive Directors) from time to time all information necessary for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders; and
- (c) to make an annual declaration as to full compliance with the terms of the Deed of Non-competition and a consent to disclose such letter in our annual report.

The Deed of Non-competition will become effective upon the Global Offering becoming unconditional. The obligations of our Controlling Shareholders under the Deed of Non-competition will remain in effect during the period (the “**Relevant Period**”) from the Listing Date until the earlier of the date on which:

- (a) our Controlling Shareholders, together with their close associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining controlling shareholder) or more of the issued share capital of our Company; or
- (b) the Shares cease to be listed and traded on the Stock Exchange.

We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of “control”.

CORPORATE GOVERNANCE

The Deed of Non-competition provides that our Controlling Shareholders and their respective close associates (other than members of our Group) shall not compete with our Group. Our Directors consider that we have adequate corporate governance measures in place to resolve any actual and potential conflict of interest. To further avoid potential conflict of interest, we have implemented the following measures:

- (a) our Company has adopted the Articles which provide that a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of our Directors in respect of any contract or arrangement or other proposal in which he/she or his/her close associate(s) has/have any material interest, and if he/she shall do so his/her vote shall not be counted (nor is he/she be counted in the quorum for that resolution);
- (b) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with and enforcement of the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to take up the Business Opportunity;
- (c) our Controlling Shareholders will, as stipulated under the Deed of Non-competition, provide all relevant information for the annual review by our independent non-executive Directors for compliance with and enforcement of the Deed of Non-competition;
- (d) our Company will disclose, from time to time, information on the Business Opportunity, including but not limited to disclosing through our annual reports or announcements the decision of our independent non-executive Directors to pursue or decline the Business Opportunity, together with the reason in case of decline;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (e) our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgment. Backgrounds of our independent non-executive Directors are set out in the paragraph headed “Directors and Senior Management – Directors” in this prospectus; and
- (f) we have appointed the Sole Sponsor as our compliance advisers, which will provide advice and guidance to our Group in respect of compliance with the Listing Rules and various requirements relating to directors’ duties and corporate governance.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of six executive Directors and three independent non-executive Directors. The following table sets out certain information in respect of our Directors:

Name	Age	Date of joining our Group	Present position	Date of appointment as Director	Key role and responsibility
<i>Executive Directors</i>					
Yin Yanbin (尹燕濱)	52	25 October 1995	Executive Director, chairman of our Board and chief executive officer	25 April 2018	Strategic planning of our Group and overseeing the management and business performance, asset management, financial positions and human resources of our Group
Zhuang Zhaohui (莊朝暉)	51	1 February 2001	Executive Director	25 April 2018	Managing, supervising and coordinating the sales strategies and business operations of our Group
Chen Zhaohui (陳朝暉)	51	1 July 1997	Executive Director	25 April 2018	Managing the capital and finance management, administration and information technology of our Group
Zhou Chunnian (周春年)	47	8 January 1996	Executive Director	25 April 2018	Managing, supervising and coordinating the sales and business operations as well as capital management of our Group
Chen Hua (陳華)	47	12 July 1995	Executive Director	25 April 2018	Formulating and monitoring the implementation of sales strategies of our Group
Sun Guibin (孫桂彬)	44	3 March 2003	Executive Director	25 April 2018	Managing the daily operations of some of our subsidiaries
<i>Independent non-executive Directors</i>					
Sun Hongbin (孫宏斌)	53	16 December 2019	Independent Non-executive Directors	16 December 2019	Providing independent opinion and judgment to our Board
Wang Guangji (王廣基)	66	16 December 2019	Independent Non-executive Directors	16 December 2019	Providing independent opinion and judgment to our Board
Zheng Qing (鄭青)	52	16 December 2019	Independent Non-executive Directors	16 December 2019	Providing independent opinion and judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Yin Yanbin (尹燕濱), aged 52, is the founder of our Group. Mr. Yin was appointed as our Director on 25 April 2018 and was designated as an executive Director, elected as the chairman of our Board, and appointed as the chief executive officer of our Company on 14 December 2018. Mr. Yin is also a director of each of GOHI Int’L, GHW Holdings, GHW International SCM, GHW Chemicals, GHW Investment, GHW International (HK), Goldray International, Havay Industry, GHW USA, Havay Group, Xinnuo Pharmaceutical and Havay Feeds, the chairman, general manager and legal representative of GHW International SCM, the general manager of GHW Chemicals, the legal representative of GHW Investment and Havay Group, and the legal representative and general manager of Xinnuo Pharmaceutical, all of which are our subsidiaries. Mr. Yin is primarily responsible for strategic planning of our Group and overseeing the management and business performance, asset management, financial positions and human resources of our Group.

Mr. Yin received a college diploma in machinery manufacturing process and equipment from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1989 and further obtained a bachelor’s degree in business management from China Pharmaceutical University* (中國藥科大學) in the PRC in July 2001.

Mr. Yin is the spouse of Ms. Wu Hailing, one of our Controlling Shareholders.

Mr. Yin has over 20 years of experience in the applied chemical products industry. Prior to establishing our Group in October 1995, Mr. Yin worked for China Pharmaceutical University Biological Engineering Company* (中國藥科大學生物工程公司), being a company engaging in the production of medicines, health nutrition products, chemical raw materials and chemical products, as a manager from October 1992 to October 1993 and was responsible for managing the trading of chemicals. From August 1989 to September 1992, Mr. Yin worked for Nanjing Chemicals Market* (南京化工市場), being a company engaging in the production of chemicals, as a sales person and was responsible for selling chemicals.

Mr. Yin was a director or general manager of the following companies which were established in the PRC prior to their respective revocations or deregistration:

Name of Company	Principal business before dissolution/licence revocation or cancellation	Date of dissolution/licence revocation or cancellation	Details	Reasons for dissolution/licence revocation or cancellation	Mr. Yin’s role before dissolution/licence revocation or cancellation
Haikou Coordinates Industry Co., Ltd* (海口座標科工貿有限公司)	Trading of raw chemicals	31 October 1995	Revoked	Dormant	General manager
Nanjing Shicheng Industry Co., Ltd* (南京仕誠科工貿有限公司)	Trading of raw chemicals	5 June 2016	Revoked	Dormant	Director
Nanjing Hanzheng Software Co., Ltd* (南京漢正軟件有限責任公司)	Computer software development	21 March 2010	Revoked and deregistered	Dormant	Director

As confirmed by Mr. Yin, all of the abovementioned companies were solvent at the time of their respective revocations and deregistration. Mr. Yin has confirmed that there was no wrongful act on his part leading to the above revocations and deregistration and he is not aware of any actual or potential claim which has been or will be made against him as a result.

Zhuang Zhaohui (莊朝暉), aged 51, was appointed as our Director on 25 April 2018 and was designated as our executive Director on 14 December 2018. Mr. Zhuang joined our Group as a deputy general manager of Hanhe Enterprises in February 2001. Mr. Zhuang is also a director of each of GHW International SCM, Nuovomondo Chemicals and Havay Feeds, all of which are our subsidiaries. Mr. Zhuang is primarily responsible for managing, supervising and coordinating the sales strategies and business operations of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhuang received a college diploma in foreign trade from Nanjing Audit College* (南京審計學院)(currently known as Nanjing Audit University*(南京審計大學)) in the PRC in July 1989 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Zhuang has over 20 years of experience in the applied chemical products industry. Prior to joining our Group in February 2001, Mr. Zhuang worked for Nanjing City Chemicals Import and Export Company Limited* (南京市化工進出口股份有限公司), being a company engaging in the trading of chemicals, as a manager from September 1989 to August 2000 and was responsible for the sales of chemicals.

Mr. Zhuang was a director of the following company which was incorporated in Hong Kong prior to its dissolution:

Name of company	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Golden Join International (Hong Kong) Limited 佳合國際(香港)有限公司	Investment holding	6 March 2015	Deregistration	Dormant

Mr. Zhuang has confirmed that there was no wrongful act on his part leading to the above dissolution and he is not aware of any actual or potential claim which has been or will be made against him as a result.

Chen Zhaohui (陳朝暉), aged 51, was appointed as our Director on 25 April 2018 and was designated as an executive Director on 14 December 2018. Mr. Chen joined our Group as a deputy general manager of Hanhe Enterprises in July 1997. Mr. Chen is also a director of GHW International SCM, and a supervisor of each of Xinnuo Pharmaceutical and Havay Feeds, all of which are our subsidiaries. Mr. Chen is primarily responsible for managing the capital and finance management, administration and information technology of our Group.

Mr. Chen completed his secondary education, specialising in industrial business management in the PRC in July 1987.

Mr. Chen has over 20 years of experience in the applied chemical products industry. Prior to joining our Group in July 1997, Mr. Chen worked for Nanjing Chemicals Market* (南京化工市場), being a company engaging in the production of chemicals, as a deputy manager of the finance department from September 1988 to September 1997 and was responsible for finance management.

Mr. Chen was a director of the following company which was incorporated in Hong Kong prior to its dissolution:

Name of company	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Golden Join International (Hong Kong) Limited 佳合國際(香港)有限公司	Investment holding	6 March 2015	Deregistration	Dormant

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen was a director or supervisor of the following companies which were established in the PRC prior to their respective revocation or deregistrations:

Name of Company	Principal business before dissolution/licence revocation or cancellation	Date of dissolution/licence revocation or cancellation	Details	Reasons for dissolution/licence revocation or cancellation	Mr. Chen's role before dissolution/licence revocation or cancellation
Nanjing Shunhong Trading Co., Ltd* (南京順宏貿易有限公司)	Trading of raw chemicals	June 2008	Deregistered	Dormant	Director
Nanjing Goldenhighway Farming Co., Ltd* (南京金海威牧業有限公司)	Trading of feeds	15 July 2012	Deregistered	Dormant	Supervisor
Nanjing Hanbo Investment Consultation Co., Ltd* (南京漢博投資諮詢有限公司)	Investment holding	26 August 2008	Revoked	Dormant	Supervisor

As confirmed by Mr. Chen, all of the abovementioned companies were solvent at the time of their respective revocation and deregistrations. Mr. Chen has confirmed that there was no wrongful act on his part leading to the above revocation and deregistrations and he is not aware of any actual or potential claim which has been or will be made against him as a result.

Zhou Chunnian (周春年), aged 47, was appointed as our Director on 25 April 2018 and was designated as our executive Director on 14 December 2018. Mr. Zhou joined our Group as a manager of the fine chemistry department of GHW Chemicals in January 1996. Mr. Zhou is also a director of GHW International SCM, one of our subsidiaries. Mr. Zhou is primarily responsible for managing, supervising and coordinating the sales and business operations as well as capital management of our Group.

Mr. Zhou received a bachelor's degree in chemical processing of coal from Dalian University of Technology* (大連理工大學) in the PRC in July 1994 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in December 2012.

Mr. Zhou has over 20 years of experience in the applied chemical products industry. Prior to joining our Group in January 1996, Mr. Zhou worked for Nanjing Fushen Non-woven Product Company Limited* (南京富紳不織布製品有限公司), being a company engaging in non-woven products production, as a research personnel from July 1994 to June 1997 and was responsible for optimising the production recipe.

Chen Hua (陳華), aged 47, was appointed as our Director on 25 April 2018 and was designated as an executive Director on 14 December 2018. Mr. Chen joined our Group in July 1995 as a manager of the polyurethane department of GHW Chemicals. Mr. Chen is also a director of each of GHW International SCM and Hanshang Weisou, both of which are our subsidiaries. Mr. Chen is primarily responsible for formulating and monitoring the implementation of sales strategies of our Group.

Mr. Chen received a bachelor's degree in polymer chemistry and physics studies from University of Science and Technology of China* (中國科學技術大學) in the PRC in July 1995. Mr. Chen further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Chen has over 20 years of experience in the applied chemical products industry.

Sun Guibin (孫桂彬), aged 44, was appointed as our Director on 25 April 2018 and was designated as our executive Director on 14 December 2018. Mr. Sun joined our Group as a department manager of the pharmaceutical department of Hanhe Enterprises in March 2003. Mr. Sun is also a supervisor of GHW International SCM, one of our subsidiaries. Mr. Sun is primarily responsible for managing the daily operations of some of our subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun received a college diploma in finance from Jiangsu Radio and Television University* (江蘇廣播電視大學) in the PRC in July 1995 and further obtained an executive master of business administration from Shanghai Jiaotong University* (上海交通大學) in the PRC in June 2012.

Mr. Sun has over 15 years of experience in the applied chemical products industry. Prior to joining our Group in March 2003, Mr. Sun worked for Nanjing Dahan Network Company Limited* (南京大漢網絡有限公司), being a company engaging in the development and sales of software, as a manager of the marketing department from October 2000 to February 2003 and was responsible for marketing management, project planning and project promotion. From 1996 to 2000, Mr. Sun Guibin worked for an e-commerce company in Nanjing and was responsible for delivery management. From 1995 to 1996, Mr. Sun Guibin worked for an IT company in Nanjing and was responsible for sales.

Mr. Sun was a member of the Sixteenth National People's Congress Standing Committee of Shandong Province Tai'an City Daiyue District of the PRC. In 2017, Mr. Sun Guibin was awarded the Science and Technology Award of Daiyue District* (岱岳區科學技術獎) issued by the People's Government of Daiyue District, Tai'an City of the PRC, in recognition of his research on the industrialisation of diethyl sulfate.

Independent non-executive Directors

Sun Hongbin (孫宏斌), aged 53, was appointed as our independent non-executive Director on 16 December 2019.

Mr. Sun holds various positions in China Pharmaceutical University* (中國藥科大學). He is currently a professor, director of the Jiangsu Key Laboratory of Drug Discovery for Metabolic Disease* (江蘇省代謝性疾病藥物重點實驗室), and an associate director of the State Key Laboratory of Natural Medicines* (天然藥物活性組分與藥效國家重點實驗室), of China Pharmaceutical University* (中國藥科大學).

Mr. Sun is also a distinguished professor under the Chang Jiang Scholars Programme* (長江學者獎勵計劃) administered by the Ministry of Education of the PRC, deputy head of the Pharmacology Expert Group established under the 13th Five-year Plan Research on Development Strategies of the Medicines Division of the National Natural Science Foundation of China* (國家基金委醫學部「十三五」發展戰略研究) and a member of the medicinal chemistry committee of the China Pharmaceutical Association* (中國藥學會).

Mr. Sun graduated from the Department of Chemistry, Jilin University in the PRC in 1989 and received a doctor's degree in science from China Pharmaceutical University* (中國藥科大學) in the PRC in July 1995. During the period from 1995 to 2001, Mr. Sun conducted his postdoctoral research in Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences* (中國科學院上海有機化學研究所), RWTH Aachen University in Germany, and University of Florida in the United States. From 2001 to 2003, Mr. Sun worked in Metabolex, Inc., a U.S. company engaging in new drug development, and was responsible for conducting research on anti-diabetic drugs.

Mr. Sun is currently the honorary chairman of the board of Jiangsu Vcare Pharmatech Co., Ltd* (江蘇威凱爾醫藥科技有限公司), a company specialises in pharmaceutical research development, and an independent director of Zhejiang Jianfeng Group Co. Ltd* (浙江尖峰集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600668).

Wang Guangji (王廣基), aged 66, was appointed as our independent non-executive Director on 16 December 2019.

Mr. Wang obtained a bachelor's degree in pharmacy from the China Pharmaceutical University* (中國藥科大學) in January 1977 and further obtained a doctor of philosophy from the University of Otago in New Zealand in June 1995.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang was a manager of the National Chinese Medicine Administration Bureau Key Laboratory of Methods for Traditional Chinese Medicine Compound Pharmacokinetics* (國家中醫藥管理局中藥複方藥代動力學方法重點研究室) from June 2008 to March 2016 and a manager of the Jiangsu Province Key Laboratory of Pharmacokinetics Research* (江蘇省藥物代謝動力學研究重點實驗室) from October 2001 to March 2016. In November 2013, Mr. Wang was elected the fellow of the Chinese Academy of Engineering* (中國工程院院士). Mr. Wang was the vice-chancellor of the China Pharmaceutical University* (中國藥科大學) from June 1997 to July 2013 and is currently a director of the academic committee.

Mr. Wang is currently a director of the following listed companies:

Company name	Date of being appointed as a director	Principal business	Listed on
Jinling Pharmaceutical Company Limited* (金陵藥業股份有限公司)	June 2017	Production and sale of pharmaceutical products	Shenzhen Stock Exchange (stock code: 000919)
Sichuan Kelun Pharmaceutical Company Limited* (四川科倫藥業股份有限公司)	May 2018	Production and sale of pharmaceutical products	Shenzhen Stock Exchange (stock code: 002422)
North China Pharmaceutical Company Limited* (華北製藥股份有限公司)	March 2016	Production and sale of pharmaceutical products	Shanghai Stock Exchange (stock code: 600812)

Zheng Qing (鄭青), aged 52, was appointed as our independent non-executive Director on 16 December 2019.

Ms. Zheng received a college diploma in economic management, majoring in foreign trade, from Nanjing Audit College* (南京審計學院)(currently known as Nanjing Audit University (南京審計大學)) in the PRC in July 1989. She completed the Economic Management courses in Nanjing University* (南京大學) in the PRC in June 1993 through self-study. She received a bachelor's degree in applied accounting from Oxford Brookes University in the United Kingdom in January 2005 through long distance learning, and further obtained a master degree in business administration from the Chinese University of Hong Kong in Hong Kong in November 2012. Ms. Zheng has been a member and a fellow of the Association of Chartered Certified Accountants since April 2002 and April 2007, respectively.

Ms. Zheng worked in the finance department of Nanjing Light Industry and Crafts Import and Export Company* (南京輕工工藝品進出口公司) from 1989 to 1992. From August 1993 to November 2004, Ms. Zheng worked in Jiangsu Technical Import and Export Corporation* (江蘇省技術進出口公司) as an officer who was responsible for handling import and export matters.

Ms. Zheng has over 16 years of experience in the financial management industry. Ms. Zheng was the financial controller and secretary to the board of directors of Junma Tyre Cord Company Limited* (駿馬化纖股份有限公司), a company that was listed on the Catalist Board of the Singapore Exchange Securities Trading Limited from November 2004 to June 2015 (then stock code: 5TF), from September 2002 to May 2005, where she was mainly responsible for the company's financial management and reporting, and internal control system. Ms. Zheng was the chief financial officer of Asia Silk Holdings Limited from November 2005 to May 2008, where she was mainly responsible for financial management of the company and its subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

From June 2008 to May 2015, Ms. Zheng was the chief financial officer, and assistant to the president, of our subsidiary, GHW International SCM, where she was mainly responsible for managing and monitoring the financial affairs of the group and overseas companies. Since June 2015, Ms. Zheng has been the financial controller of Fullshare Holdings Limited (豐盛控股有限公司), a company listed on the Stock Exchange (stock code: 607), which principally engaged in the business of real estate development, the provision of green building services and investment activities and healthcare products business. Since December 2016, Ms. Zheng has been an executive director of China High Speed Transmission Equipment Group Co., Ltd (中國高速傳動設備集團有限公司), a company listed on the Stock Exchange (stock code: 658) which principally engaged in research, design, development, manufacture and distribution of various types of mechanical transmission equipment for applications in wind power generation and industrial use.

Ms. Zheng was a director, supervisor, general manager and/or legal representative of the following companies which were established in the PRC prior to their respective revocations or deregistration:

Name of Company	Principal business before dissolution/licence revocation or cancellation	Date of dissolution/licence revocation or cancellation	Details	Reasons for dissolution/licence revocation or cancellation	Ms. Zheng's role before dissolution/licence revocation or cancellation
Nanjing Four Dimensions Anhong Investment Management Co., Ltd* (南京四維安宏投資管理有限公司)	Investment holding	2012	Deregistered	Dormant	Director, general manager and legal representative
Beijing Mainland Alliance Information Technology Co., Ltd* (北京大陸聯盟信息技術有限公司)	Technology promotion and application services	Between 2010 to 2015	Revoked	Dormant	Supervisor

As confirmed by Ms. Zheng, all of the abovementioned companies were solvent at the time of their respective revocation and deregistration. Ms. Zheng has confirmed that there was no wrongful act on her part leading to the above revocation and deregistration and she is not aware of any actual or potential claim which has been or will be made against her as a result.

Disclosure Required under Rule 13.51(2) of the Listing Rules

Saved as disclosed above, none of our Directors:

- (a) held any other positions in the Company or other members of our Group as of the Latest Practicable Date;
- (b) had any other relationship with any Directors, senior management or substantial shareholders or Controlling Shareholders of our Company as of the Latest Practicable Date; and
- (c) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Except for such interests of our Directors in the Shares, which are disclosed in the paragraph headed "C. Further Information About Our Directors and Substantial Shareholders" in Appendix IV to this prospectus, none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company, which has an interest or short position in the Shares and underlying Shares of our Company.

Each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than that of our Group), which, directly or indirectly, competes or may compete with our business. Save as disclosed above, to the best of 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 our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as of the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Other than our Directors, our senior management team consists of three members, who, together with our Board, are responsible for the day-to-day management of our Group. The following table sets out certain information in respect of our senior management personnel:

Name	Age	Date of joining our Group	Present position	Date of appointment as senior management personnel	Key role and responsibility
Wu Wing Hou (胡穎豪)	32	14 December 2018	Chief financial officer and company secretary	14 December 2018	Overseeing the overall financial position and accounting matters of our Group
Jiang Hong (蔣紅)	50	16 March 1998	Deputy chief financial officer	31 July 2018	Managing the financial and general operations of our Group
Diao Cheng (刁聘)	51	1 April 1998	Deputy chief executive officer	31 July 2018	Managing the logistics, strategic development and general business operations of our Group

Mr. Wu Wing Hou (胡穎豪), aged 32, was appointed as our chief financial officer and company secretary on 14 December 2018. Mr. Wu is primarily responsible for overseeing the overall financial position and accounting matters of our Group.

Mr. Wu received a bachelor's degree in business administration, majoring in accounting and finance, from the University of Hong Kong in December 2009. Mr. Wu was admitted as a member of the Hong Kong Institute of Certified Public Accountants in September 2013.

Prior to joining our Group, Mr. Wu was a finance manager of Master Step Management Limited, a subsidiary of Sfund International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1367), from September 2016 to July 2018. From January 2009 to February 2016, Mr. Wu worked at Deloitte Touche Tohmatsu with his last position as manager in audit.

Jiang Hong (蔣紅), aged 50, joined our Group as an accounting personnel of Xinnuo Pharmaceutical in March 1998. On 31 July 2018, Ms. Jiang was appointed as the deputy chief financial officer of our Group and is mainly responsible for managing the financial and general operations of our Group.

Ms. Jiang received a college diploma in industrial accounting from Nanjing Radio and Television University* (南京廣播電視大學) in the PRC in June 1990.

Ms. Jiang has over 20 years of experience in financial management and accounting. Prior to joining our Group in March 1998, Ms. Jiang worked for Nanjing Industrial Enamel Factory* (南京工業搪瓷廠), being a factory engaging in the production of enamel products, as a member of accounting staff from December 1990 to July 1998 and was responsible for cost accounting work.

Diao Cheng (刁聘), aged 51, joined our Group as an integrated human resources manager of Hanhe Enterprises in April 1998. On 31 July 2018, Mr. Diao was appointed as the deputy chief executive officer of our Group and is mainly responsible for managing the logistics, strategic development and general business operations of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Diao received a college diploma in management engineering (finance management) from Nanjing University of Aeronautics and Astronautics* (南京航空航天大學) in the PRC in June 1994 and a bachelor's degree in human resources management from Nanjing University of Science and Technology* (南京理工大學) in July 2005. Prior to joining our Group in August 1999, Mr. Diao worked for Jiangsu Hanhe Pharmaceutical Company Limited* (江蘇漢合製藥有限公司), being a company engaging in the production of pharmaceutical products, as a manager of the general department from April 1998 to August 1999 and was responsible for a wide range of internal affairs, such as formulating internal regulations, staff recruitment, file management etc.. From January 1997 to April 1998, Mr. Diao worked for Indonesian Malaysian Group Hong Kong Jiexiang Investment (China) Company Limited* (印尼大馬集團香港嘉祥投資(中國)有限公司), being a company engaging in investment, as an assistant manager of human resources department (including executive branch). From October 1994 to April 1996, Mr. Diao worked for Nanjing Jiangsu Cereals, Oils & Foodstuff Import and Export Group Limited* (江蘇糧油商務有限公司), being a company engaging in the import and export trading of agricultural by-products, as a management, cashier and accounting personnel.

COMPANY SECRETARY

Mr. Wu Wing Hou (胡穎豪) was appointed as our company secretary on 14 December 2018. Please refer to Mr. Wu's biography as disclosed in the paragraph headed "Senior Management" above.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee on 16 December 2019 in compliance with Rule 5.28 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the Corporate Governance Code has been adopted. The primary roles of our audit committee include, but are not limited to, (a) making recommendations to our Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of our financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing our financial controls, risk management and internal control systems. Our audit committee consists of three members, namely, Ms. Zheng Qing, Mr. Wang Guangji and Mr. Sun Hongbin. Ms. Zheng Qing is the chairlady of our audit committee. Please refer to the paragraph headed "Directors" in this section for the backgrounds of the members of our audit committee.

Remuneration committee

Our Company established a remuneration committee on 16 December 2019 in compliance with Rule 5.36 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code has been adopted. The primary roles of our remuneration committee include, but are not limited to, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving our management's remuneration proposals with reference to our Board's corporate goals and objectives; and (c) making recommendations to our Board on the remuneration packages of individual executive Directors and senior management. Our remuneration committee consists of three members, namely, Ms. Zheng Qing, Mr. Zhuang Zhaohui and Mr. Sun Hongbin. Ms. Zheng Qing is the chairlady of our remuneration committee. Please refer to the paragraph headed "Directors" in this section for the backgrounds of the members of our remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination committee

Our Company established a nomination committee on 16 December 2019 in compliance with paragraph A.5.1 of the Corporate Governance Code. Written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code has been adopted. The primary roles of our nomination committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become our Board members and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. Our nomination committee consists of three members, namely, Mr. Sun Guibin, Ms. Zheng Qing and Mr. Sun Hongbin. Mr. Sun Guibin is the chairman of our nomination committee. Please refer to the paragraph headed “Directors” in this section for the backgrounds of the members of our nomination committee.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, our Board has adopted a diversity policy which sets forth the objective and the approach to achieve and maintain an appropriate balance of diversity of perspectives of our Board. Pursuant to the diversity policy of our Board, selection of Directors will be based on a number of factors, including but not limited to, gender, skills, age, regional and industry experience, knowledge and background. The final decision of the appointment will be based on the merit that the selected candidate may bring to our Board.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Yin is currently performing these two roles. With the extensive experience in the applied chemical products industry, Mr. Yin is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion since our establishment in October 1995. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, both of which comprises experienced and high-calibre individuals. Our Board currently comprises six executive Directors (including Mr. Yin) and three independent non-executive Directors, and therefore has a strong independence element in its composition.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports upon the Listing.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION OF MANAGEMENT PERSONNEL

Our Directors and senior management personnel receive remuneration in the form of salaries and other benefits and discretionary bonuses. We determine the salaries of our Directors (including our independent non-executive Directors) and senior management personnel based on their respective qualification, position and seniority. In addition to salaries, our Directors may receive discretionary bonuses. The aggregate amount of remuneration (including Directors' fees, salaries and other benefits, discretionary bonus and retirement benefit scheme contributions) paid to our executive Directors for the three years ended 31 December 2018 (who are also the five highest paid individuals during the said periods) amounted to approximately RMB1.29 million, RMB1.62 million and RMB4.28 million, respectively. Details of the remuneration paid to each of our Directors during the Track Record Period are set out in note 7 to the Accountants' Report.

Our Directors (including our independent non-executive Directors) and senior management personnel are entitled to participate in the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Statutory and General Information – D. Share Option Scheme" in Appendix IV to this prospectus.

Further details of the terms of the service agreements of and remuneration paid to our Directors are set out in the paragraph headed "Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 3. Particulars of service agreements and appointment letters" in Appendix IV to this prospectus.

COMPLIANCE ADVISER

Our Company has appointed the Sole Sponsor to be our compliance adviser in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules and under the agreement with our compliance adviser, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including Share issues and Share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules concerning unusual movements in the price or trading volume of the Shares, the possible development of a false market in the Shares, or any other matters.

The term of the engagement 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 our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director and the chief executive of our Company, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons entities will have an interest or short position in the Shares and 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, which is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Entity	Company concerned	Nature of interests	As at the Latest Practicable Date		Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme)	
			Number of Shares held (Note 1)	Approximate percentage of interests in the company concerned	Number of Shares held (Note 1)	Approximate percentage of interests in the company concerned
Commonwealth B Limited	Our Company	Beneficial owner	500,000 Shares ^(L)	50%	375,000,000 Shares ^(L)	37.5%
Commonwealth Yanbin Limited	Our Company	Interest in controlled corporation (Note 2)	500,000 Shares ^(L)	50%	375,000,000 Shares ^(L)	37.5%
Commonwealth Happy Elephant Limited	Our Company	Beneficial owner	237,522 Shares ^(L)	23.7522%	178,141,500 Shares ^(L)	17.81415%
Commonwealth YYB Limited	Our Company	Interest in controlled corporation (Note 3)	237,522 Shares ^(L)	23.7522%	178,141,500 Shares ^(L)	17.81415%
Mr. Yin	Our Company	Interest in controlled corporation (Note 2) (Note 3)	737,522 Shares ^(L)	73.7522%	553,141,500 Shares ^(L)	55.31415%
Ms. Wu Hailing	Our Company	Interest of spouse (Note 4)	737,522 Shares ^(L)	73.7522%	553,141,500 Shares ^(L)	55.31415%
Commonwealth GHW Limited	Our Company	Beneficial owner	248,078 Shares ^(L)	24.807%	186,058,500 Shares ^(L)	18.60585%

Notes:

- The letter "L" denotes the Shareholder's long position in the Shares.
- Commonwealth B Limited is owned as to 80% by Commonwealth Yanbin Limited which is in turn wholly-owned by Mr. Yin. By virtue of the SFO, each of Commonwealth Yanbin Limited and Mr. Yin is deemed to be interested in the Shares held by Commonwealth B Limited.
- Commonwealth Happy Elephant Limited is owned as to 98.2610% by Commonwealth YYB Limited which is in turn wholly owned by Mr. Yin. By virtue of the SFO, each of Commonwealth YYB Limited and Mr. Yin is deemed to be interested in the Shares held by Commonwealth Happy Elephant Limited.
- Ms. Wu Hailing is the spouse of Mr. Yin and is deemed to be interested in the Shares which are interested by Mr. Yin under the SFO.

SHARE CAPITAL

SHARE CAPITAL

The authorised share capital of our Company is as follows:

Authorised share capital as at the Latest Practicable Date	HK\$
<u>10 billion</u> Shares	<u>100 million</u>

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following the Global Offering will be as follows:

Shares in issue or to be issued, full paid or credited as fully paid	HK\$
1,000,000 Shares in issue as at the date of this prospectus	10,000
749,000,000 Shares to be issued pursuant to the Capitalisation Issue	7,490,000
250,000,000 Share to be issued pursuant to the Global Offering	2,500,000
<u>1,000,000,000</u>	<u>10,000,000</u>

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following the Global Offering will be as follows:

Shares in issue or to be issued, full paid or credited as fully paid	HK\$
1,000,000 Shares in issue as at the date of this prospectus	10,000
749,000,000 Shares to be issued pursuant to the Capitalisation Issue	7,490,000
287,500,000 Share to be issued pursuant to the Global Offering	2,875,000
<u>1,037,500,000</u>	<u>10,375,000</u>

RANKING

The Offer Shares will rank *pari passu* in all respects with the Shares in issue and to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date other than participation in the Capitalisation Issue.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of shareholders (a) increase our capital; (b) consolidate and divide our capital into Shares of larger amount; (c) divide the Shares into several classes; (d) subdivide the Shares into shares of smaller amount; and (e) cancel any Share which has not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. Please refer to the paragraph headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital” in Appendix III to this prospectus for details.

SHARE CAPITAL

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. Please refer to the paragraph headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus for details.

Further, our Company will hold general meetings from time to time as may be required under the Articles, a summary of which is set out in the paragraph headed “Summary of the Constitution of the Company and Cayman Islands Company Law – 2. Articles of Association – (e) Meetings of members” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional upon the conditions stated in the paragraph headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” in this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to allot, issue and deal with the Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive the Shares) which might require the Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (a) a rights issue; (b) any scrip dividend scheme or similar arrangement providing for the allotment and issue of the Shares in lieu of the whole or part of a dividend on the Shares in accordance with the Articles; (c) any specific authority granted by our Shareholders in general meeting; or (d) the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, shall not exceed 20% of the enlarged issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue.

Such general mandate will remain in effect until the earliest of (a) the conclusion of our Company’s next annual general meeting; (b) the expiration of the period within which our Company’s next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed “Statutory and General Information – A. Further Information about our Group – 4. Written resolutions of our Shareholders” in Appendix IV to this prospectus for further details of such general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional upon the conditions stated in the paragraph headed “Structure and Conditions of the Global Offering – Conditions of the Public Offer” in this prospectus being fulfilled or waived, a general unconditional mandate has been granted to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company might be listed and which was recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as would represent up to 10% of the enlarged issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, excluding any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme. A summary of the relevant requirements of the Listing Rules on such general mandate is set out in the paragraph headed “Statutory and General Information – A. Further information about our Group – 6. Repurchase of our own securities” in Appendix IV to this prospectus.

SHARE CAPITAL

Such general mandate will remain in effect until the earliest of (a) the conclusion of our Company's next annual general meeting; (b) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; and (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting. Please refer to the paragraph headed "Statutory and General Information – A. Further information about our Group – 4. Written resolutions of our Shareholders" in Appendix IV to this prospectus for further details of such general mandate.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, including the notes thereto, as set out in Accountants' Report in Appendix I to this prospectus. The consolidated financial information has been prepared in accordance with IFRSs. You should read the whole of the Accountants' Report included as Appendix I to this prospectus and not merely rely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in the section headed "Risk Factors" in this prospectus.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We are an applied chemical intermediates provider in the integrated chemical services market, which primarily engage in the production and sales of our chemicals and sales of chemicals produced by third party manufacturers based in the PRC, the Southeast Asia region, Europe and the United States. With headquarters in the PRC, we offer a comprehensive product portfolio with a wide range of applications and a full spectrum of services relating to chemical intermediates supply chain through our extensive global operation and sales network, including research and development on production processes, strong product customisation capabilities, manufacturing of quality chemical products, sourcing of wide-ranging chemicals manufactured by third party manufacturers, efficient and safe logistics services and after-sales services. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, sales of our self-manufactured chemicals accounted for approximately 32.9%, 38.3%, 53.0% and 56.5% of our total revenue, respectively, while sales of chemicals produced by third party manufacturers accounted for approximately 66.5%, 61.2%, 46.4% and 43.0% of our total revenue, respectively.

Our business operation consists of four principal business segments which include polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. During the Track Record Period, the majority of our revenue was derived from our polyurethane materials segment, accounted for approximately 45.3%, 50.0%, 40.9% and 35.5%, respectively, while the animal nutrition chemicals segment accounted for approximately 20.3%, 24.6%, 32.6% and 29.8%, respectively.

For the six months ended 30 June 2019, our product portfolio comprised more than 70 products in total under our four principal business segments, among which approximately 56.5% and 43.0% of our revenue were derived from our self manufactured products and products sourced from third party manufacturers, respectively. During the Track Record Period, we mainly sold our products in the PRC and have also established an extensive global sales network for selling our products to over 50 overseas countries such as Vietnam, Russia, Ukraine, India, the United States and other European countries. We have also established subsidiaries in various overseas countries including the United States, Canada, Slovakia, India, Russia, Ukraine and Mexico, employing local employees to exploit direct sales market in North America, the European Union, India and the Commonwealth of Independent States.

As at the Latest Practicable Date, we have two production plants in the PRC which are strategically located in Tai'an, Shandong Province and Xuzhou, Jiangsu Province, and a production plant in Binh Duong Province, Vietnam.

FINANCIAL INFORMATION

For details of our business and operation, please refer to the section headed “Business” in this prospectus.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our total revenue was approximately RMB1,606.8 million, RMB2,179.0 million, RMB2,152.9 million and RMB935.3 million, respectively, while our profit for the year/period for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were approximately RMB20.8 million, RMB79.4 million, RMB74.3 million and RMB16.8 million, respectively.

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 25 April 2018. In preparation of the Listing, we underwent the Reorganisation, as detailed in the section headed “History, Reorganisation and Corporate Structure” in this prospectus. As a result of the Reorganisation, our Company became a holding company of the subsidiaries comprising our Group on 31 July 2018. The Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The financial information had been prepared on a consolidated basis by applying the principles of merger accounting as if the structure of the Group upon completion of the Reorganisation had been in existence throughout the Track Record Period.

The financial information relating to our Group has been prepared in accordance with IFRSs which comprise all standards and interpretations approved by the International Accounting Standards Board. All IFRSs effective for the accounting period commencing from 1 January 2019 have been adopted by our Group in the preparation of the financial information contained in this prospectus throughout the Track Record Period except that the Group adopted IFRS 9 “Financial Instruments” from 1 January 2018 and onwards, and IAS 39 “Financial Instruments: Recognition and measurement” before 1 January 2018, and IFRS 16 “Leases” from 1 January 2019 and onwards and IAS 17 “Leases” for the three years ended 31 December 2018. All intra-group transactions and balances have been eliminated on consolidation.

For more information on the basis of presentation and preparation of the financial information included herein, please see Note 2 to the historical financial information in the Accountants’ Report included in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our Group’s financial results will be affected by a number of factors, most of which may not be within our Group’s control. Our Directors believe that major factors affecting our Group’s revenue and ability to generate profit include the following:

Continuous economic growth in the PRC

During the Track Record Period, more than 75% of our revenue was generated from our sales to customers in the PRC. Therefore, economic trends in the PRC have a significant impact on various aspects of our operations, including, but not limited to the demand for our products, the price and supply of raw materials, as well as the selling, distribution and administrative expenses. The growth of China’s economy has resulted in an acceleration of industrialisation, which has affected and is expected to continue to affect our operations since our products are primarily used in both the industrial, feed additive and agricultural industries. In addition, the PRC government has from time to time adjusted its monetary, financial, fiscal or industry policies, among others, or implemented other macroeconomic measures. Any adjustment in or implementation of economic policies and measures could affect our results of operations and financial conditions. Both the PRC’s macroeconomic trends and policies could affect our procurement, production, sales and other parts of our business, leading to fluctuations in our results of operations.

FINANCIAL INFORMATION

Change in conditions and development of the industry of our downstream customers

During the Track Record Period, we derived revenue primarily from sales of our products to manufacturers in the feed additives and livestock industry, construction industry, automotive industry, pharmaceutical industry, paint and dye industry, adhesive agent industry, home appliances industry, resin industry and thermal insulation products industry. For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, we generated approximately 74.3%, 79.2%, 74.2% and 80.4% of our revenue from sales to these customers, respectively. Therefore, the development in the relevant industries in the PRC or other markets where our products are sold will affect our sales, resulting in pressure on the prices, volumes and margins achieved or achievable in the future. If our downstream customers experience a decline in the sales of their products due to a downturn in the industries and if we are unable to diversify our customer bases, our financial results may be adversely affected.

Product pricing

Historically, we have determined the sales prices of our products based on the prevailing market prices of our products. Leveraging on our long-standing relationship with our customers, we tend to enjoy strong customer loyalty for our products.

The following table sets forth the average selling prices of polymeric MDI and choline chloride during the Track Record Period:

	For the year ended 31 December			For the six months ended	
	2016 (RMB per tonne)	2017 (RMB per tonne)	2018 (RMB per tonne)	30 June 2018 (RMB per tonne)	2019 (RMB per tonne)
Average selling prices					
Polymeric MDI	11,389.8	22,059.1	15,665.0	18,270.8	12,111.1
Choline chloride	3,760.5	5,860.0	6,125.3	7,300.4	4,560.2

Our principal products are polymeric MDI and choline chloride, which, in aggregate, accounted for approximately 49.2%, 55.4%, 52.0% and 45.0% of our revenue for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. As a result, the change in market price of polymeric MDI and choline chloride will affect our revenue.

The average selling price of our polymeric MDI increased from approximately RMB11,389.8 per tonne for the year ended 31 December 2016 to approximately RMB22,059.1 per tonne for the year ended 31 December 2017 and decreased to approximately RMB15,665.0 per tonne for the year ended 31 December 2018. The average selling price of our polymeric MDI decreased from approximately RMB18,270.8 per tonne for the six months ended 30 June 2018 to approximately RMB12,111.1 per tonne for the six months ended 30 June 2019.

The average selling price of our choline chloride increased from approximately RMB3,760.5 per tonne for the year ended 31 December 2016 to approximately RMB5,860.0 per tonne for the year ended 31 December 2017 and increased to approximately RMB6,125.3 per tonne for the year ended 31 December 2018. The average selling price of our choline chloride decreased from approximately RMB7,300.4 per tonne for the six months ended 30 June 2018 to approximately RMB4,560.2 per tonne for the six months ended 30 June 2019.

The average selling price of our principal products is primarily affected by the supply and demand situation in the region and the procurement price of materials from our suppliers, which are further discussed in the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income” in this section. The change in the price we charge on our products could directly impact our financial and operating results.

FINANCIAL INFORMATION

Procurement price of raw materials and inventories

Our cost of raw materials and inventories are major components of our total cost of sales during the Track Record Period. They amounted to approximately RMB1,396.9 million, RMB1,800.8 million, RMB1,758.7 million and RMB771.4 million, representing approximately 96.9%, 96.7%, 95.4% and 94.8% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Our costs of the raw materials and inventories are subject to a number of factors, including but not limited to market supply and demand, changes in the anti-dumping duties, economic conditions and international environmental and regulatory requirements. Although we have maintained long term relationships with our suppliers, our historical operations and margins have been and will continue to be affected by fluctuations in the prices for raw materials and inventories, which may affect our cost of sales. Although we were generally able to shift the increased cost to our customers, any increase in the cost of raw materials and inventories would negatively impact our gross profit margin if we are unable to transfer the increase in cost to our customers in future.

The sensitivity analysis below illustrates the impact of hypothetical fluctuations in our cost of raw materials and inventories on our profit before tax during the Track Record Period, holding all other variables constant. The hypothetical fluctuation rates for cost of raw materials and inventories are set at 5% and 30% during the Track Record Period, which are determined by reference to the historical year-on-year fluctuation of our cost of sales during the Track Record Period.

Changes in cost of raw materials and inventories	+30% RMB'000	+5% RMB'000	-5% RMB'000	-30% RMB'000
(Decrease)/increase in profit before tax for the year ended 31 December 2016	(419,058)	(69,843)	69,843	419,058
(Decrease)/increase in profit before tax for the year ended 31 December 2017	(540,232)	(90,039)	90,039	540,232
(Decrease)/increase in profit before tax for the year ended 31 December 2018	(527,597)	(87,933)	87,933	527,597
(Decrease)/increase in profit before tax for the six months ended 30 June 2018	(255,935)	(42,656)	42,656	255,935
(Decrease)/increase in profit before tax for the six months ended 30 June 2019	(231,407)	(38,568)	38,568	231,407

Prospective investors should note that the above analysis on the historical financials is based on assumptions and for reference only and should not be viewed as actual effect.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our gross profit amounted to approximately RMB165.0 million, RMB317.6 million, RMB309.6 million and RMB122.0 million, respectively. For illustrative purpose, we would have recorded a breakeven in our gross profit if the cost of sales increased by approximately 11.4%, 17.1%, 16.8% and 15.0%, respectively, for the corresponding years/period.

FINANCIAL INFORMATION

Production capacity, production volume and unit cost of sales

Our results of operations depend on our production capacity, production volume and utilisation rate. As at the Latest Practicable Date, we had three active production plants located in (i) Tai'an, Shandong Province, (ii) Xuzhou, Jiangsu Province and (iii) Binh Duong Province, Vietnam. Our cost of sales mainly comprised variable costs such as cost of raw materials and inventories and fixed costs such as staff cost, manufacturing overhead and depreciation. Our major fixed cost of sales accounted for approximately 2.4%, 2.6%, 4.0% and 4.8% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our fixed costs, such as staff costs and depreciation are absorbed by the total production volume during the periods and capitalised as cost of inventories in our consolidated statements of financial position as "inventories". The capitalised cost will be released to the consolidated statements of profit or loss as "cost of sales" in the period which the products are sold. Consequently, our per unit cost of sales, and hence our gross profit and gross profit margin, may vary due to the production volume of each period, which was mainly determined by our production capacity. We believe that our ability to successfully optimise our production capacity to align with anticipated market demand are important to lower our per unit cost of sales and positively impact our financial conditions and results of operations.

Taxation

Our consolidated profits before tax and income tax expenses for the years/period have been impacted by a number of factors, including expenses for non-tax purposes, effect of expenses not deductible for determining tax profit and tax losses. Our effective tax rates were approximately 2.1%, 15.6%, 18.6% and 7.0% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

During the Track Record Period, our profitability and financial performance are affected by the applicable tax rates. Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI. During the Track Record Period, our operations in the PRC were generally subject of a statutory rate of 25%. Certain of our PRC subsidiaries, which qualified as small low-profit enterprises, enjoyed a preferential tax rate of 20% with 50% or 75% reduction of their taxation income. We enjoyed a preferential tax rate of 15% for Havay Group, which was qualified as a High and New Technology Enterprise. This preferential tax rate will expire after the subsequent three years since 2016. We have submitted application to renew the preferential tax status of Havay Group as the relevant PRC authorities started to receive and review relevant applications. However, we cannot assure that we will continue to receive preferential tax treatment. Any change in, or termination of, the preferential tax treatment may result in a significant increase in our tax liability, which would have a material adverse effect on our business, results of operation and our financial conditions. For a further discussion of our income tax expenses, please refer to the paragraph headed "Income tax expenses" in this section.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

In the application of the Group's accounting policies, we have to make judgments, estimates and assumptions relating about the assets and liabilities. In each case, the determination of these items requires management judgments based on historical experience and other factors that are considered to be relevant. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets in the future. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial conditions and results of operations, are set forth in detail in Notes 4 and 5 to the historical financial information included in the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

Our Group adopted IFRS 9 “Financial Statements” for the accounting periods beginning on 1 January 2018 and IAS 39 “Financial Statements: Recognition and Measurement” before 1 January 2018.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to expected credit loss under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Financial assets previously classified as loans and receivables RMB'000	Bill receivables at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Deferred tax assets RMB'000	Accumulated losses RMB'000
Closing balance as at 31 December 2017 (under IAS 39)	222,017	-	-	-	(57,824)
Effect arising from initial application of IFRS 9:					
Reclassification					
From loans and receivables ⁽¹⁾	(222,017)	879	221,138	-	-
Remeasurement					
Impairment under expected credit loss model ⁽²⁾	-	-	(6,724)	867	(5,857)
Opening balance at 1 January 2018 (under IFRS 9)	<u>-</u>	<u>879</u>	<u>214,414</u>	<u>867</u>	<u>(63,681)</u>

Notes:

- (1) Loans and receivables

From loans and receivables to bill receivables at fair value through other comprehensive income

As part of the Group's cash flow management, the Group has the practice of discounting bill receivables to banks or transferring some of the bill receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers before the bills are due for payment and derecognises discounted and endorsed bills issued by the banks with good credit quality on the basis that the Group has transferred substantially all risks and rewards to relevant counterparties. Accordingly, the Group's bill receivables of approximately RMB0.9 million were considered as within the business model of “hold to collect contractual cash flows and to sell” and reclassified as bills receivables at fair value through other comprehensive income.

From loans and receivables to financial assets at amortised cost

Except for bill receivables, all remaining loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payment of principal and interest on the outstanding principal amount.

- (2) Impairment under expected credit loss model

As at 1 January 2018, the additional credit loss allowance net of related deferred tax assets amounting to approximately RMB5.9 million has been recognised against accumulated losses. The additional loss allowance of approximately RMB6.7 million is charged against trade receivables.

Our Directors consider that the adoption of IFRS 9 would not have a significant impact on the Group's financial position and performance compared to the requirements of IAS 39.

FINANCIAL INFORMATION

Our Group has consistently applied IFRS 15 “Revenue from Contracts with Customers”, which are effective for the accounting period beginning on 1 January 2018, throughout the Track Record Period. Our Directors consider that the adoption of IFRS15 would not have a significant impact on the Group’s financial position and performance compared to the requirements of IAS 18 as at and for the years ended 31 December 2016 and 2017 and there was no adjustment made in net profit during the Track Record Period as a result of such early adoption.

IMPACT OF THE ADOPTION OF IFRS 16

Transition and summary of effects arising from initial application of IFRS 16

On 1 January 2019, the Group has applied IFRS 16. IFRS 16 superseded IAS 17, and the related interpretations. The Group applied the IFRS 16 in accordance with the transition provisions of IFRS 16.

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

FINANCIAL INFORMATION

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by relevant group entities ranged from 4.05% to 6.09%.

	At 1 January 2019 <i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	9,092
Extension options reasonably certain to be exercised	775
Inclusion of non-lease components in leases as a single lease component	205
Contracts committed but not yet commenced at 1 January 2019	(553)
Effect from discounting at the incremental borrowing rates as at 1 January 2019	(690)
Lease liabilities as at 1 January 2019	8,829
Analysed as	
Current	4,687
Non-current	4,142

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of- use assets <i>RMB'000</i>
Leased liabilities as at 1 January 2019	8,829
Adjusted by prepayments for rental (a)	151
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	8,980
Reclassified from prepaid lease payments (b)	18,086
By class	
Leasehold lands	18,086
Building	8,980
	27,066

(a) Upfront payments for leases of properties were recognised as prepayments for rental as at 31 December 2018. Upon application of IFRS 16, prepayments for rental amounting to RMB151,000 were reclassified to right-of-use assets.

(b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB410,000 and RMB17,676,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. During the six months ended 30 June 2019, there is no material impact on the Group's financial statements for the application of IFRS 16 by the Group as a lessor.

FINANCIAL INFORMATION

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	<i>Notes</i>	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets				
Prepaid lease payments	<i>(b)</i>	17,676	(17,676)	–
Right-of-use assets	<i>(a), (b)</i>	–	27,066	27,066
Current assets				
Prepaid lease payments	<i>(b)</i>	410	(410)	–
Other receivables and prepayment	<i>(a)</i>	57,018	(151)	56,867
Current liability				
Lease liabilities		–	4,687	4,687
Non-current liability				
Lease liabilities		–	4,142	4,142

For the purpose of reporting cash flows used in operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Our Directors consider that the adoption of IFRS 16 would not have a significant impact on the Group's financial position and performance compared to the requirements of IAS 17.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The table sets forth the consolidated statement of profit or loss and other comprehensive income from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			For the six months ended	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	1,606,829	2,179,049	2,152,946	1,074,927	935,273
Cost of sales	(1,441,863)	(1,861,438)	(1,843,384)	(894,400)	(813,309)
Gross profit	164,966	317,611	309,562	180,527	121,964
Other income	8,552	7,921	3,731	1,496	1,719
Other gains and losses	320	(10,656)	(1,350)	(1,142)	2,826
Impairment losses on trade receivables, net of reversal	(870)	(2,991)	(773)	(1,466)	(428)
Expenses					
– Selling and distribution expenses	(67,661)	(79,196)	(83,502)	(41,129)	(46,065)
– Administrative expenses	(52,227)	(84,232)	(77,690)	(35,485)	(36,920)
– Research and development expenses	(22,709)	(32,788)	(40,437)	(21,598)	(14,130)
– Listing expenses	–	(10,922)	(7,458)	(3,705)	(3,500)
– Finance costs	(9,160)	(10,685)	(10,831)	(4,762)	(7,396)
Profit before taxation	21,211	94,062	91,252	72,736	18,070
Taxation	(454)	(14,631)	(16,995)	(11,925)	(1,263)
Profit for the year/period	20,757	79,431	74,257	60,811	16,807
Other comprehensive income/ (expense) for the year/period					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange difference arising on translation of foreign operation	476	(1,160)	653	553	(1,770)
Other comprehensive income (expense) for the year/period	476	(1,160)	653	553	(1,770)
Total comprehensive income for the year/period	<u>21,233</u>	<u>78,271</u>	<u>74,910</u>	<u>61,364</u>	<u>17,076</u>

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NON-IFRS MEASURES

In addition to the IFRS measures in our consolidated financial statements, we also use the non-IFRS financial measure of adjusted profit for the year/period (excluding Listing expense and the rental income from Organic Chemicals Co.) to evaluate our operating performance. We believe that this non-IFRS measure provides useful information to investors in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies. Since Organic Chemicals Co. was disposed by the Group in 2017 and the management has no intention to acquire or engage in any business with similar business focus to that of Organic Chemicals Co. in the future, the rental income derived from Organic Chemicals Co. in 2016 and 2017, which we do not consider indicative of the operating performance of our business, was carved out to ensure the results of operations for each of the three years and the six months ended 30 June 2019 during the Track Record Period are compared in the same manner, given that no revenue was derived from Organic Chemicals Co. in 2018 and 2019 after the disposal in 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-IFRS measures					
Profit for the year/period	20,757	79,431	74,257	60,811	16,807
Adjustments:					
Listing expenses	-	10,922	7,458	3,705	3,500
Rental income from Organic Chemicals Co.	(5,817)	(5,060)	-	-	-
Adjusted profit for the year/period	14,940	85,293	81,715	64,516	20,307

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, we principally engage in the production and sales of our chemicals as well as the sales of chemicals produced by third party manufacturers. We have four principal business segments, namely, polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates.

The table below sets forth the breakdown of our revenue by business segments during the Track Record Period:

Total revenue by business segments

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Sale of chemicals										
Polyurethane materials	728,592	45.3	1,089,548	50.0	881,563	40.9	451,206	42.0	331,905	35.5
Animal nutrition chemicals	326,692	20.3	535,848	24.6	702,657	32.6	340,329	31.7	278,906	29.8
Fine chemicals	319,590	19.9	330,495	15.1	286,801	13.3	155,099	14.4	126,471	13.5
Pharmaceutical products and intermediates	223,155	13.9	212,984	9.8	270,650	12.6	122,842	11.4	193,283	20.7
Subtotal	1,598,029	99.4	2,168,875	99.5	2,141,671	99.4	1,069,476	99.5	930,565	99.5
Others ^(Note)	8,800	0.6	10,174	0.5	11,275	0.6	5,451	0.5	4,708	0.5
Total	1,606,829	100.0	2,179,049	100.0	2,152,946	100.0	1,074,927	100.0	935,273	100.0

Note:

Others primarily include revenue generated from transportation of hazardous chemicals for third parties in Nanjing.

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For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, the majority of our revenue was derived from our polyurethane materials segment and animal nutrition chemicals segments. Our polyurethane materials segment accounted for approximately 45.3%, 50.0%, 40.9% and 35.5%, respectively, while the animal nutrition chemicals segment accounted for approximately 20.3%, 24.6%, 32.6% and 29.8%, respectively.

As set out in the table above, our revenue increased from approximately RMB1,606.8 million for the year ended 31 December 2016 to approximately RMB2,179.0 million for the year ended 31 December 2017 and decreased to approximately RMB2,152.9 million for the year ended 31 December 2018. The increase of our revenue of approximately RMB572.2 million or 35.6% for the year ended 31 December 2017 was mainly attributable to the increase in aggregate revenue generated from polyurethane materials and animal nutrition chemicals of approximately RMB570.1 million in 2017. The decrease of our revenue of approximately RMB26.1 million or 1.2% for the year ended 31 December 2018 was mainly due to the decrease in revenue generated from polyurethane materials of approximately RMB208.0 million, offset by the increase in revenue generated from animal nutrition chemicals of approximately RMB166.8 million. Our revenue decreased from approximately RMB1,074.9 million for the six months ended 30 June 2018 to approximately RMB935.3 million for the six months ended 30 June 2019, which was mainly due to the decrease in revenue generated from polyurethane materials and animal nutrition chemicals of approximately RMB119.3 million and RMB61.4 million, respectively, offset by the increase in revenue generated from pharmaceutical products and intermediates of approximately RMB70.4 million. Details of the change in revenue generated in our business segments are set out below.

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(i) Polyurethane materials

During the Track Record Period, we derived more than 35% of our revenue from the sales of polyurethane materials. The table below sets forth a breakdown of our Group's revenue for sales of polyurethane materials by major products types during the Track Record Period:

	For the year ended 31 December										For the six months ended 30 June									
	2016		2017		2018		2018		2018		2019		2018		2018		2018		2019	
	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)
Polymeric MDI	66.8	11,389.8	42,711	66.4	22,059.1	32,819	55.4	15,665.0	31,176	58.3	14,392	53.4	18,270.8	14,392	53.4	18,270.8	177,330	53.4	14,642	12,111.1
TDI	14.7	14,646.0	7,325	16.6	27,909.7	6,486	19.2	23,520.5	7,195	19.5	3,201	19.5	27,457.4	3,201	13.5	27,457.4	44,694	13.5	3,723	12,004.8
Polymer polyether	7.5	12,254.4	4,485	7.5	14,265.6	5,742	15.0	14,160.2	9,325	11.4	3,699	11.4	13,867.5	3,699	22.4	13,867.5	74,342	22.4	5,410	13,741.6
Isoocyanate mixture	3.6	14,367.0	1,820	3.8	26,817.2	1,526	2.3	23,266.3	890	3.1	521	3.1	26,635.3	521	1.7	26,635.3	5,693	1.7	394	14,449.2
Polyurethane foam	3.0	11,858.9	1,857	0.9	9,096.7	1,065	1.6	11,082.7	1,282	1.0	535	1.0	8,730.8	535	2.8	8,730.8	9,411	2.8	625	15,057.6
Modified MDI	1.9	12,784.8	1,069	3.2	22,877.5	1,543	5.2	21,104.6	2,161	5.6	1,102	5.6	23,014.5	1,102	4.8	23,014.5	15,948	4.8	992	16,076.6
Others ⁽²⁾	2.5	6,475.6	2,786	1.6	7,635.2	2,193	1.3	7,030.2	1,621	1.1	675	1.1	7,638.5	675	1.4	7,638.5	4,487	1.4	674	6,657.3
Total	100.0	11,741.4	62,053	100.0	21,208.2	51,374	100.0	16,431.7	53,650	100.0	24,125	100.0	18,702.8	331,905	100.0	18,702.8	451,206	100.0	26,460	12,543.7

Notes:

(1) Average selling price is derived by the revenue of the respective product divided by the sales volume.

(2) Others primarily include polyoxymethylene, liquid MDI and isomeric MDI.

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During the Track Record Period, sales of polymeric MDI accounted for more than 50% of our revenue of polyurethane materials segment; sales of TDI accounted for approximately 10% to 20% of our revenue of this segment; sales of polymer polyether accounted for approximately 5% to 15% of our revenue of this segment during the years ended 31 December 2016, 2017 and 2018 and increased to slightly over 20% during the six months ended 30 June 2019; and each of isocyanate mixture, polyurethane foam and modified MDI and other products accounted for approximately 5% or less of our revenue of this segment.

Our revenue generated from sales of polyurethane materials increased from approximately RMB728.6 million for the year ended 31 December 2016 to approximately RMB1,089.5 million for the year ended 31 December 2017, primarily due to the increase in our revenue from sales of polymeric MDI and TDI in the corresponding periods, which was mainly caused by the increase in their average selling price as detailed below. Our revenue generated from sales of polyurethane materials decreased from approximately RMB1,089.5 million for the year ended 31 December 2017 to approximately RMB881.6 million for the year ended 31 December 2018, primarily due to the decrease in our average selling price of polymeric MDI, which is further explained below. Our revenue generated from sales of polyurethane materials decreased from approximately RMB451.2 million for the six months ended 30 June 2018 to approximately RMB331.9 million for the six months ended 30 June 2019, primarily due to the decrease in our average selling prices of the major products in this segment, including polymeric MDI and TDI, which is detailed below.

Our average selling price of polymeric MDI increased from approximately RMB11,389.8 per tonne for the year ended 31 December 2016 to approximately RMB22,059.1 per tonne for the year ended 31 December 2017, primarily because there was an increase in the procurement price of polymeric MDI from our major suppliers. Our Directors believe that such increase was due to the unstable in supply of polymeric MDI in the market, resulting from temporary suspension of production facilities in the PRC of leading polymeric MDI suppliers in 2017 primarily caused by disasters, breakdown and maintenance of equipment, and environmental control. In particular, the production facilities of one of the largest PRC MDI suppliers, which was our upstream supplier, experienced an explosion in their production plant in September 2016 and a temporary suspension of its production facilities with annual production capacity of approximately 600,000 tonnes due to facilities maintenance in August 2017, which led to unstable market supply of polymeric MDI in the PRC in 2017. There was also suspension of production with annual production capacity of 400,000 tonnes by the Chongqing branch of the third largest global polyurethane materials manufacturer, which was our upstream supplier. Our average selling price of polymeric MDI decreased from approximately RMB22,059.1 per tonne for the year ended 31 December 2017 to approximately RMB15,665.0 per tonne for the year ended 31 December 2018, primarily because of the decrease in the average cost of purchase of polymeric MDI from the third quarter of 2017 to 2018, which was partially reflected in our selling price. The decrease in average cost of purchase primarily resulted from a more stable supply of polymeric MDI in the market. Our average selling price of polymeric MDI decreased from approximately RMB18,270.8 per tonne for the six months ended 30 June 2018 to approximately RMB12,111.1 per tonne for the six months ended 30 June 2019 due to the continuous effect of the aforementioned resumption of more stable supply of polymeric MDI in the market, which led to the decrease in average cost of purchase of polymeric MDI and was partially reflected in our selling price. Although the selling price of polymeric MDI followed the market trend to decrease during 2018, the average selling price of polymeric MDI for the six months ended 30 June 2018 was still at a comparatively high level. The market price of polymeric MDI dropped to the lowest level in December 2018 and maintained at comparatively low level for the six months ended 30 June 2019.

In terms of sales volume, due to the aforementioned explosion of production plant and temporary suspension of our upstream suppliers in late 2016 and 2017, there was a decrease in the volume of MDI supplied to us by the relevant suppliers to our Group in 2017. Therefore, although we did not procure the chemicals from a single source, given that they were two of the largest suppliers for MDI and polyurethane materials, the decrease in their supply led to the decrease in our sales volume of MDI for the year ended 31 December 2017 when compared with the year end 31 December 2016. The sales volume of polymeric MDI remained relative stable for the year ended 31 December 2018 when compared with the year ended 31 December 2017. The sales volume of polymeric MDI also remained relative stable for the six months ended 30 June 2019 when compared with the six months ended 30 June 2018.

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Our average selling price of TDI increased from approximately RMB14,646.0 per tonne for the year ended 31 December 2016 to approximately RMB27,909.7 per tonne for the year ended 31 December 2017, primarily because there was an increase in the procurement price of TDI from our major suppliers. Our Directors believe that such increase was due to the unstable supply of TDI in the market, resulting from suspension of production of the major TDI suppliers, including the one-month suspension of production of our Supplier A and Supplier B in May 2017 and the one-month suspension of production of the second largest PRC polyurethane materials manufacturer, which was our upstream supplier, in October 2017, which reduced approximately 10,000 tonnes of its TDI production of the year and the permanent shut down of TDI production facilities with annual production capacity of 120,000 tonnes by the fifth largest global polyurethane materials manufacturer situated in Japan, which was the competitor of our upstream TDI suppliers, in 2016. Given that Supplier A, Supplier B and the second largest PRC polyurethane materials manufacturer were our major suppliers during the Track Record Period, their temporary suspension of production in 2017 led to the decrease in volume of TDI supplied to us in the same year. In addition, our Directors believe that the aforementioned permanent shut down of the leading manufacturer also led to the decrease in our sales volume of TDI primarily because the manufacturers in the PRC including our upstream suppliers might allocate some of their products for export to meet the demand from the customers of the manufacturers which suffered from suspension or permanent shut down of the production facilities. Since there was a decrease in volume of TDI supplied to our Group in 2017 because of the factors aforementioned, our sales volume decreased from approximately 7,325 tonnes for the year ended 31 December 2016 to approximately 6,486 tonnes for the year ended 31 December 2017. Our average selling price of TDI decreased from approximately RMB27,909.7 per tonne for the year ended 31 December 2017 to approximately RMB23,520.5 per tonne for the year ended 31 December 2018 but still remained higher than that of year ended 31 December 2016, primarily because there was a decrease in market price of TDI. Such decrease primarily resulted from a more stable supply of TDI in the market in 2018 as there was no material production suspension from the major manufacturers in 2018 and the production facilities of a TDI manufacturer headquartered in Saudi Arabia with annual production capacity of 20,000 tonnes commenced operation in August 2017. The decrease in average selling price of TDI leads to the decrease in revenue from sale of TDI from approximately RMB181.0 million for the year ended 31 December 2017 to approximately RMB169.2 million for the year ended 31 December 2018, offset by the increase in sales volume of TDI from approximately 6,486 tonnes to approximately 7,195 tonnes. Such increases in sales volume was primarily because of the gradual increase in purchase quantity by our TDI customers from 2017 to 2018. Our Directors believe that this was primarily because the average selling price decreased to an affordable level for our customers of all scale of operation, as a result of a more stable market supply of TDI for the year ended 31 December 2018. In addition, there was no material production suspension of our upstream TDI suppliers in 2018, there was an increase in volume of products supplied to us, so our sales volume of TDI increased for the year ended 31 December 2018 when compared with the year ended 31 December 2017. Our average selling price of TDI decreased from approximately RMB27,457.4 per tonne for the six months ended 30 June 2018 to approximately RMB12,004.8 per tonne for the six months ended 30 June 2019. Although the selling price of TDI followed the market trend to decrease during 2018, the average selling price of TDI for the six months ended 30 June 2018 was still at a comparatively high level. During the first quarter of 2019, market price of TDI continued to drop as a result of increasing market supply, which was primarily due to the commencement of production of the new TDI production facilities with annual production capacity of approximately 300,000 tonnes by the largest PRC polyurethane materials manufacturer, which was our competitor of our upstream suppliers and the resumption of production of production facilities with annual production capacity of 50,000 tonnes in Huludao by a PRC manufacturer, which was our competitor of our upstream suppliers. The market price of TDI dropped to the lowest level in the first quarter of 2019 when compared to 2018. The average selling price of TDI for the six months ended 30 June 2019 was still far lower than that of 2018. As advised by Frost & Sullivan, the aforementioned fluctuation in market price of TDI during the first half of 2019 was considered as temporary and it is expected that there will not be significant fluctuation in the average selling price of TDI in the second half of 2019 and 2020. For details, please refer to the section headed “Industry Overview” in this prospectus. The decrease in average selling price of TDI leads to the decrease in revenue from sale of TDI from approximately RMB87.9 million for the six months ended 30 June 2018 to approximately RMB44.7 million for the six months ended 30 June 2019, offset by the increase in sales volume of TDI from approximately 3,201 tonnes to approximately 3,723 tonnes. Such increases in sales volume was primarily because we have developed a stable relationship with our suppliers and can maintain a stable supply to our downstream customers during the period and there was an increase in purchase volume from existing customers and sales made to new customers, as a result of (i) our stronger marketing effort to participate in various industry exhibitions relating to polyurethane materials held in the PRC and overseas countries such as Thailand, Russia, Pakistan and South Africa near the second half of 2018 and first half of 2019, where we could

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identify new customers, and (ii) our more frequent follow-up calls and enquiries by our sales team to contact the then recurring polyurethane materials customers engaging in the industries of manufacturing coating materials, footwear, automotive seats, sponge products, in order to actively promote our products and take the initiatives to reach out and understand if there is any product needs from the customers.

In addition, the revenue derived from sales of polymer polyether increased from approximately RMB55.0 million for the year ended 31 December 2016 to approximately RMB81.9 million for the year ended 31 December 2017, and from approximately RMB81.9 million for the year ended 31 December 2017 to approximately RMB132.0 million for the year ended 31 December 2018. Our Directors believe that such increase was primarily due to the expansion of our production of polymer polyether over the recent years, especially in Vietnam. The revenue derived from sale of polymer polyether in Vietnam increased from approximately RMB1.3 million for the year ended 31 December 2016 to approximately RMB30.1 million for the year ended 31 December 2017, and from approximately RMB30.1 million for the year ended 31 December 2017 to approximately RMB66.9 million for the year ended 31 December 2018. The revenue derived from sales of polymer polyether increased from approximately RMB51.3 million for the six months ended 30 June 2018 to approximately RMB74.3 million for the six months ended 30 June 2019, primarily due to the continuous increasing sales volume of polymer polyether from 30 June 2018 to 2019 as a result of the increase in purchase volume from existing customers and sales made to new customers. In particular, our revenue derived from sale of polymer polyether in Vietnam increased from approximately RMB24.1 million for the six months ended 30 June 2018 to approximately RMB41.3 million for the six months ended 30 June 2019. Our polymer polyether customers in Vietnam were mainly manufacturers in the roofing industry. To the best knowledge of our Directors, as there is an increasing market demand for our polymer polyether which was made without ozone-depleting freon due to the growing environmental awareness, we were able to increase the number of our polymer polyether customers in Vietnam from five for the six months ended 30 June 2018 to 11 for the six months ended 30 June 2019.

Our sales volume increased from approximately 4,485 tonnes for the year ended 31 December 2016 to approximately 5,742 tonnes for the year end 31 December 2017 and further increased to approximately 9,325 tonnes for the year ended 31 December 2018, primarily because we commenced the formal production of polymer polyether at the Vietnam Production Plant since 2017. We also put more effort in exploring the sales market in Vietnam after the commencement of production of polymer polyether which led to the gradual increase of sales volume in 2017 and 2018. With more stable production of polymer polyether from 2017 onwards, the utilisation rate of our production facilities at the Vietnam Production Plant for the production of polymer polyether increased from approximately 35.1% for the year ended 31 December 2017 to approximately 56.9% for the year ended 31 December 2018. The utilisation rate of our production facilities at the Tai'an Production Plant for production of polyurethane materials including polymer polyether also increased from approximately 71.7% for the year ended 31 December 2017 to approximately 91.3% for the year ended 31 December 2018. Given that there is an increasing downstream demand in the construction and automotive industry for polyurethane materials, an increase in utilisation rate and production volume led to a further increase in sales volume of polymer polyether to 9,325 tonnes for the year ended 31 December 2018, when compared with the year ended 31 December 2017. Our sales volume further increased from approximately 3,699 tonnes for the six months ended 30 June 2018 to approximately 5,410 tonnes for the six months ended 30 June 2019, primarily because of the increasing demand from our customers resulting from our polymer polyether as explained above. In addition, our utilisation rate of our production facilities at both the Tai'an Production Plant and Vietnam Production Plant was continuously growing in 2019 compared to 2018.

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(ii) Animal nutrition chemicals

Under the animal nutrition chemicals segment, our major products are choline chloride and betaine.

The table below sets forth a breakdown of our Group's revenue for sales of animal nutrition chemicals by major product types during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June								
	2016			2017			2018			2019					
	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)			
Choline chloride	93.2	3,760.5	81,001	90.1	5,860.0	631,663	89.9	6,125.3	305,907	89.9	41,903	243,719	87.4	53,445	4,560.2
Betaine	5.3	5,230.9	3,339	9.1	6,551.6	55,923	8.8	7,701.8	29,941	8.8	3,603	8,310.0	9.5	3,710	7,171.2
Others ⁽²⁾	1.5	4,730.8	977	0.8	4,874.2	15,071	2.1	7,135.9	4,481	1.3	735	6,096.6	3.1	1,074	7,990.7
Total	100.0	3,829.2	85,317	100.0	5,908.0	702,657	100.0	6,246.1	340,329	100.0	46,241	278,906	100.0	58,229	4,789.8

Notes:

(1) Average selling price is derived by the revenue of the respective product divided by the sales volume.

(2) Others primarily include isoleucine, feed additives mixture, lysine and threonine.

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Our revenue generated from sales of animal nutrition chemicals increased from approximately RMB326.7 million for the year ended 31 December 2016 to approximately RMB535.8 million for the year ended 31 December 2017 and approximately RMB702.7 million for the year ended 31 December 2018, primarily due to the increase in revenue from sale of choline chloride and betaine described below. Our revenue generated from sales of animal nutrition chemicals decreased from approximately RMB340.3 million for the six months ended 30 June 2018 to approximately RMB278.9 million for the six months ended 30 June 2019, primarily due to the decrease in average selling price of choline chloride and betaine as described below.

During the Track Record Period, sales of choline chloride accounted for approximately 90% of our revenue under the animal nutrition chemicals segment. The revenue increased by approximately 58.5% or RMB178.2 million for the year ended 31 December 2017, primarily because of the large increase in our average selling price and a slight increase in volume sold in the same year. The increase in our average selling price was primarily because there was a slower growth in supply of choline chloride in the PRC as Company G, Company H and Company I (the fifth largest PRC choline chloride manufacturers in terms of domestic sales revenue in choline chloride in the PRC in 2017), which were our competitors and constituted approximately 29.2% of the market share in aggregate in terms of the domestic sales revenue in choline chloride to the PRC in 2017, failed to comply with the increasingly strict environmental protection requirements, which led to suspension of production by these market players and enabled us to negotiate for a higher selling price with our customers. As a result of the suspension of operation of the aforementioned manufacturers, our average selling price increased by approximately 55.9% from approximately RMB3,760.5 per tonne for the year ended 31 December 2016 to approximately RMB5,860.0 per tonne when compared with the percentage of increase in average selling price of other major choline chloride manufacturers in the PRC (in terms of domestic sales revenue in choline chloride in the PRC in 2017) ranging from approximately 3.8% to 45.7% in the same year. The absolute amount of average selling price of choline chloride of the Group was approximately RMB5,860.0 per tonne, which was at similar levels of the average selling price of Company F and Company G in the amount of approximately RMB5,670.7 per tonne and RMB6,015.3 per tonne, respectively, as advised by Frost & Sullivan. The Company did not enjoy unreasonably higher selling prices as compared to its peers or the market. The higher average selling prices of the top three market players aforementioned are generally in line with rises in market price. The Company's increase in average selling price of approximately 55.9% was larger as compared to the increase in average selling price of Company F and Company G of approximately 45.7% and 45.4%, respectively, which was primarily attributable to its lower average selling price in 2016 as a result of its strategy to increase its market share by providing lower prices. Our cost of sales for choline chloride increased by approximately 25.4% in 2017 and our gross profit margin for sales of choline chloride increased from approximately 17.1% for the year ended 31 December 2016 to approximately 34.4% for the year ended 31 December 2017. The slight increase in the volume of our choline chloride sold from approximately 81,001 tonnes for the year ended 31 December 2016 to approximately 82,387 tonnes for the year ended 31 December 2017 by approximately 1.7% was consistent with the continuous growth of the downstream feed additives industry in the PRC in the same year according to the Industry Report. Our Directors believe that such slight increase in our sales volume of choline chloride was also partly because of the production suspension by the aforementioned manufacturers which were our competitors in sales of choline chloride in the PRC. According to the Industry Report, the sales volume of Company F experienced similar increase of approximately 1.2% in 2017, while Company G, Company H and Company I, which reduced their supply of choline chloride due to the failure of complying with the environmental requirements, experienced decrease in sales volume in 2017 ranging from approximately 7.1% to 25.0%. Their aggregate sales volume decreased from approximately 163,000 tonnes to approximately 128,000 tonnes.

In terms of market share of PRC choline chloride manufacturers measured by the total sales revenue from domestic and export sales of choline chloride, given that there is approximately 55.9% increase in our average selling price and 1.7% in our sales volume in 2017, while there was smaller increase in average selling price of choline chloride sold by other major market players and a decrease in sales volume of Company G, Company H and Company I, our market share increased from approximately 20.7% in 2016 to approximately 24.2% in 2017 while the market share of other major market players such as Company H and Company I decreased from approximately 22.5% and 7.6% to approximately 13.8% and 5.4%, respectively, in 2017, primarily due to the aforementioned suspension of operation as a result of failing to comply with the environmental requirements.

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The revenue generated from sale of choline chloride increased by approximately RMB148.8 million for the year ended 31 December 2018, primarily because of the increase in our average selling price and volume sold of choline chloride in the same year. The increase in our average selling price was primarily because the price of choline chloride reached the highest point in the fourth quarter of 2017 and the first quarter in 2018 due to the failure of some aforementioned manufacturers in complying with the environmental protection requirements. The suspension of production by these market players in effect increased our market share in terms of sales volume of choline chloride in the PRC from approximately 21.7% in 2017 to approximately 28.6% in 2018. Although the selling price of choline chloride followed the market trend to gradually decrease after the first quarter of 2018, the average selling price of choline chloride for the year ended 31 December 2018 was still higher than that for the year ended 31 December 2017, which led to the increase in revenue generated from choline chloride. We recorded an increase in average selling price of choline chloride in 2018 while the market experienced a decrease in the average price in the same year. This was primarily because we received more sales order and higher sales volume in the first quarter of 2018 when the market price and our average selling price reached the highest point after the temporary suspension of our major competitors in late 2017. Our Directors are of the view that the resumption of production of the Group's key competitors did not have material impact to the Group's operation as, according to Frost & Sullivan, (i) the Group's total sales volume and revenue of choline chloride were in an increasing trend throughout 2016 to 2018 and were the highest among its competitors for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, and (ii) the Group had maintained a relatively stable market share in the PRC in terms of revenue generated from PRC domestic sales of choline chloride for the years ended 31 December 2017 and 2018, respectively. The revenue generated from sale of choline chloride decreased by approximately RMB62.2 million from approximately RMB305.9 million for the six months ended 30 June 2018 to approximately RMB243.7 million for the six months ended 30 June 2019, primarily because of the decrease in our average selling price from 2018 to 2019, partially offset by the increase in the volume sold of choline chloride in the same period. As described above, the market price of choline chloride reached the highest point in the fourth quarter of 2017 and the first quarter in 2018 and then gradually decrease after the first quarter of 2018. There were two major reasons for the further decrease in our average selling price during the six months ended 30 June 2019. First, the outbreak of African Swine Fever was still affecting the downstream swine industry. According to the public information from the Ministry of Agriculture and Rural Affairs of the PRC, the number of live pigs in stock was continuously decreasing during the six months ended 30 June 2019 by approximately 19.6% when compared to the six months ended 30 June 2018, which slowed down the growth of demand for choline chloride. In addition, during the six months ended 30 June 2019, we adjusted our price aiming to increase our market share for choline chloride in terms of quantity. According to Frost & Sullivan, our Group's average selling price for the six months ended 30 June 2019 was slightly lower as compared to the key competitors, namely Company F, Company G and Company H of approximately 2.6%, 0.7% and 3.1%, respectively. The combined effect of the above factors led to a decrease in the average selling price of choline chloride for the six months ended 30 June 2019 when compared to that for the six months ended 30 June 2018 and a decrease in revenue generated from choline chloride.

There was an increase in the volume of our choline chloride sold from approximately 82,387 tonnes for the year ended 31 December 2017 to approximately 103,123 tonnes for the year ended 31 December 2018. This was primarily because of our increasing utilisation rates for the production facilities of choline chloride from approximately 81.6% for the year ended 31 December 2017 to approximately 88.1% for the year ended 31 December 2018 at our Tai'an Production Plant and increasing utilisation rates for production facilities of animal nutrition chemicals from approximately 49.8% for the year ended 31 December 2017 to approximately 64.5% for the year ended 31 December 2018 at our Xuzhou Production Plant. Hence, we could benefit from economy of scale and sell our products at a more competitive price and with larger volume given that there had been an increasing market size of choline chloride in the PRC. Our sales volume further increased from approximately 41,903 tonnes for the six months ended 30 June 2018 to approximately 53,445 tonnes for the six months ended 30 June 2019, primarily because of our strategy aiming to increase our market share for choline chloride in terms of quantity as mentioned above and the increase in number of choline chloride customers in the PRC for the six months ended 30 June 2019. In particular, our Customer F purchased more than 4,000 tonnes of choline chloride from our Group and became our third largest customer for the six months ended 30 June 2019. Despite the outbreak of African Swine Fever which affected some feed additives manufacturers in the PRC, Customer F invested on technological advancement to improve the production equipment and material quality control of its swine feed additives production plant, introduced specific measures to curb African Swine Fever by closely monitoring the production process to ensure safety and focusing on hygiene control and promotion of bio environmentally friendly additives, and developed downstream farm customers base. Customer F was also one of the market participants which planned to strengthen their investment on swine breeding business in response to the

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government policy on resumption of stable swine production. As such, it recorded an increase in sales quantity of feed additives in the six months ended 30 June 2019, which partly led to an increase in sales volume of our choline chloride during the same period. In addition, We believe that our marketing efforts also contributed to the increase in sales volume of choline chloride for the six months ended 30 June 2019. In particular, we joined more than 10 industry exhibitions in relation to feed additives in second half of 2018 and the first half of 2019 in the PRC and overseas, in which we were able to identify and reach out the potential livestock breeding or feed additives customers, and communicate with the existing customers regarding the market trend and promote our products. Apart from the industry events, we also assigned our sales team to visit our existing customers more frequently to strengthen our relationship and gather their feedback on our products. Our Directors believe that the sales volume of choline chloride in the second half of 2019 is expected to be not less than that in the first half of 2019 and will gradually increase in the foreseeable future after the gradual ease of African Swine Fever.

Sales of betaine accounted for approximately 5.3%, 9.1%, 8.0% and 9.5% of our revenue under the animal nutrition chemicals segment for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. The revenue increased by approximately RMB31.6 million for the year ended 31 December 2017, primarily because of the increase in our average selling price and volume sold in the same year. The increase in our average selling price was primarily due to the increase in price of our raw materials, chloroacetic acid and trimethylamine. Such increase in price of the raw materials was primarily because there was a decrease in their market supply due to production suspension of various raw material suppliers for failing to comply with environmental requirements. We transferred the additional purchase costs to our customers and such increase was partially reflected in our selling price. The increase in the volume of our betaine sold from approximately 3,339 tonnes for the year ended 31 December 2016 to approximately 7,484 tonnes for the year ended 31 December 2017 was primarily because we started our production of betaine in 2015 and we had an increasing production volume of betaine at the Tai'an Production Plant from 2016 to 2017.

The revenue from sale of betaine increased by approximately RMB6.9 million for the year ended 31 December 2018, primarily because of the increase in our average selling price of betaine in the same year. The increase in our average selling price was primarily because the average price of our raw materials, chloroacetic acid and trimethylamine increased from 2017 to 2018 as a result of aforementioned production suspension of various raw material suppliers, which was partially reflected in our selling price. The volume of our betaine sold for the year ended 31 December 2018 remained relatively stable at approximately 7,261 tonnes, when compared to the corresponding sales volume of 7,484 tonnes for the year ended 31 December 2017.

The revenue from sale of betaine decreased by approximately RMB3.3 million from approximately RMB29.9 million for the six months ended 30 June 2018 to approximately RMB26.6 million for the six months ended 30 June 2019, primarily because of the decrease in our average selling price of betaine in the same period. The decrease in our average selling price was primarily because of the reduction of the average price of our raw materials in 2019 when compared to the six months ended 30 June 2018, as the price of raw materials was still at a comparatively high level during the six months ended 30 June 2018 as a result of aforementioned production suspension of various suppliers. The volume of our betaine sold for the six months ended 30 June 2019 remained relatively stable at approximately 3,710 tonnes, when compared to the corresponding sales volume of 3,603 tonnes for the six months ended 30 June 2018.

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(iii) Fine chemicals

During the Track Record Period, we principally sold oleochemicals, carboxylic acids, resins, solvents under the fine chemicals segment.

The table below sets forth a breakdown of our Group's revenue for sales of fine chemicals by major product types during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June												
	2016		2017		2018		2018		2019		2019								
	% of segment revenue	Sales volume (Tonnes)	Average selling price ⁽¹⁾ (RMB per tonne)	% of segment revenue	Sales volume (Tonnes)	Average selling price ⁽¹⁾ (RMB per tonne)	% of segment revenue	Sales volume (Tonnes)	Average selling price ⁽¹⁾ (RMB per tonne)	% of segment revenue	Sales volume (Tonnes)	Average selling price ⁽¹⁾ (RMB per tonne)							
Carboxylic acids	28.4	11,422	7,943.3	83,853	25.4	8,294	10,110.1	50,281	17.5	2,902	17,326.3	28,347	18.3	1,718	16,500.0	14,470	11.4	1,018	14,214.1
Solvents	26.3	11,185	7,508.9	65,838	19.9	5,979	11,011.5	26,193	9.1	2,467	10,617.3	16,942	10.9	1,478	11,462.8	3,685	2.9	479	7,693.1
Resins	22.2	6,888	10,313.4	66,967	20.3	4,921	13,608.4	58,222	20.3	5,210	11,175.0	34,443	22.2	2,824	12,196.5	16,589	13.1	2,086	7,952.5
Oleochemicals	16.9	10,064	5,375.1	65,011	19.7	6,023	10,793.8	51,528	18.0	5,200	9,909.2	29,782	19.2	3,104	9,594.7	26,519	21.0	2,116	12,532.6
Others ⁽²⁾	6.2	3,750	5,264.3	48,826	14.7	7,743	6,305.8	100,377	35.1	10,740	9,364.7	45,585	29.4	4,682	9,736.2	65,208	51.6	7,593	8,587.9
Total	100.0	43,309	7,379.3	330,495	100.0	32,960	10,027.2	286,801	100.0	26,519	10,814.9	155,099	100.0	13,806	11,234.2	126,471	100.0	13,292	9,514.8

Notes:

- (1) Average selling price is derived by the revenue of the respective product divided by the sales volume.
- (2) Others primarily include self-manufactured isooctanoic acid, cashew nut shell oil, cardanol and diethyl sulfate.

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Our revenue generated from sales of fine chemicals increased from approximately RMB319.6 million for the year ended 31 December 2016 to approximately RMB330.5 million for the year ended 31 December 2017, primarily because of the increase in revenue from sales of oleochemicals, offset by the decrease in revenue from sales of solvents. The increase in revenue from sales of oleochemicals was mainly attributable to the increase in sales of castor oil. The decrease in revenue from sales of solvents was mainly due to the decrease in sales volume of butyl cellosolve and cease of sales of isopropanol due to the narrow gross profit margin.

Our revenue generated from sales of fine chemicals decreased from approximately RMB330.5 million for the year ended 31 December 2017 to approximately RMB286.8 million for the year ended 31 December 2018, primarily because of the cessation of import of MIBK, which was the major product in solvents category, from Japan in 2018 due to the anti-dumping investigation in early 2017 and the imposition of anti-dumping policy in November 2017, offset by the increase in sales of isooctanoic acid and cardanol, which are our new self-manufactured fine chemical products in recent years. The revenue derived from sales of isooctanoic acid increased from approximately RMB1.3 million for the year ended 31 December 2016 to approximately RMB12.6 million and RMB42.5 million for the years ended 31 December 2017 and 2018, respectively. The revenue derived from sales of cardanol increased from nil for the year ended 31 December 2016 to approximately RMB15.1 million and RMB27.5 million for the years ended 31 December 2017 and 2018, respectively.

Our revenue generated from sales of fine chemicals decreased from approximately RMB155.1 million for the six months ended 30 June 2018 to approximately RMB126.5 million for the six months ended 30 June 2019, primarily because of (i) the decrease in revenue from sales of MIBK, as a result of both decrease in average selling price and sales volume of MIBK, and (ii) the decrease in revenue from sales of isophthalic acid, as a result of a decrease in the market price caused by the production expansion of a major manufacturer in Korea, offset by the increase in sales of isooctanoic acid and cardanol, which are our new self-manufactured fine chemical products in recent years. The revenue derived from sales of isooctanoic acid increased from approximately RMB19.9 million for the six months ended 30 June 2018 to approximately RMB27.7 million for the six months ended 30 June 2019. The revenue derived from sales of cardanol increased from approximately RMB14.6 million for the six months ended 30 June 2018 to approximately RMB26.7 million for the six months ended 30 June 2019.

Our average selling price of carboxylic acids increased from approximately RMB7,943.3 per tonne for the year ended 31 December 2016 to approximately RMB10,110.1 per tonne for the year ended 31 December 2017. Such price fluctuation for the year ended 31 December 2016 to the year ended 31 December 2017 was primarily caused by the increase in our average selling price of propionic acid, which constituted approximately 51.9%, 48.5% and 52.8% of our revenue generated from sales of carboxylic acids for the years ended 31 December 2016, 2017 and 2018, respectively. Our average selling price of propionic acid increased slightly from approximately RMB6,523.6 per tonne for the year ended 31 December 2016 to approximately RMB7,996.2 per tonne for the year ended 31 December 2017. Such increase was primarily because our major supplier for propionic acid in the PRC reduced the domestic supply in the PRC with an aim to expand the export market in 2017. Such decrease in domestic supply by this major supplier in the PRC increased our average purchase price of propionic acid, which was reflected in our selling price in the same year.

The average selling price of carboxylic acids further increased to approximately RMB17,326.3 per tonne for the year ended 31 December 2018, primary due to the price fluctuations of isononanoic acid, which constituted approximately 8.6%, 8.2% and 21.9% of our revenue generated from sales of carboxylic acid for the years ended 31 December 2016, 2017 and 2018, respectively. There were two major suppliers of isononanoic acid located in Japan and Germany, respectively. In 2016 to mid 2017, there was a stable supply of isononanoic acid in the PRC. Since July 2017 to 2018, there was a decrease in the supply of isononanoic acid in the market as a result of the decrease in the export volume of isononanoic acid from Japan to the PRC. Therefore, there was an increase in our average purchase price of isononanoic acid, which was reflected in our average selling price. In addition, isononanoic acid was primarily used in production of lubricant for electrical appliances. Due to tightening environmental requirements in 2017, many downstream electrical appliances lubricants manufacturers decided to replace their lubricants which did not involve isononanoic acid in their synthetic process with products which would require isononanoic acid as raw materials, so there was an increase in the demand for isononanoic acid sold by our Group. As a result of the aforementioned factors, including the increase in average purchase price and the increase of downstream customers which are electrical appliances

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lubricants manufacturers, our average selling price of isononanoic acid increased to approximately RMB21,773.4 per tonne and RMB37,736.2 per tonne for the years ended 31 December 2017 and 2018, respectively, when compared with RMB16,375.4 for the year ended 31 December 2016.

The average selling price of carboxylic acids decreased from approximately RMB16,500.0 per tonne for the six months ended 30 June 2018 to RMB14,214.1 per tonne for the six months ended 30 June 2019, primarily due to the decrease in sale contribution of isononanoic acid for the six months ended 30 June 2019, which had a higher average selling price when compared to other products under the carboxylic acids. The sales volume of isononanoic acid decreased from approximately 255 tonnes for the six months ended 30 June 2018 to approximately 5 tonnes for the six months ended 30 June 2019. There was no other material fluctuation in the average selling price in each of the other products under the carboxylic acids.

Our sales volume of carboxylic acids decreased from approximately 11,422 tonnes for the year ended 31 December 2016 to approximately 8,294 tonnes for the year ended 31 December 2017, primarily because of the decrease in our sales volume of propionic acid, which was a major product of our carboxylic acids, for the year ended 31 December 2017. Such decrease was primarily because of the aforementioned reduction of domestic supply by our major supplier of propionic acid in the PRC with an aim to expand the overseas market. The decrease in the volume of propionic acid supplied by this supplier to our Group led to the decrease in sales volume of our carboxylic acids for the year ended 31 December 2017.

Our sales volume of carboxylic acids further decreased from approximately 5,087 tonnes for the year ended 31 December 2017 to 2,902 tonnes for the year ended 31 December 2018, primarily because of the further decrease in our sales volume of propionic acid for the year ended 31 December 2018 when compared with the year ended 31 December 2017. Our Directors believe that such decrease was primarily because of the further decrease in domestic market supply of propionic acid by our major supplier in 2018 as a result of its aim to explore the overseas market. In addition, our Directors believe that the decrease in sales volume of carboxylic acid was caused by the decrease in volume of imported isononanoic acid supplied from Japan to the PRC since July 2017 to 2018. Such decrease in imported isononanoic acid from Japan to the PRC was primarily because the only manufacturer of isononanoic acid in Japan as advised by Frost & Sullivan, which was a major global supplier of isononanoic acid, has tightened supply of isononanoic acid in the PRC market. Since the supply of isononanoic acid in the PRC primarily depended on the two major suppliers in Japan and Germany, the decrease in supply of such product in the market would lead to the decrease in our sales volume for the year ended 31 December 2018 when compared with the year ended 31 December 2017.

Our sales volume of carboxylic acids decreased from approximately 1,718 tonnes for the six months ended 30 June 2018 to approximately 1,018 tonnes for the six months ended 30 June 2019, primarily because of the decrease in sales volume of propionic acid and isononanoic acid for the six months ended 30 June 2019. During the six months ended 30 June 2019, to the best knowledge of our Directors, one of the major manufacturers of propionic acid had expanded its production volume by more than 40%. As a result, the demand of propionic acid from our downstream customers decrease as our Directors believe that the downstream customers anticipate that there would be a decrease in market price of propionic acid given the increase in supply. The decrease in demand led to decrease in gross profit of propionic acid and the sales volume of propionic acid decreased from approximately 1,277 tonnes for the six months ended 30 June 2018 to approximately 811 tonnes for the six months ended 30 June 2019. The decrease in sales volume of isononanoic acid was primarily because some of our customers in manufacturing of cutting fluid replaced isononanoic acid with octanoic acid as the raw materials for producing cutting fluid in 2019.

Our average selling price of solvents increased from approximately RMB7,508.9 per tonne for the year ended 31 December 2016 to approximately RMB11,011.5 per tonne for the year 31 December 2017, primarily due to the price fluctuations of MIBK, which constituted approximately 63.8%, 82.0% and 74.9% of our revenue generated from solvents for the years ended 31 December 2016, 2017 and 2018, respectively. Our average price of MIBK increased from approximately RMB8,005.0 per tonne for the year ended 31 December 2016 to approximately RMB11,115.4 per tonne for the year ended 31 December 2017, primarily because there was a decrease in the market supply of MIBK in the PRC. Since there were less than 10 domestic MIBK manufacturers in the PRC, the market supply depended on these manufacturers and the imported products. As the production facilities with annual production capacity of 15,000 tonnes each of two domestic manufacturers, which were our competitors, experienced

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suspension since April 2016 and there was cessation of import for MIBK from Japan after the anti-dumping investigation and before the imposition of anti-dumping policy in 2017, the market supply of MIBK in the PRC decreased in 2017, which led to the increase in the market price. Such increase in the market price of MIBK was reflected in our average selling price in 2017. Our average selling price for solvents remained relatively stable for the year ended 31 December 2018 when compared with the preceding year. Our average selling price of solvents decreased from approximately RMB11,462.8 per tonne for the six months ended 30 June 2018 to approximately RMB7,693.1 per tonne for the six months ended 30 June 2019, primarily because of the decrease in our average selling price of MIBK from approximately RMB10,977.6 per tonne for the six months ended 30 June 2018 to approximately RMB6,935.6 per tonne for the six months ended 30 June 2019, which was due to a decrease in our cost of purchase of MIBK as a result of the decrease in market price of acetone, which was the raw material for production of MIBK.

The sales volume of solvents decreased from approximately 11,185 tonnes for the year ended 31 December 2016 to approximately 5,979 tonnes for the year ended 31 December 2017, primarily due to the decrease in sales volume of butyl glycol ether and MIBK. The decrease in sales volume of butyl glycol ether in the year ended 31 December 2017 was primarily because a supplier headquartered in Saudi Arabia commenced operation for its production facilities of butyl glycol ether with annual production capacity of 200,000 tonnes in 2017. In light of the uncertainty about the potentially increasing competition, our Group decided to reduce the procurement of butyl glycol ether and therefore our sales volume of butyl glycol ether decreased accordingly for the year ended 31 December 2017 when compared with the year ended 31 December 2016. In respect of MIBK, when the two of the largest domestic manufacturers, which were our competitors in the PRC, experienced production suspension since April 2016, there was an increase in demand for our MIBK which was primarily imported from Japan. This led to a relatively higher sales volume of our MIBK for the year ended 31 December 2016 when compared with the year ended 31 December 2017 in which we ceased the import of MIBK from Japan after the anti-dumping investigation in early 2017 and before the imposition of the anti-dumping policy in November 2017.

There was a further decrease in our sales volume of solvents to approximately 2,467 tonnes for the year ended 31 December 2018 because of the decrease in sales volume of MIBK for the year ended 31 December 2018. Such decrease was primarily due to the imposition of anti-dumping policy in November 2017, which led to the Group's cessation of import of MIBK from Japan throughout the full year of 2018.

Our sales volume of solvents decreased from approximately 1,478 tonnes for the six months ended 30 June 2018 to approximately 479 tonnes for the six months ended 30 June 2019, primarily because of the decrease in sales volume of MIBK from approximately 1,183 tonnes for the six months ended 30 June 2018 to approximately 343 tonnes for the six months ended 30 June 2019. In early 2018, after the cessation of import of MIBK from Japan, we procured MIBK from other countries such as Korea and the PRC. However, given the narrow gross profit, we decided to reduce the sales volume of MIBK in 2019.

The revenue generated from sales of castor oil constituted approximately 60.1%, 75.3%, 77.3% and 96.2% of our revenue generated from sales of oleochemicals for the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019, respectively. Therefore, the fluctuation of our average selling price of oleochemicals during the Track Record Period was primarily because of the fluctuation of our average selling price of castor oil. Our average selling price of castor oil increased from approximately RMB8,682.3 per tonne for the year ended 31 December 2016 to approximately RMB11,992.4 per tonne for the year ended 31 December 2017. As the majority of castor oil is sourced from agricultural production in India, the increase in imported volume of castor oil in the PRC from India in 2016 led to the increase in market supply of castor oil in PRC in 2016. As there was an increase in market supply of castor oil, we were able to purchase castor oil at a lower market price in the same year and resulted in a lower selling price of castor oil for the year ended 31 December 2016. Our average selling price for castor oil and oleochemicals remained relative stable for the year ended 31 December 2018 when compared with the preceding year. Our average selling price of castor oil increased from approximately RMB10,563.7 per tonne for the six months ended 30 June 2018 to approximately RMB13,418.2 per tonne for the six months ended 30 June 2019, primarily driven by the increase in market price as the overall supply of castor oil in the PRC reduced due to the lower imported volume from India, which was primarily caused by rainfall and water deficit for irrigation.

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The sales volume of oleochemicals sold by our Group decreased from approximately 10,064 tonnes for the year ended 31 December 2016 to approximately 6,023 tonnes for the year ended 31 December 2017, primarily because of the decrease in sales volume of glycerol. Such decrease was primarily because the gross profit margin of glycerol was relatively lower than other products. Therefore, our Group decided to reduce procurement of glycerol from third party manufacturers for sales in 2017. In addition, we provided more stringent credit terms for our customer of glycerol in 2017, which led to the decrease in demand for this product in the same year. Our sales volume of oleochemicals further decreased from approximately 6,023 tonnes for the year ended 31 December 2017 to approximately 5,200 tonnes for the year ended 31 December 2018, primarily because of the decrease in sales volume of castor oil for the year ended 31 December 2018. Our Directors believe that such decrease was primarily because some of our customers in 2017 did not place recurring orders with us for castor oil in 2018. Our sales volume of oleochemicals decreased from approximately 3,104 tonnes for the six months ended 30 June 2018 to approximately 2,116 tonnes for the six months ended 30 June 2019, primarily because of the decrease in sales volume of lauric acid (which accounted for our revenue of approximately RMB7.4 million for the six months ended 30 June 2018) from approximately 923 tonnes for the six months ended 30 June 2018 to nil for the six months ended 30 June 2019. Our Directors believe the demand for lauric acid from our downstream customers decreased after the determination that palm kernel oil, which is the raw material of lauric acid, is not a green fuel by European Commission. Thus our Directors anticipated that there would be a decrease in the market demand of lauric acid, and as a result, we decided to cease the sale of lauric acid in 2019.

Our sales volume of resins decreased from approximately 6,888 tonnes for the year ended 31 December 2016 to approximately 4,921 tonnes for the year ended 31 December 2017 primarily because we decided to reduce our procurement of isophthalic acid as a result of a decreasing downstream demand for our isophthalic acid since the second quarter of 2017, after the continuous increase in market price of isophthalic acid in 2016. Our sales volume of resins remained relatively stable at approximately 5,210 tonnes for the year ended 31 December 2018 when compared with the preceding year. Our sales volume of resins decreased from approximately 2,824 tonnes for the six months ended 30 June 2018 to approximately 2,086 tonnes for the six months ended 30 June 2019 primarily because of the further decrease in sales volume of isophthalic acid from approximately 1,728 tonnes for the six months ended 30 June 2018 to 1,210 tonnes for the six months ended 30 June 2019. In addition, the average selling price of isophthalic acid also decreased from approximately RMB12,315.4 per tonne for the six months ended 30 June 2018 to RMB6,950.1 per tonne for the six months ended 30 June 2019. The decrease in average selling price was primarily because the market expected that there would be an increasing supply in isophthalic acid as a result of the ongoing production expansion of a major manufacturer in Korea from 460,000 tonnes per annum to 840,000 tonnes per annum. Due to the narrow gross profit of isophthalic acid, we reduced the sales volume of isophthalic acid for the six months ended 30 June 2019.

Revenue generated from other fine chemicals mainly represented the revenue derived from self-manufactured products including isooctanoic acid, cardanol and diethyl sulfate. Revenue contribution from others increased gradually during the Track Record Period as there was an increase in sales volume of isooctanoic acid and cardanol, which were our new self-manufactured fine chemical products in recent years and in aggregate contributed revenue of approximately RMB34.5 million and RMB54.5 million for the six months ended 30 June 2018 and 2019, respectively. The sales volume of isooctanoic acid and cardanol increased from approximately 1,668 tonnes for the six months ended 30 June 2018 to 2,516 tonnes for the six months ended 30 June 2019, and from approximately 2,086 tonnes for the six months ended 30 June 2018 to 4,187 tonnes for the six months ended 30 June 2019, respectively. We kept expanding the market of our self-manufactured fine chemical products. For example, in 2019, we have built up a business relationship for sale of our self-manufactured cardanol to a Korean company, which is a major curing agent manufacturer in Korea. To the best knowledge of our Directors, the annual consumption of this Korean manufacturer would be approximately 6,000 tonnes and our sales volume to this customer was approximately 1,100 tonnes for the six months ended 30 June 2019.

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(iv) *Pharmaceutical products and intermediates*

During the Track Record Period, we principally sold iodine, iodine derivatives and pharmaceutical products under the pharmaceutical products and intermediates segment.

The table below sets forth a breakdown of our Group's revenue for sales of pharmaceutical products and intermediates by major product types during the Track Record Period:

	For the year ended 31 December					For the six months ended 30 June														
	2016		2017		2018		2018		2019											
	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue	Average selling price ⁽¹⁾ (RMB per tonne)	Sales volume (Tonnes)	% of segment revenue										
Iodine	37,303	16.7	246	151,638.2	37,074	17.4	241	153,834.0	56,600	20.9	298	189,932.9	17,055	13.9	97	175,824.7	76,568	39.6	360	212,688.9
Iodine derivatives ⁽²⁾	75,077	33.7	666	112,728.2	72,052	33.8	569	126,629.2	122,964	45.4	948	129,708.9	51,734	42.1	402	128,741.3	86,423	44.7	586	147,479.5
Pharmaceutical products ⁽³⁾	99,876	44.8	N/A	N/A	96,981	45.5	N/A	N/A	87,363	32.3	N/A	N/A	51,691	42.1	N/A	N/A	29,310	15.2	N/A	N/A
Others ⁽⁴⁾	10,899	4.8	N/A	N/A	6,877	3.3	N/A	N/A	3,723	1.4	N/A	N/A	2,342	1.9	N/A	N/A	982	0.5	N/A	N/A
Total	223,155	100.0	N/A	N/A	212,984	100.0	N/A	N/A	270,650	100.0	N/A	N/A	122,842	100.0	N/A	N/A	193,283	100.0	N/A	N/A

Notes:

- (1) Average selling price is derived by the revenue of the respective product divided by the sales volume.
- (2) Iodine derivatives primarily include potassium iodide, sodium iodide, calcium iodate, potassium iodate, hydroiodic acid and EDDI.
- (3) Sales volume and average selling price of pharmaceutical products and others is not available as there is no standard unit of measurement for sales volume of pharmaceutical products and others.
- (4) Others primarily include tetrahydrofuran, potassium carbonate and acetone.

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During the Track Record Period, sales of iodine and iodine derivatives accounted for approximately 50.4%, 51.2%, 66.3% and 84.3% of our revenue under the pharmaceutical products and intermediates segment, respectively; sales of pharmaceutical products accounted for more than 30% of our revenue under the pharmaceutical products and intermediates segment for the years ended 31 December 2016, 2017 and 2018 and approximately 15% for the six months ended 30 June 2019; and sales of other intermediates accounted for approximately less than 5% of our revenue under the pharmaceutical products and intermediates segment for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Our revenue generated from sales of pharmaceutical products and intermediates decreased from approximately RMB223.2 million for the year ended 31 December 2016 to approximately RMB213.0 million for the year ended 31 December 2017, primarily because of the decrease in sales volume of iodine and iodine derivatives as a result of the increasingly stringent environmental protection requirements in relation to air quality supervision on pharmaceutical intermediates enterprises imposed by the government to our downstream pharmaceutical intermediate customers, leading to a decrease in the demand for our iodine and iodine derivatives, which outweighed the slight increase in average selling price of our respective products.

Our revenue generated from sales of pharmaceutical products and intermediates increased from approximately RMB213.0 million for the year ended 31 December 2017 to approximately RMB270.7 million for the year ended 31 December 2018, primarily because of the increase in both of the sales volume and average selling price of iodine and iodine derivatives. The increase in our average selling price of our iodine and iodine derivatives was primarily due to the increase in average purchase price of iodine from the third party manufacturers from the third quarter of 2017 to 2018, which was partially reflected in our selling price. Such fluctuation in the market price of iodine was primarily due to change in the market supply of iodine. In 2016, the market price of iodine decreased due to fierce competition for market share between manufacturers in Chile. There was a reduced iodine production by some manufacturers in Chile. The effect for reduction of supply of iodine in the market was reflected in the second quarter of 2017. Such reduction of supply, together with the closure of water extraction wells which are used for production of iodine by one of the major suppliers in Chile, led to the increase of market price of iodine since the third quarter of 2017. The increase in the volume of our iodine derivatives sold for the year ended 31 December 2018 was primarily because we had an increasing production volume of hydroiodic acid in Tai'an, which is our new self-manufactured fine chemical products in 2015, as well as an increasing demand and sales volume for our hydroiodic acid produced in the PRC since the implementation of temporary anti-dumping measures on imported hydroiodic acid from the U.S. and Japan commenced in late June 2018.

Our revenue generated from sales of pharmaceutical products and intermediates increased from approximately RMB122.8 million for the six months ended 30 June 2018 to approximately RMB193.3 million for the six months ended 30 June 2019, primarily because of the increase in both of the sales volume and average selling price of iodine and iodine derivatives. There was an increase in the aggregate revenue from our five largest customers of iodine. We derived approximately RMB51.7 million from these customers for the six months ended 30 June 2019, representing approximately 67.6% of our revenue for sale of iodine during the same period, when compared with the revenue of approximately RMB14.0 million from our five largest customers of iodine for the six months ended 30 June 2018, representing approximately 82.3% of our revenue for sale of iodine during the same period. For iodine derivatives, revenue from our five largest customers of these products for the six months ended 30 June 2019 also increased to approximately RMB21.0 million, representing approximately 24.3% of our revenue for sale of iodine derivatives during the same period, when compared with the revenue of approximately RMB20.5 million from our five largest customers of iodine derivatives for the six months ended 30 June 2018, representing approximately 39.6% of our revenue for sale of iodine derivatives during the same period. The increase in our average selling price of our iodine and iodine derivatives was primarily due to (i) the decrease in market supply of iodine as a result of the remained market concern on the continued closure of water extraction well in Salar de Llamara by one of the major suppliers in Chile and (ii) the increasing demand for iodine and iodine derivatives from our existing customers in the downstream industries, especially in the flourine chemical and pharmaceutical industry, and contrast agent industry, respectively. For instance, import value of opacifying preparation used in X-ray contrast increased by approximately 38.7% in the first half of 2019 compared with that of 2018, which indicated the growing demand for related products to manufacture X-ray contrast agent. In terms of sales volume, to minimise the impact brought by the aforementioned decrease in market supply of iodine, we entered into sales agreements with our fourth largest supplier (in terms of purchase amount for the six months ended 30 June 2019), which was one of the major suppliers in Chile, and our fifth largest supplier (in terms of purchase amount for the six months ended 30 June 2019) to enable us to purchase a guaranteed quantity of iodine at specified range of price for certain period. Iodine is commonly used in production of fluorocarbon surfactant, which is widely applied in different industries including aircraft, electronics, food processing, building, paints and coatings. As one of the largest importers of iodine in the PRC, our sales volume increased upon the increase in demand of iodine in the PRC. In addition, the increase in sales volume of iodine derivatives for the six months ended 30 June 2019 resulted from the increase in demand from our downstream customers, such as the increase in sales

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volume of potassium iodate as a result of increasing demand from our existing customers in contrast agent industry, which may use iodine derivatives to manufacture contrast medium in image diagnosis technology. As advised by Frost & Sullivan, there had been consecutive increase in the import price of iodine in the PRC from January to September 2019, mainly attributable to the rising demand of iodine which was further applied in manufacturing X-ray contrast agent and the civil unrest in Chile which might affect the delivery of iodine led to tight supply in the PRC. Therefore, it is expected that there will be continuous growth in the price of iodine in the foreseeable future.

Total revenue by geographical locations

During the Track Record Period, we sold our products through our operations primarily in the PRC, Europe, Vietnam, India, the United States and Canada to customers in more than 50 countries.

The table below sets forth our total sales in terms of geographical locations of our customers during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016	2017		2018		2018	2019			
	RMB'000	% of segment revenue	RMB'000	% of segment revenue	RMB'000	% of segment revenue	RMB'000 (unaudited)	% of segment revenue	RMB'000	% of segment revenue
PRC	1,394,359	86.8	1,858,675	85.3	1,677,947	78.0	852,046	79.3	718,752	76.8
Europe ⁽¹⁾	89,894	5.6	118,527	5.4	191,242	8.9	98,045	9.1	65,413	7.0
Other countries in Asia (excluding the PRC and Vietnam) ⁽²⁾	48,249	3.0	80,655	3.7	88,098	4.1	41,038	3.8	41,069	4.4
Vietnam	46,768	2.9	75,760	3.5	127,842	5.9	55,061	5.1	69,936	7.5
Others ⁽³⁾	27,559	1.7	45,432	2.1	67,817	3.1	28,737	2.7	40,103	4.3
Total	1,606,829	100.0	2,179,049	100.0	2,152,946	100.0	1,074,927	100.0	935,273	100.0

Notes:

- (1) Our customers in Europe primarily include customers located in Russia, Ukraine, France and Belgium.
- (2) Our customers in Asia (excluding the PRC and Vietnam) primarily include customers located in India, Pakistan and Taiwan.
- (3) Other customers in other countries primarily include customers located in Brazil, the United States and Canada.

Our revenue derived from the PRC contributed approximately 86.8%, 85.3%, 78.0% and 76.8% for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. It increased from approximately RMB1,394.4 million for the year ended 31 December 2016 to approximately RMB1,858.7 million for the year ended 31 December 2017, primarily because of the aforementioned increases in our revenue generated from sales of choline chloride and polymeric MDI. Such increase was primarily caused by increase in average selling price of the products as a result of slower growth or decrease in supply of relevant products in the market. Our revenue derived from the PRC decreased from approximately RMB1,858.7 million for the year ended 31 December 2017 to approximately RMB1,677.9 million for the year ended 31 December 2018, primarily because decrease in revenue from sale of polyurethane materials and fine chemicals by RMB251.9 million and RMB39.5 million, respectively, offset by the increase in the revenue from sale of animal nutrition chemicals and pharmaceutical products and intermediates by RMB61.1 million and RMB48.4 million, respectively. Our revenue derived from the PRC decreased from approximately RMB852.0 million for the six months ended 30 June 2018 to approximately RMB718.8 million for the six months ended 30 June 2019, primarily because of the decrease in revenue from sale of polyurethane materials, animal nutrition chemicals and fine chemicals by RMB138.6 million, RMB24.1 million and RMB40.1 million, respectively, offset by the increase in the revenue from sale of pharmaceutical products and intermediates by RMB70.3 million. Given that the revenue derived from the PRC constitutes a substantial portion of our total revenue, the fluctuations in revenue of sales in the PRC for our business segments of polyurethane materials, fine chemicals and animal nutrition chemicals are in line with the fluctuations in the overall revenue of each of these segments.

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Our revenue derived from Europe increased from approximately RMB89.9 million for the year ended 31 December 2016 to approximately RMB118.5 million for the year ended 31 December 2017, primarily because of the increase in number of our Russian and Ukrainian customers from 17 for the year ended 31 December 2016 to 25 for the year ended 31 December 2017 mainly in respect of our choline chloride products, leading to an increase in sales from these two countries from approximately RMB58.3 million for the year ended 31 December 2016 to approximately RMB87.7 million for the year ended 31 December 2017. Our revenue derived from Europe increased from approximately RMB118.5 million for the year ended 31 December 2017 to approximately RMB191.2 million for the year ended 31 December 2018, primarily because we explored new choline chloride customers in Europe countries such as Denmark, Hungary, the United Kingdom and continued to expand our market share in other Europe countries for the year ended 31 December 2018. Besides, we also strived to expand our market share in Russia and Ukraine. The total sales of choline chloride in the two countries increased from approximately RMB58.8 million for the year ended 31 December 2017 to approximately RMB88.7 million for the year ended 31 December 2018 and the number of customers in respect of our choline chloride products in these two countries further increased to 52 for the year ended 31 December 2018. Our revenue derived from Europe decreased from approximately RMB98.0 million for the six months ended 30 June 2018 to approximately RMB65.4 million for the six months ended 30 June 2019, primarily because of the decrease in sales of our animal nutrition chemicals in Russia from approximately RMB40.3 million for the six months ended 30 June 2018 to approximately RMB21.3 million for the six months ended 30 June 2019. As the PRC was the major exporter of choline chloride to Russia, the price of choline chloride sold in Russia was closely related to the market price of choline chloride in the PRC. The decrease in the price of choline chloride in Russia for the six months ended 30 June 2019 was in line with the trend in the PRC.

Our revenue derived from Asia (excluding the PRC and Vietnam) increased from approximately RMB48.2 million for the year ended 31 December 2016 to approximately RMB80.7 million for the year ended 31 December 2017, primarily because of the increase in sales derived from India from approximately RMB14.3 million for the year ended 31 December 2016 to approximately RMB29.2 million for the year ended 31 December 2017, resulting from (i) increase in demand from India due to the continuous anti-dumping policy in India concerning imports of choline chloride originating in or exported from the PRC; and (ii) increasing average selling price of polymeric MDI from approximately RMB11,389.8 per tonne for the year ended 31 December 2016 to approximately RMB22,059.1 per tonne for the year ended 31 December 2017. Our revenue derived from Asia (excluding the PRC and Vietnam) increased from approximately RMB80.7 million for the year ended 31 December 2017 to approximately RMB88.1 million for the year ended 31 December 2018, primarily because of the increase in sales of animal nutrition chemicals derived from Philippine and India from approximately RMB7.2 million for the year ended 31 December 2017 to approximately RMB23.3 million for the year ended 31 December 2018, resulting from our expansion of business in southeast Asia region as well as the increasing demand of choline chloride from our customers. Our revenue derived from Asia (excluding the PRC and Vietnam) remained relatively stable at approximately RMB41.0 million and RMB41.1 million for the six months ended 30 June 2018 and 2019, respectively, primarily resulted from the net effect of (i) increase in sales of cardanol to Korea of approximately RMB4.6 million as aforementioned, and (ii) decrease in revenue from sales of polyurethane materials and animal nutrition chemicals due to the decrease in market price of the respective products as aforementioned.

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Our revenue derived from Vietnam increased from approximately RMB46.8 million for the year ended 31 December 2016 to approximately RMB75.8 million for the year ended 31 December 2017, primarily because of the increase in number of our Vietnam customers from 33 for the year ended 31 December 2016 to 41 for the year ended 31 December 2017. In addition, we put more effort in exploring the sales market in Vietnam after the commencement of operation of our production plant in 2013 and production in 2016, which led to a gradual increase in the sales volume in Vietnam. Our revenue derived from Vietnam increased from approximately RMB75.8 million for the year ended 31 December 2017 to approximately RMB127.8 million for the year ended 31 December 2018, primarily because of (i) the increase in revenue of polymer polyether from approximately RMB30.1 million for the year ended 31 December 2017 to approximately RMB66.9 million for the year ended 31 December 2018; and (ii) the increase in revenue of choline chloride from approximately RMB32.8 million for the year ended 31 December 2017 to approximately RMB38.8 million for the year ended 31 December 2018, which was due to the further increase in number of our Vietnam customers in respect of our choline chloride products to 62 for the year ended 31 December 2018. Our revenue derived from Vietnam increased from approximately RMB55.1 million for the six months ended 30 June 2018 to approximately RMB69.9 million for the six months ended 30 June 2019, primarily because of the increase in revenue of polymer polyether from approximately RMB24.1 million for the six months ended 30 June 2018 to approximately RMB41.3 million for the six months ended 30 June 2019, as a result of the increasing sales to our polymer polyether customers engaging in the roofing industry. To the best knowledge of our Directors, as there is an increasing market demand for our polymer polyether which was made without ozone-depleting freon, we were able to increase the number of our polymer polyether customers in Vietnam from five for the six months ended 30 June 2018 to 11 for the six months ended 30 June 2019.

Our revenue derived from other geographical locations which primarily include Brazil, the United States and Canada increased from approximately RMB27.6 million for the year ended 31 December 2016 to approximately RMB45.4 million for the year ended 31 December 2017. Our Directors believe that this was primarily because there was an increase in demand in the United States for using choline chloride as clay stabiliser in oil and gas production industry and the number of our customers in the United States primarily in respect of our choline chloride products, increased from four for the year ended 31 December 2016 to 12 for the year ended 31 December 2017 as a result of our overseas market development. Our revenue derived from other geographical locations increased from approximately RMB45.4 million for the year ended 31 December 2017 to approximately RMB67.8 million for the year ended 31 December 2018, primarily because of the increase in revenue for sale of choline chloride in Brazil from approximately RMB14.6 million for the year ended 31 December 2017 to approximately RMB24.5 million for the year ended 31 December 2018, which was due to the increase in the numbers of our customers in Brazil, primarily in respect of our choline chloride products, increased from five for the year ended 31 December 2017 to seven for the year ended 31 December 2018 as a result of our overseas market development and the increasing demand for high yield of meat, egg and milk products from animals in Brazil, which in turn drive the demand for choline chloride. Our revenue derived from other geographical locations increased from approximately RMB28.7 million for the six months ended 30 June 2018 to approximately RMB40.1 million for the six months ended 30 June 2019, primarily because of the increase in revenue for sale of animal nutrition chemicals in the United States and Canada from approximately RMB5.8 million for the six months ended 30 June 2018 to approximately RMB20.4 million for the six months ended 30 June 2019, which was due to the increase in sales volume, especially in choline chloride and other products such as feed additive mixture, from approximately 660 tonnes for the six months ended 30 June 2018 to approximately 3,019 tonnes for the six months ended 30 June 2019, partially offset by the decrease in average selling price of the products as explained above. The increase in sales volume in the United States and Canada mainly resulted from increase in number of downstream feed additives customers from 21 to 32.

Cost of sales

Our cost of sales comprises mainly cost of raw materials and inventories, staff costs, manufacturing overheads, depreciation and others. Cost of raw materials and inventories is our main cost of sales, accounting for approximately 96.9%, 96.7%, 95.4% and 94.8% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Staff costs mainly comprise salaries, wages and social insurance costs for those who are directly involved in the production and the management team of the production plants.

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The following table sets forth, for the years indicated, a breakdown of our cost of sales by nature:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Cost of raw materials and inventories	1,396,860	96.9	1,800,774	96.7	1,758,656	95.4	853,116	95.4	771,358	94.8
Manufacturing overheads	14,941	1.0	20,276	1.1	25,419	1.4	11,599	1.3	14,211	1.7
Staff costs	11,346	0.8	16,084	0.9	35,418	1.9	16,978	1.9	17,572	2.2
Depreciation	8,449	0.6	11,843	0.6	12,553	0.7	6,701	0.7	6,485	0.8
Others ^(Note)	10,267	0.7	12,461	0.7	11,338	0.6	6,006	0.7	3,683	0.5
Total	1,441,863	100.0	1,861,438	100.0	1,843,384	100.0	894,400	100.0	813,309	100.0

Note: Other cost of sales primarily includes transportation costs for raw materials and inventories.

Driven by the increase in revenue from the aggregate sales of polyurethane materials and animal nutrition chemicals by approximately 54.0% from approximately RMB1,055.3 million for the year ended 31 December 2016 to approximately RMB1,625.4 million for the year ended 31 December 2017, our cost of raw materials and inventories correspondingly increased by approximately 28.9% from RMB1,396.9 million for the year ended 31 December 2016 to approximately RMB1,800.8 million for the year ended 31 December 2017.

Our cost of raw materials and inventories decreased from approximately RMB1,800.8 million for the year ended 31 December 2017 to approximately RMB1,758.7 million for the year ended 31 December 2018. The slight decrease in our cost of raw materials and inventory by approximately 2.4% for the year ended 31 December 2018 when compared with the preceding year was driven by the decrease in cost of raw materials and inventories incurred in polyurethane materials segment as a result of decreasing market price of the products, offset by the increase in cost of raw materials and inventories in animal nutrition chemicals segment and pharmaceutical products and intermediates segment, which was in line with the increase in revenue in the respective segments.

Our cost of raw materials and inventories decreased from approximately RMB853.1 million for the six months ended 30 June 2018 to approximately RMB771.4 million for the six months ended 30 June 2019. The decrease in our cost of raw materials and inventory by approximately 9.6% for the six months ended 30 June 2019 when compared with the preceding period was driven by the decrease in cost of sales, consisting of cost of raw materials and inventories incurred in polyurethane materials segment and fine chemicals segment as a result of decreasing market price of the products, offset by the increase in cost of sales, consisting of cost of raw materials and inventories in pharmaceutical products and intermediates segment, which was in line with the increase in revenue in the respective segment.

The table below sets forth the breakdown of our cost of sales by business segments during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Polyurethane materials	679,459	47.1	1,015,113	54.6	829,240	45.0	414,907	46.5	289,628	35.6
Animal nutrition chemicals	270,082	18.7	358,099	19.2	498,475	27.0	219,496	24.5	237,689	29.2
Fine chemicals	277,509	19.3	293,871	15.8	268,368	14.6	144,190	16.1	112,799	13.9
Pharmaceutical products and intermediates	206,822	14.3	186,583	10.0	237,828	12.9	110,955	12.4	169,193	20.8
Others ^(Note)	7,991	0.6	7,772	0.4	9,473	0.5	4,852	0.5	4,000	0.5
Total	1,441,863	100.0	1,861,438	100.0	1,843,384	100.0	894,400	100.0	813,309	100.0

Note: Others primarily refer to the cost incurred from our transportation of hazardous chemicals for third parties in Nanjing.

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Our total cost of sales increased by approximately RMB419.6 million or 29.1% for the year ended 31 December 2017 primarily due to the aggregate increase in cost of sales from the segments of polyurethane materials and animal nutrition chemicals in the same year as detailed below.

The increase in our cost of sales of polyurethane materials and animal nutrition chemicals of approximately 49.4% and 32.6%, respectively, for the year ended 31 December 2017 was primarily due to the corresponding increase in cost of raw materials and inventories sold resulting from the increase in revenue from sales of polyurethane materials and animal nutrition chemicals of approximately 49.5% and 64.0% during the corresponding year, respectively.

Our total cost of sales remained relatively stable at approximately RMB1,861.4 million and RMB1,843.4 million for the years ended 31 December 2017 and 2018, respectively, primarily due to increase in cost of sales from the segments of animal nutrition chemicals and pharmaceutical products and intermediates, offset by the decrease in cost of sales from the segments of polyurethane materials. The fluctuations in cost of sales in these segments was in line with the fluctuations of revenue in the corresponding segments for the year ended 31 December 2018, when compared to the year ended 31 December 2017.

Our total cost of sales decreased from approximately RMB894.4 million for the six months ended 30 June 2018 to approximately RMB813.3 million for the six months ended 30 June 2019, primarily due to decrease in cost of sales from polyurethane materials segment and fine chemicals segment, offset by the increase in cost of sales from animal nutrition chemicals segment and pharmaceutical products and intermediates segment. The fluctuations in cost of sales in polyurethane materials segment, fine chemicals segment and pharmaceutical products and intermediates segment were in line with the fluctuations of revenue in the corresponding segments for the six months ended 30 June 2019, when compared to the six months ended 30 June 2018. The increase in cost of sales from animal nutrition chemicals segment was mainly due to the increasing sales volume of choline chloride for the six months ended 30 June 2019 partially, offset by the decreasing unit cost of production of choline chloride as a result of decreasing purchase cost of the respective raw materials.

Gross profit and gross profit margin

The table below sets forth a breakdown of gross profit and gross profit margin by business segments during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	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)									
Polyurethane materials	49,133	6.7	74,435	6.8	52,323	5.9	36,299	8.0	42,277	12.7
Animal nutrition chemicals	56,610	17.3	177,749	33.2	204,182	29.1	120,833	35.5	41,217	14.8
Fine chemicals	42,081	13.2	36,624	11.1	18,433	6.4	10,909	7.0	13,672	10.8
Pharmaceutical products and intermediates	16,333	7.3	26,401	12.4	32,822	12.1	11,887	9.7	24,090	12.5
Others ^(Note)	809	9.2	2,402	23.6	1,802	16.0	599	11.0	708	15.0
Total	164,966	10.3	317,611	14.6	309,562	14.4	180,527	16.8	121,964	13.0

Note: Others mainly include gross profit and gross profit margin for our transportation of hazardous chemicals for third parties in Nanjing.

As a result of the changes in revenue and cost of sales, our gross profit increased by approximately RMB152.6 million or 92.5% from approximately RMB165.0 million for the year ended 31 December 2016 to RMB317.6 million for the year ended 31 December 2017. Our gross profit margin increased from approximately 10.3% for the year ended 31 December 2016 to approximately 14.6% for the year ended 31 December 2017, which was mainly due to the higher revenue contribution from the animal nutrition chemicals segment with higher gross profit margin in 2017.

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Our gross profit slightly decreased by approximately RMB8.0 million or 2.5% from approximately RMB317.6 million for the year ended 31 December 2017 to approximately RMB309.6 million for the year ended 31 December 2018. Our overall gross profit margin remained relatively stable at approximately 14.6% and 14.4% for the years ended 31 December 2017 and 2018, which was mainly due to the increasing portion of revenue derived from animal nutrition chemicals segment, which generated the highest gross profit margin among all segments, offset by the decrease in gross profit margin of fine chemical segment due to the competitive business environment. The details for the fluctuations in the gross profit margin for our segments are further discussed below.

Our gross profit decreased by approximately RMB58.6 million or 32.4% from approximately RMB180.5 million for the six months ended 30 June 2018 to approximately RMB122.0 million for the six months ended 30 June 2019. Our overall gross profit margin decreased from 16.8% for the six months ended 30 June 2018 to approximately 13.0% for the six months ended 30 June 2019, which was mainly due to the decrease in gross profit and gross profit margin derived from animal nutrition chemicals segment, which generated the highest gross profit margin among all segments, as a result of the decreasing average selling price due to the outbreak of African Swine Fever and our adjustment on price aiming to increase our market share in terms of quantity as mentioned above, offset by the increase in gross profit margin of polyurethane materials segment, fine chemical segment and pharmaceutical products and intermediates segment. The details for the fluctuations in the gross profit margin for our segments are further discussed below.

For the polyurethane materials segment, our gross profit margin remained stable at approximately 6.7% and 6.8%, respectively, for the years ended 31 December 2016 and 2017. Our gross profit margin decreased from approximately 6.8% for the year ended 31 December 2017 to approximately 5.9% for the year ended 31 December 2018, primarily due to decrease in gross profit margin of polymeric MDI, which are products manufactured by third party manufacturers and constituted more than 50% of our segment revenue for the year ended 31 December 2018, from approximately 5.9% for the year ended 31 December 2017 to approximately 4.0% for the year ended 31 December 2018. Such decrease in gross profit margin of polymeric MDI was primarily because of the decreasing trend of selling price of MDI, which outweighed the decrease in the average cost of purchase of MDI from 2017 to 2018. Our gross profit margin increased from approximately 8.0% for the six months ended 30 June 2018 to approximately 12.7% for the six months ended 30 June 2019, primarily because as we (a) managed a lower extent of decrease in our selling price in polyurethane materials as compared to the decrease in our purchase cost, which mainly reflected the market price as advised by Frost & Sullivan. For instance, the decrease in our average selling price of TDI in the six months ended 30 June 2019 as compared to the preceding six-month period was over 9% less than the corresponding decrease in our average purchase costs; and (b) achieved higher level of sales volume in TDI and polymer polyether as mainly attributed to the increase in purchase volume from existing customers and sales made to new customers. In particular, both the gross profit margin and the revenue contribution of polymer polyether, being our self-manufactured product, increased during the six months ended 30 June 2019 as a result of the increase in demand for our polymer polyether, which our Directors believe that such increase in demand was primarily because our polymer polyether was made without ozone-depleting freon. In addition, the market prices of our major products sourced from third party manufacturers, such as polymeric MDI and TDI, dropped to the lowest level in December 2018 or early 2019, and remained relatively stable in the second quarter of 2019. Since our Group typically prices the products manufactured by third party manufacturers on a markup pricing basis, where a similar amount of profit is charged regardless of the level of our purchase costs and such practice is consistent with the industry norm as confirmed by Frost & Sullivan, we were able to derive more favourable gross profit margin as the market price was at low level, whereas during the six months ended 30 June 2018, the market price was at higher level and on a continuous downward price trend, the profit margin made during that period was comparably minimal. As we have been improving customer services over the years, in which our sales personnel visited and communicated with our existing customers more frequently to understand their preference, intended use of our polyurethane products and market trend, so as to build our long term business relationship and develop customers loyalty, when our purchase price of polyurethane materials was relatively low in 2019, our customers were willing to purchase from us at the similar amount of markup, which resulted in a better gross profit margin when the average selling price of polyurethane materials was lower. Taking into account that (i) we will continue to strengthen our customers loyalty through the aforementioned improved customer services such as customers visit, and (ii) despite under the challenging market condition as affected by the significant decrease in average selling price when compared to 2018, we were able to improve our gross profit in the polyurethane materials segment for the six months ended 30 June 2019, our Directors are of the view that our Group will be able to maintain our profitability of our polyurethane materials segment in the future.

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For the animal nutrition chemicals segment, our gross profit margin increased from approximately 17.3% for the year ended 31 December 2016 to approximately 33.2% for the year ended 31 December 2017. Since we were the largest seller of choline chloride in the PRC in terms of revenue in 2017, we believe that we have an influence on the market price. Therefore, we were able to charge a relatively high margin for our sale of choline chloride in 2017 as there is a slower growth in supply of choline chloride in the PRC market, resulting from failure of some manufacturers to comply with the increasingly stringent environmental protection requirements. Our gross profit margin decreased from approximately 33.2% for the year ended 31 December 2017 to approximately 29.1% for the year ended 31 December 2018. Such decrease was primarily because the increase in average purchase price of trimethylamine as the raw material for production of choline chloride and betaine outweighed the increase in average selling price of choline chloride, which reached the highest point in the fourth quarter of 2017 due to the failure of some manufacturers to comply with environmental requirements as aforementioned. Our gross profit margin decreased from approximately 35.5% for the six months ended 30 June 2018 to approximately 14.8% for the six months ended 30 June 2019, primarily because of the decrease in market price of choline chloride as explained above. The average selling price was still at a relatively high level during the six months ended 30 June 2018 as a result of tightening environmental requirement in 2017 and this led to a higher gross profit margin during that period. Although the sales volume of choline chloride increased by approximately 27.5% during the six months ended 30 June 2019 when compared to that of 2018 and the Group benefited from economies of scale, the decreasing trend of market price of choline chloride still outweighed the decrease in the average cost of purchase of its raw materials. This is primarily because the market price of trimethylamine, one of the major raw materials of choline chloride and betaine, is partially affected by the landscape of the trimethylamine market in the PRC. As advised by Frost & Sullivan, since there is a limited number of trimethylamine manufacturers in the PRC, these manufacturers tend to have more control in terms of pricing when compared to the downstream choline chloride manufacturers and reach a consensus on pricing among themselves in order to secure profitability. As a result, the fluctuation in the market price of trimethylamine caused by downstream demand is relatively smaller. For ethylene oxide which is another major raw material of choline chloride, as advised by Frost & Sullivan, since it can be further processed into detergent, surfactant and applied in wide range of downstream industries, and the smaller market players in the PRC tend to refer to prices set by the two largest ethylene oxide manufacturers in the PRC, the market price of ethylene oxide is less susceptible to price competition among different manufacturers. Because of the above, together with the effect of African Swine Fever which slowed down the growth of demand from downstream feed additives industry in the PRC and partly led to decrease of the average selling price of our choline chloride, our decrease in average selling price was larger than our decrease in our average purchase cost of raw materials and thus we recorded a decrease in gross profit margin for animal nutrition chemicals for the six months ended 30 June 2019. Our Directors believe that our gross profit margin of animal nutrition chemicals products will gradually recover and increase as we will be able to have a better control of the cost and supply of raw materials after commencement of production of trimethylamine at the New Production Plant.

For the fine chemicals segment, our gross profit margin decreased from approximately 13.2% for the year ended 31 December 2016 to approximately 11.1% for the year ended 31 December 2017. Since the revenue generated from sales of products manufactured by the third party constituted approximately 93.8%, 85.2% and 64.9% of the revenue under the fine chemicals segment for the years ended 31 December 2016, 2017 and 2018, respectively, our gross profit margin was primarily affected by the average procurement price of the products, which were typically determined by the supply and demand. In particular, there was a decrease in the gross profit margin of isophthalic acid, from approximately 20.3% for the year ended 31 December 2016 to approximately 6.5% for the year ended 31 December 2017. Isophthalic acid, which is a product manufactured by third party manufacturers, constituted approximately 13.0% and 9.3% of the segment revenue for the years ended 31 December 2016 and 2017, respectively. The prevailing market price of isophthalic acid was typically determined by both supply and demand. During the year 2016, due to the increasing downstream market demand, the procurement price of imported isophthalic acid increased. Such increase was reflected in our increasing selling price, resulting in a higher gross profit margin in 2016. Although our procurement price of isophthalic acid subsequently decreased since the second quarter of 2017 when there was less demand of isophthalic acid in the market, the average price level in 2017 was still higher than that in 2016. In view of the excess supply of isophthalic acid in the market, our Directors decided to offer competitive prices to our customers by charging a smaller profit margin to maintain our competitiveness in the market. Since there was a relative larger extent of the increase in the average purchase price of isophthalic acid than that of our average selling price of isophthalic acid, the gross profit margin of isophthalic acid decreased in the year ended 31 December 2017. Our gross profit margin decreased from approximately 11.1% for the year ended 31 December 2017 to approximately 6.4% for the year ended 31 December

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2018, primarily due to (i) the depreciation of Renminbi against U.S. dollars leading to a higher cost of purchase of imported inventories and relatively lower selling price of fine chemical products in the PRC; and (ii) the decreasing average selling price of isophthalic acid and caster oil, which are produced by third party manufacturers and constituted approximately 24.1% and 25.6% of the segment revenue for the year ended 31 December 2017 and 2018, respectively, to retain our competitiveness in the market. Our gross profit margin increased from approximately 7.0% for the six months ended 30 June 2018 to approximately 10.8% for the six months ended 30 June 2019, primarily because both the revenue contribution and the gross profit margin of our self-manufactured products, such as isooctanoic acid and cardanol, increased during the six months ended 30 June 2019 as a result of our benefits from economies of scale from self-manufactured products and global expansion in sales of these new self-manufactured products, partially offset by decrease in gross profit of products sourced from third party manufacturers as a result of decreasing demands and reduction of our procurement in certain products aforementioned. The gross profit margin of isooctanoic acid increased from approximately 11.9% for the six months ended 30 June 2018 to approximately 12.2% for the six months ended 30 June 2019, while the gross profit of cardanol increased from approximately 5.7% for the six months ended 30 June 2018 to approximately 14.4% for the six months ended 30 June 2019.

For the pharmaceutical products and intermediates segment, our gross profit margin increased from approximately 7.3% for the year ended 31 December 2016 to approximately 12.4% for the year ended 31 December 2017, primarily because of the increase in average selling price of our self-manufactured iodine derivatives due to the limited supply of iodine derivatives in the PRC resulting from the increasingly stringent environmental protection requirements imposed by the government to control the production capacity. Our gross profit margin remained relatively stable at approximately 12.4% and 12.1% for the years ended 31 December 2017 and 2018, respectively. Our gross profit margin increased from approximately 9.7% for the six months ended 30 June 2018 to approximately 12.5% for the six months ended 30 June 2019, primarily because both the gross profit margin (from approximately 6.7% to approximately 11.9%) and the revenue contribution of our iodine derivatives, being our self-manufactured product, increased during the six months ended 30 June 2019 as a result of the increase in demand from our customers, such as the increase in sales volume of potassium iodate as a result of increasing demand in contrast agent industry, and we benefited from economies of scale upon the increase of production volume of iodine derivatives, partially offset by the decrease in gross profit margin of iodine. Although the revenue contribution of iodine increased significantly during the six months ended 30 June 2019, the gross profit margin slightly decreased from approximately 14.1% for the six months ended 30 June 2018 to approximately 11.6% for the six months ended 30 June 2019. The slight decrease in gross profit margin in iodine was primarily because (i) the average selling price of iodine, which is a third party manufactured product, increased by approximately 21.0% during the six months ended 30 June 2019 when compared to 2018, and we have maintained a relatively stable gross profit amount per unit tonne, and (ii) we have increased our sales to customers with lower gross profit margin, which is in line with our increase in sales volume.

Our gross profit margin for others increased from approximately 9.2% for the year ended 31 December 2016 to approximately 23.6% for the year ended 31 December 2017, primarily because of the increasing revenue derived from our business of transportation of hazardous chemicals for third parties in Nanjing from approximately RMB8.4 million for the year ended 31 December 2016 to approximately RMB9.8 million for the year ended 31 December 2017, while the respective costs were relatively stable as the cost of transportation mainly consisted of fixed costs such as staff costs and depreciation.

Our gross profit margin for others decreased from approximately 23.6% for the year ended 31 December 2017 to 16.0% for the year ended 31 December 2018, primarily because of the increase in fuel price from approximately RMB5.7 per litre for the year ended 31 December 2017 to approximately RMB6.5 per litre for the year ended 31 December 2018.

Our gross profit margin for others remained relatively stable at approximately 11.0% and 15.0% for the six months ended 30 June 2018 and 2019, respectively.

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Other income

Our other income amounted to approximately RMB8.6 million, RMB7.9 million, RMB3.7 million and RMB1.7 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. It primarily comprises gross rental income in respect of investment properties held for rental purposes, one-off and unconditional subsidies from the relevant government authority in relation to the Group's contribution in the local district and bank interest income.

Other gains and losses

Our Group recorded net other gains in the amount of approximately RMB0.3 million for the year ended 31 December 2016, net other losses in the amount of approximately RMB10.7 million for the year ended 31 December 2017, net other losses of approximately RMB1.4 million for the year ended 31 December 2018 and net other gains of approximately RMB2.8 million for the six months ended 30 June 2019, respectively. It primarily comprises (i) net exchange gain or losses which primarily arose from appreciation or depreciation of U.S. dollars against Renminbi as the functional currency of our subsidiaries in the PRC is Renminbi while their export sale to customers and purchase from overseas suppliers were mainly settled in U.S. dollars, (ii) loss on disposal of plant and equipment (iii) impairment loss recognised in respect of property, plant and equipment and (iv) gain on disposal of available-for-sale investments.

Selling and distribution expenses

Our selling and distribution expenses primarily comprise transportation costs, staff remuneration for our sales and marketing team, port charges, storage costs, material costs for export and packaging materials and insurance costs.

The table below sets forth a breakdown of our selling and distribution expenses during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016 (RMB'000)	2017 (RMB'000)		2018 (RMB'000)		2018 (RMB'000)		2019 (RMB'000)		
		%	%	%	%	(unaudited)	(%)	(%)	(%)	
Transportation costs	47,608	70.4	55,185	69.7	54,512	65.3	25,076	60.0	28,204	61.2
Staff remuneration	4,813	7.1	7,398	9.3	8,470	10.1	6,068	14.8	4,104	8.9
Port charges	5,088	7.5	6,043	7.6	7,653	9.2	4,932	12.0	7,083	15.4
Storage costs	4,119	6.1	3,893	4.9	4,722	5.7	1,435	3.5	2,437	5.3
Material costs	1,290	1.9	1,661	2.1	2,346	2.8	1,071	2.6	1,106	2.4
Insurance costs	808	1.2	1,495	1.9	1,856	2.2	636	1.5	827	1.8
Others ^(Note)	3,935	5.8	3,521	4.5	3,943	4.7	1,911	4.6	2,304	5.0
Total	67,661	100.0	79,196	100.0	83,502	100.0	41,129	100.0	46,065	100.0

Note: Other selling and distribution expenses primarily include exhibition fees, loading fees and inspection fees.

Our Group's selling and distribution expenses amounted to approximately RMB67.7 million, RMB79.2 million, RMB83.5 million and RMB46.1 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. As a percentage of total revenue, our selling and distribution expenses accounted for approximately 4.2%, 3.6%, 3.9% and 4.9% during the years ended 31 December 2016 and 2017 and 2018 and the six months ended 30 June 2019, respectively.

Administrative expenses

Administrative expenses primarily comprise staff costs including salary, social insurance costs and provident funds for our staff (other than the staff who are directly involved in the production, the management team of the production plants and the sales and marketing team), entertainment expenses, travelling expenses, rent, depreciation and amortisation of leasehold improvements, office equipment and motor vehicle, safety costs, office expenses, repair expenses, and environmental protection costs in relation to implementation of safety and environmental protection measures and others.

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The table below sets forth a breakdown of our administrative expenses during the Track Record Period:

	2016		For the year ended 31 December			2018		For the six months ended 30 June		
	(RMB'000)	%	2017	%	2018	2018	%	2019	%	
			(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(%)	
Staff costs	19,651	37.6	29,100	34.5	33,615	43.3	14,890	42.0	14,442	39.1
Entertainment expenses	4,096	7.8	6,750	8.0	8,685	11.2	3,913	11.0	6,271	17.0
Travelling expenses	3,686	7.1	5,452	6.5	5,721	7.4	2,889	8.1	2,789	7.6
Rent	6,077	11.6	4,905	5.8	2,942	3.8	1,462	4.1	1,432	3.9
Depreciation and amortisation expenses	3,419	6.5	3,345	4.0	2,779	3.6	1,647	4.6	1,433	3.9
Safety costs	3,179	6.1	4,975	5.9	5,066	6.5	3,165	8.9	1,520	4.1
Office expenses	1,332	2.6	3,085	3.7	2,141	2.8	1,023	2.9	779	2.1
Repair expenses	273	0.5	8,004	9.5	1,853	2.4	146	0.4	416	1.1
Environment protection costs	229	0.4	3,243	3.9	832	1.1	398	1.1	260	0.7
Others ^(Note)	10,285	19.8	15,373	18.2	14,056	18.1	5,952	16.9	7,578	20.5
Total	52,227	100.0	84,232	100.0	77,690	100.0	35,485	100.0	36,920	100.0

Note: Other administrative expenses primarily include water and electricity fees, postal fees and telecommunication charges and general expenses.

Administrative expenses amounted to approximately RMB52.2 million, RMB84.2 million and RMB77.7 million and RMB37.0 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. As a percentage of total revenue, our administrative expenses accounted for approximately 3.2%, 3.9%, 3.6% and 3.9% during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Research and development expenses

Research and development expenses primarily comprise raw materials consumed for conducting research and development activities, staff costs and social insurance costs for our research and development personnel, electricity expenses, depreciation of our research centre, hardware supplies and transportation cost of raw materials for conducting research and development.

Research and development expenses comprise all costs that are directly attributable to our research and development activities. Because of the nature of our research and development activities which mainly aimed to develop production equipment and method for improving our own production efficiency and it is difficult to assess the probable future economic benefits in research phase of a project, the criteria for recognition of such costs as an asset are not met. As such, our research and development costs are generally recognised as expenses in the period in which they are incurred.

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

	2016		For the year ended 31 December			2018		For the six months ended 30 June		
	(RMB'000)	%	2017	%	2018	2018	%	2019	%	
			(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(RMB'000)	(%)	
Raw materials consumed	12,645	55.7	25,051	76.4	28,368	70.2	17,080	79.1	6,818	48.2
Staff costs	4,125	18.2	3,306	10.1	3,681	9.1	1,669	7.7	2,447	17.3
Electricity expenses	2,321	10.2	1,420	4.3	2,556	6.3	917	4.2	1,480	10.5
Depreciation and amortisation charges	1,214	5.3	881	2.7	1,394	3.4	123	0.6	1,203	8.5
Hardware supplies	511	2.3	1,001	3.1	599	1.5	219	1.0	462	3.3
Transportation costs	1,535	6.8	274	0.8	588	1.5	404	1.9	-	-
Others ^(Note)	358	1.5	855	2.6	3,251	8.0	1,186	5.5	1,720	12.2
Total	22,709	100.0	32,788	100.0	40,437	100.0	21,598	100.0	14,130	100.0

Note: Other research and development expenses primarily include technology transfer fees, consumables, and expenses on research and development equipment.

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Research and development expenses amounted to approximately RMB22.7 million, RMB32.8 million, RMB40.4 million and RMB14.1 million for the years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019, respectively. As a percentage of total revenue, our research and development expenses accounted for approximately 1.4%, 1.5%, 1.9% and 1.5% during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Listing expenses

We incurred Listing expenses of nil, approximately RMB10.9 million, RMB7.5 million and RMB3.5 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Finance costs

Finance costs represent interest on bank borrowings, discounted bills and defined benefit plans and amounted to approximately RMB9.1 million, RMB10.7 million, RMB10.8 million and RMB7.4 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively.

Income tax expenses

The table below sets forth a breakdown of our income tax expenses during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2018 (RMB'000) (unaudited)	2019 (RMB'000)
Current tax	186	14,524	15,268	11,241	2,323
Under/(over) provision in prior years	268	107	269	269	(967)
Deferred tax	—	—	1,458	415	(93)
Total	454	14,631	16,995	11,925	1,263

We are subject to income tax on an entity basis on the profit arising or derived from the tax jurisdictions in which we are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, our Company and our subsidiaries incorporated in the British Virgin Islands are not subject to any income tax.

Pursuant to the EIT Law and Implementation Regulations of the Law of the PRC, the tax rate applicable to our subsidiaries incorporated in PRC was 25% throughout the Track Record Period. In 2016, our subsidiary, Havay Group, was recognised as a High and New Technology Enterprise and enjoyed a preferential tax rate of 15% for the subsequent three years starting from the year ended 31 December 2016, according to the EIT Law. Tianyu Transportation and Jinrutai Chemicals qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 50% reduction of their taxable income during the year of 2017. Yueda Logistics and Haijinsha International qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 50% reduction of their taxation income during the year of 2018. Tianyu Transportation, Jinrutai Chemicals, Yueda Logistics, Haijinsha International, Havay Feeds and Nuowei Trading qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 75% reduction of their taxation income during the year of 2019.

Under the relevant tax law in Vietnam, GHW (Vietnam) has been granted on a two-year income tax exemption followed by a four-year 50% reduction of income tax commencing from its first profit making year. There was no estimated assessable profit during the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

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No provision for income tax has been made for our subsidiaries in India, Hong Kong and Canada as there was no estimated assessable profit during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

Pursuant to the relevant tax laws, profits tax in Ukraine and Russia have been provided at the rates of 18% and 20%, respectively, on the estimated assessable profits arising in the relevant jurisdictions during the Track Record Period.

Please see the section headed “Regulatory Overview” in this prospectus, Note 11 to the historical financial information in the Accountants’ Report included in Appendix I to this prospectus for further details of tax matters and the applicable tax rates in the jurisdictions in which we principally operate.

Our Directors confirm that we have made all the required tax filings under the relevant tax laws and regulations in the relevant jurisdictions where we conduct our business and have paid all outstanding tax liabilities, and do not have any disputes or unresolved tax issues which may have material impact on us with the relevant tax authorities during the Track Record Period.

Effective tax rates

During the Track Record Period, our effective tax rates (calculated as income tax expense for the year divided by profit before taxation) were as follows:

	For the year ended 31 December			For the six months ended	
	2016	2017	2018	30 June 2018	2019
Effective tax rate	<u>2.1%</u>	<u>15.6%</u>	<u>18.6%</u>	<u>16.4%</u>	<u>7.0%</u>

Our effective tax rate increased from approximately 2.1% for the year ended 31 December 2016 to approximately 15.6% for the year ended 31 December 2017, primarily due to (i) the relatively large proportion of utilisation of tax losses previously not recognised in the amount of approximately RMB6.0 million for the year ended 31 December 2016, net off by (ii) the tax benefit amounting to approximately RMB6.9 million derived from Havay Group for the year ended 31 December 2017, which was qualified as a High and New Technology Enterprise and therefore was entitled to 15% preferential tax rate from 2017 to 2019.

Our effective tax rate increased from approximately 15.6% for the year ended 31 December 2017 to approximately 18.6% for the year ended 31 December 2018, primarily because we utilised tax loss brought forward from 2016 for the year ended 31 December 2017.

Our effective tax rate decreased from approximately 16.4% for the six months ended 30 June 2018 to approximately 7.0% for the six months ended 30 June 2019, primarily because there were (i) an overprovision of tax in 2018 in the amount of approximately RMB1.0 million, which was derived from Havay Group as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019, (ii) the utilisation of deductible temporary difference previously not recognised in the amount of approximately RMB1.6 million, which was mainly derived from the accrued staff bonus provided in 2018 and subsequently paid in 2019, as the amount was tax deductible upon actual payment, (iii) the entitlement of a preferential tax rate of 20% with 75% reduction of their taxation income for the six months ended 30 June 2019 by six of our PRC subsidiaries which qualified as small low-profit enterprises and (iv) the increase in proportion of weighted pre-tax deduction of research and development expenses over profit before tax of the Group for the six months ended 30 June 2019, when compared with the preceding period.

Accumulated losses before the Track Record Period

The Group commenced operation since the establishment of GHW Chemicals in the PRC in 1995 by Mr. Yin to engage in selling applied chemical intermediates produced by third party manufacturers. In 2008, GHW International SCM was established in the PRC with limited liability in November 2008. Since December 2008, GHW International SCM has been the onshore holding company of GHW Chemicals and most of the PRC and overseas operating subsidiaries in our Group.

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Until 31 December 2012, GHW International SCM and the subsidiaries comprising our Group had been generally profitable, and had declared and paid dividends from their retained earnings to the then shareholders as investment return. There was also increase in capital of GHW International SCM by way of capitalisation of retained profit. As at 1 January 2013, the subsidiaries comprising the Group had retained earnings.

From 2013 to 2015, we recorded substantial net losses for the following reasons:

- (i) our profitability from sales of products in the PRC, in particular, the chemicals including TDI, polymeric MDI and iodine produced by third party manufacturers, was substantially lower than prior years, for reasons set forth below:
 - the year-to-year average selling price of TDI of the then subsidiaries comprising the Group decreased by approximately 7.3%, 17.1% and 29.1% and the average selling price of polymeric MDI of the then subsidiaries comprising the Group decreased by approximately 4.7%, 10.3% and 26.0% in the years ended 31 December 2013, 2014 and 2015, respectively, as compared to the average selling price of such products in the year ended 31 December 2012 as a result of the increase in supply of these products in the market, which was primarily attributable to the decrease in the price of crude oil (being the raw materials of such products) and the increase in production capacity of certain major market players. In particular, a TDI supplier headquartered in Fujian, the PRC, commenced production with annual production capacity of 100,000 tonnes near the year end of 2013, and the largest polyurethane manufacturer in the PRC in terms of domestic sales revenue and our Supplier A, which is a manufacturer based in Shanghai and the Shanghai branch of one of the top 30 global chemical companies, increased their MDI production capacity in aggregate by 550,000 tonnes in 2014. According to Frost & Sullivan, the production capacity of TDI in the PRC increased from approximately 790,000 tonnes to approximately 840,000 tonnes from 2012 to 2015, while the corresponding production volume increased from approximately 580,000 tonnes to approximately 650,000 tonnes in the same years. In respect of polymeric MDI, the production capacity in the PRC increased from approximately 1,250,000 tonnes to approximately 2,175,000 tonnes from 2012 to 2015, while the corresponding production volume increased from approximately 969,000 tonnes to approximately 1,253,000 tonnes in the same years. While the increase in production volume of the respective products would directly drive up the supply in the same year, it is also the industry norm that a particular product would experience downward price pressure when the production capacity of the relevant manufacturers increases significantly over a relatively short period of time.
 - based on the management record, the average aggregated gross profit generated from the sales of TDI and polymeric MDI per year during the years ended 31 December 2013, 2014 and 2015 was approximately RMB7.6 million lower than that of the years ended 31 December 2011 and 2012, which was primarily due to the decrease in average selling price of TDI and polymeric MDI during the years ended 31 December 2013, 2014 and 2015. In addition, the yearly average gross profit margin of TDI and polymeric MDI decreased from approximately 5.4% in the years ended 31 December 2011 and 2012 to approximately 2.0% in the years ended 31 December 2013, 2014 and 2015, and from approximately 3.1% in the years ended 31 December 2011 and 2012 to approximately 2.4% in the years ended 31 December 2013, 2014 and 2015, respectively. In general, our gross profit margin derived from products produced by third party manufacturers would be relatively lower when the market price of the relevant products is in a continuous decreasing trend. Further, it was also the Group's strategy to expand its market share of TDI and polymeric MDI and to sell its TDI and polymeric MDI at a lower profit margin during the relevant periods, which was evidenced in the increase in sales volume in the corresponding years. Following this, such decrease in average gross profit generated from the sale of TDI and polymeric MDI per year has led to a decrease in the Group's profitability from the year ended 31 December 2013 to the year ended 31 December 2015 (as compared to the years ended 31 December 2011 and 2012), despite the costs of purchase of TDI and polymeric MDI also decreased in the same years; and

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- in the case of iodine, there was a shortage of supply of imported iodine from Japan in 2011 as a result of disruption of production due to the earthquakes in March of the same year. Therefore, we were able to charge a higher selling price for the sale of iodine in 2011 and 2012, which contributed to a higher gross profit in the corresponding years. Due to the resumption of a more stable supply of the iodine in the market and technological improvement in extracting iodine from marine products, the average selling price has been decreasing since 2013 and hence the low profitability of iodine sales in the PRC;
- (ii) in light of the rising demand for products exhibited by the overseas markets, the Group had been focusing on brand building in Ukraine, Russia and India and expansion of our operation to Slovakia since 2014 and the U.S. since 2015. As a result, our relevant subsidiaries, being Ukrhimformacia, Star International, Nuovomondo Chemicals, GHW Eurochemicals, GHW USA and GHW International (HK) incurred increased operating expenses (including selling and administrative expenses) of approximately RMB3.6 million, RMB6.8 million and RMB6.4 million in aggregate for the years ended 31 December 2013, 2014 and 2015, respectively, while revenue generated by these subsidiaries were still building up. The same subsidiaries incurred operating expenses of less than RMB2.1 million only for each of the years ended 31 December 2011 and 2012;
- (iii) we started to substantially invest in our production facilities in 2012 and had incurred capital expenditure of approximately RMB115.0 million on the construction of our Tai'an Production Plant in 2012 to 2015 and approximately RMB3.8 million on production facilities of our Vietnam Production Plant from 2013 to 2015. The expenditure included acquisition of the land use rights in respect of the land for production plants, construction of the buildings for production and acquisition of machineries and production equipment. Although most of which had been capitalised as fixed assets and intangible assets at construction and upon completion, a substantial amount of depreciation charges of approximately RMB17.9 million in aggregate was accounted for in the Group's accumulated losses as at 1 January 2016, while the production of which had not been materially utilised and the contribution to the Group's revenue and profit was relatively insignificant;
- (iv) since 2012 when our Group started to make substantial investment in our own production, we had also strengthened our research and development effort. As such, Havay Group incurred costs on research and development activities of approximately RMB10.3 million, RMB14.7 million and RMB14.2 million in our Tai'an Production Plant in relation to the equipment and production methods of various products, including but not limited to choline chloride, polyurethane materials and iodine derivatives, for the years ended 31 December 2013, 2014 and 2015, respectively. Such costs were recorded as expenses during the year in which they were incurred in accordance with China Accounting Standards for Business Enterprises and accordingly reduced our net profit for the corresponding years. As with all investment on process upgrades, it took time for the Group to yield from process upgrades comprising the aforesaid research and development activities. The process upgrades comprised 15 research and development projects conducted by the Group in relation to production method and equipment for production of the aforementioned products, each of which incurred expenses ranging from approximately RMB0.4 million to approximately RMB8.0 million during the years ended 31 December 2013, 2014 and 2015. Among which, six, five and four research projects commenced in the years ended 31 December 2013, 2014 and 2015, respectively. The majority of such process upgrades comprising the research and development projects were fully implemented by the end of 2016, and the Group had gradually recorded lower production average costs and increased revenue from better quality and hence higher priced products since 2017.

The substantial decrease of profitability in our sales of chemicals and increase of our other expenses over marketing, depreciation charges and research and development had resulted in substantial loss from both our PRC and overseas operations between 2013 and 2015. As the amount of loss accumulated from such years exceeded the amount of retained earnings as at 31 December 2012, the Group recorded accumulated losses of approximately RMB63.0 million as at 1 January 2016, being the opening balance of the Group's consolidated financial statements during the Track Record Period.

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Despite the accumulated loss of RMB63.0 million as at 1 January 2016, the management had, during the Track Record Period, strategically moved away from operations of high supply levels in the market with low profit margin. In particular, the Group has adjusted its product mix to sell more self-manufactured products based on the increasing demand and the industry of the downstream customers. The revenue generated from sales of the Group's self-manufactured products over the Group's revenue has been increasing from 32.9% for the year ended 31 December 2016 to approximately 38.3% and 53.0% and 56.5% for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively. Since there is generally a higher profit margin for the Group's self-manufactured products when compared with the chemicals produced by third party manufacturers, the increase in revenue contribution of the Group's self-manufactured products to the total revenue led to a higher profitability during the Track Record Period.

Since 2016, the Group began to reap benefits from (i) the sales of products manufactured at our Tai'an Production Plant and Vietnam Production Plant, (ii) increased overseas orders as a result of the overseas marketing efforts, and (iii) reduced production costs and higher selling prices for more quality products resulting from process upgrades, all of which the Group expended costs and resources on during the period from 2013 to 2015. In particular, there was improvement in the Group's utilisation rate of its production line as a result of the higher production volume, which was attributable to the increasing sales order from our customers for choline chloride during the Track Record Period. As a result of increase in the production volume, the Group is able to have better bargaining power against our upstream raw materials suppliers to ask for a lower purchase price and lower other direct costs per tonne as the other direct costs are mainly staff costs and manufacturing overheads. Therefore, despite the slight decrease in average selling price for sales of choline chloride in 2016, the reduced production cost and the increased revenue as a result of the increased demand from customers for choline chloride improved the profitability during the years ended 31 December 2016, 2017 and 2018.

In addition, the profitability of our Group also improved attributable to the performance of our key products including polymeric MDI and TDI. Our Group decided to expand our market share and strengthen our relationship with our existing major customers by increasing our polymeric MDI supply to them and selling polymeric MDI produced by third party manufacturers at lower selling prices with a relatively low profit margin in 2015 when its market price reached the lowest point. In light of the market price, we maintained a relatively high inventory balance of polymeric MDI at a lower cost. It remained as our Group's procurement and sales strategy to purchase more polymeric MDI and TDI throughout 2015 and 2016 due to the following reasons: (i) the Company believed that this policy helped strengthen our relationship with our upstream suppliers since late 2015 by purchasing increased amount of products and consolidate its market position and relationship with downstream customer by selling polymeric MDI at a relatively low profit margin in 2015; and (ii) once the selling price started to rise in 2016 and surged in 2017, we were able to secure supply from our suppliers whom we maintained good relationship with, hence we were able to capture the opportunity to profit from a price uptrend market where higher margin can usually be achieved while it will be more difficult to compete for supplies. Similar situation applied to TDI, which market price reached its lowest point in 2015. Due to the sufficient supply of TDI in the market, we intended to sell the inventory of TDI on hand at a lower profit margin in 2014 and 2015 to expand our market share. In 2016, when the market price of TDI went upwards in 2016, we were able to secure suppliers from our suppliers whereas we maintained good relationship with, and were able to capture the opportunity to profit from rising trend of TDI price. As polymeric MDI and TDI are our major products which constitutes approximately 37.0%, 41.5% and 30.5% of the revenue of our Group in aggregate during the Track Record Period, the Group managed to achieve a better financial performance due to the improvement in the sales of polymeric MDI and TDI.

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Going forward, it is expected that the Group could continue to benefit from the underlying business drivers and sustain its profitability in the future because of the following reasons:

- (i) among our products, we sell an increasing proportion of self-manufactured products which generally have a higher gross profit margin as compared to chemicals produced by third party manufacturers. The revenue contribution from the self-manufactured products to the Group's revenue has been increasing during the Track Record Period, from approximately 32.9% for the year ended 31 December 2016 to approximately 38.3%, 53.0% and 56.5% for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively. In 2018, we achieved relatively high gross profit margin for various self-manufactured products including choline chloride, betaine, polymer polyether, iodine derivatives, cardanol, isooctanoic acid and diethyl sulfate. As we use internal financial resources to perform technological enhancement for increasing the production capacity of choline chloride and betaine which has been completed as at the Latest Practicable Date, and the proceeds from the Global Offering to further increase our production capacity of certain key products and expand our supply chain vertically for manufacturing the principal raw materials for our key products to save our production cost, we expect that we would be able to better manage our financial performance by selling our self-manufactured products given their higher gross profit margin. In particular, the Directors believe that the Group's market share of domestic sales of choline chloride in the PRC can be increased after the completion of aforementioned technological improvement in the first half of 2019. Prior to the technological improvement, the Group's utilisation rate for animal nutrition chemicals production facilities at the Tai'an Production Plant reached approximately 90%. The Group has increased its production capacity of animal nutrition chemicals at the Tai'an Production Plant after the technological improvement and it is expected that the Group can accept more purchase orders from the customers and therefore increase the domestic market share of choline chloride in the PRC in 2019. In addition, according to Frost & Sullivan, it is expected that the swine consumption will continue to be driven up with growing population in the PRC, a series of supportive measures taken by the local governments including the measures to encourage swine production and offer allowance for farms which introduced local swine and announced expansion plan of market participants to develop swine breeding business, and the policy in the circular issued by the State Council of the PRC on 10 September 2019, the details of which is particularised in the paragraph headed "Business – Business Strategy – Increase our production capacity by upgrading our production facilities in the PRC" in this prospectus which in turn facilitates the growth of the choline chloride market. With our implementation plan of expanding our production capacity together with the support from the government on encouraging the resumption of downstream swine production and consumption, we expect that the Group will be able to further strengthen its market position and actively capture more market share in the PRC choline chloride market and improve its financial performance;
- (ii) as advised by Frost & Sullivan, multiple sales channel is one of the key success factors in the industry due to the intense competition in the PRC market. We have established the global sales network of more than 50 countries and have employed local employees to explore direct overseas sales market. We believe we can manage our overseas customers' expectation more effectively with the sales team of the local employees who may be more familiar with the local business environment and able to facilitate better communication with the potential overseas customers. We will continue to consolidate our presence in the overseas market. During the Track Record Period, our revenue derived from overseas countries constituted approximately 13.2%, 14.7%, 22.0% and 23.2% of our total revenue. With the proven track record of our Group's ability to increase in our sales to overseas market and our market position in the global market, in particular, our outstanding second ranking in the global choline chloride market with a market share of approximately 16.8% in 2018, our Group is confident that we are able to satisfy the demand from the global customer base to capture additional market share as a result of our local sales team;

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- (iii) we have maintained a large suppliers base where we are able to source wide-ranging chemicals produced by third party manufacturers. The breadth of our sourcing channels and close relationship with the manufacturers allows us to respond to market challenge in a timely manner and adjust our product mix swiftly to satisfy the demand of customers who would like to purchase the products in small quantities. Therefore, in the event that there is an increase in market supply or decrease in demand from downstream customers for certain products, we would be able to adjust the product mix accordingly and to sell the products with a greater demand or less market supply at the relevant time to minimise the relevant impact to our Group's financial performance. We have also maintained business relationship with the various suppliers in the PRC, which enables us to export the products primarily manufactured by the PRC suppliers such as lysine and amino acid to the extensive global sales network. With the wide supplier base both in the PRC and overseas and strong global sourcing capabilities, we believe that we will continue to be able to respond to the market fluctuations quickly and accommodate the prevailing market condition;
- (iv) as mentioned under the paragraph headed "Financial Information – Gross profit and gross profit margin" in the prospectus, our gross profit margin for animal nutrition chemicals segment during the six months ended 30 June 2019 decreased partly because the decrease in market price of our products outweighed the decrease in average cost of purchase of its raw materials. This is partially affected by the highly concentrated trimethylamine market in the PRC in which the manufacturers tend to have more control in terms of pricing and therefore led to smaller market price fluctuation of trimethylamine when compared to that of choline chloride. Therefore, we intend to expand our supply chain vertically by commencing production of trimethylamine in the New Production Plant to secure stable supply of upstream raw materials at a lower cost. As explained in the paragraph headed "Business – Business Strategies – Enrich our production portfolio and expand our supply chain vertically in order to capture new market opportunities" in this prospectus, we anticipate that we are able to achieve cost-saving when the New Production Plant for production of trimethylamine is in full operation when compared to purchase from third party manufacturers. As such, we expect that we would be able to minimise the cost impact as a result of the market condition and record a reasonable level of gross profit in animal nutrition chemicals segment in the future, and therefore sustain the profitability in the long term; and
- (v) we have a production plant in Binh Duong Province, Vietnam with the designed annual production capacity of 8,971.2 tonnes and the utilisation rate of 76.4% for the production of choline chloride for the six months ended 30 June 2019. We believe that the Vietnam Production Plant will continue to expand our production volume and our capability to serve our overseas customers better, therefore provided us an advantage to manufacturers which product and export their products from the PRC only and enabled us to diversify the potential country-specific risk.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Six months ended 30 June 2019 compared with six months ended 30 June 2018

Revenue

Please refer to the paragraph headed "Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue" in this section for the description of changes in revenue of the Group for the six months ended 30 June 2018 and 2019.

Cost of sales

Please refer to the paragraph headed "Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Cost of sales" in this section for the description of changes in cost of sales of the Group for the six months ended 30 June 2018 and 2019.

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Gross profit and gross profit margin

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin” in this section for the description of changes in gross profit and gross profit margin for the six months ended 30 June 2018 and 2019.

Other income

Our other income increased by approximately RMB0.2 million or 14.9% from approximately RMB1.5 million for the six month ended 30 June 2018 to approximately RMB1.7 million for the six months ended 30 June 2019. The increase in our other income was mainly due to the value-added tax refund in the amount of approximately RMB0.5 million.

Other gains and losses

We recorded net other losses of approximately RMB1.1 million for the six months ended 30 June 2018 and recorded net other gains of approximately RMB2.8 million for the six months ended 30 June 2019. Such change in our net other gains and losses was mainly because there was a net exchange loss of approximately RMB0.9 million recorded for the six months ended 30 June 2018 and a net exchange gain of approximately RMB3.0 million recorded for the six months ended 30 June 2019, as a result of the appreciation of U.S. dollars against Renminbi during the six months ended 30 June 2019.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB5.0 million or 12.0% from approximately RMB41.1 million for the six months ended 30 June 2018 to approximately RMB46.1 million for the six months ended 30 June 2019. The increase in our selling and distribution expenses was primarily due to an increase in transportation costs of approximately RMB3.1 million and port charges of approximately RMB2.2 million resulting from an increase in our export sales volume, in particular, the export volume of choline chloride in the PRC and choline chloride, cardanol and polymer polyether in Vietnam for the six months ended 30 June 2019 when compared to the corresponding period in 2018.

Administrative expenses

Our administrative expenses increased by approximately RMB1.4 million or 4.0% from approximately RMB35.5 million for the six months ended 30 June 2018 to approximately RMB37.0 million for the six months ended 30 June 2019. The increase in our administrative expenses was primarily due to an increase in entertainment expenses of approximately RMB2.4 million since we were trying to expand our market share in choline chloride market in terms of quantity and maintain our business relationship with existing customers.

Research and development expenses

Our research and development expenses decreased by approximately RMB7.5 million or 34.6% from approximately RMB21.6 million for the six months ended 30 June 2018 to approximately RMB14.1 million for the six months ended 30 June 2019. The decrease in our research and development expenses was primarily due to a decrease in cost of raw materials of approximately RMB10.3 million as we had consumed more materials for improving the product quality of choline chloride and betaine during the six months ended 30 June 2018. For the six months ended 30 June 2019, we focus more on system upgrade to expand our production volume and hence less materials were consumed. Such decrease in cost of raw materials was partially offset by the increase in depreciation and amortisation charges of approximately RMB1.1 million as a result of acquisition of research and development equipment mainly in the first half of 2018 and the equipment started to depreciate in the second half of 2018.

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Finance costs

Our finance costs increased by approximately RMB2.6 million or 55.3% from approximately RMB4.8 million for the six months ended 30 June 2018 to approximately RMB7.4 million for the six months ended 30 June 2019. The increase in our finance costs was primarily due to (i) an increase in the interest on our bank borrowings from approximately RMB4.8 million for the six months ended 30 June 2018 to approximately RMB6.1 million for the six months ended 30 June 2019 as a result of the increase in the interest bearing bank and other borrowings to approximately RMB324.3 million as at 30 June 2019, and (ii) an increase in the interest on our discounted bills of approximately RMB1.1 million resulting from increase in discounting of the bank issued bill receivables to banks in the amount of approximately RMB53.7 million as at 30 June 2019, and the carrying amount of bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings.

Income tax expenses

Our income tax expenses decreased by approximately RMB10.7 million or 89.4% from approximately RMB11.9 million for the six months ended 30 June 2018 to approximately RMB1.3 million for the six months ended 30 June 2019. The decrease in our income tax expenses was primarily due to (i) the decrease in current tax of approximately RMB8.9 million, which is in line with our decrease in profit before taxation and the reasons explained below and (ii) the overprovision of tax in 2018 amounting to approximately RMB1.0 million derived from Havay Group as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019.

Our effective tax rate decreased from approximately 16.4% for the six months ended 30 June 2018 to approximately 7.0% for the six months ended 30 June 2019, primarily because there were (i) an overprovision of tax in 2018 in the amount of approximately RMB1.0 million, which was derived from Havay Group as a result of finalising the deductible research and development expenses as approved by the tax authority in 2019, (ii) the utilisation of deductible temporary difference previously not recognised in the amount of approximately RMB1.6 million, which was mainly derived from the accrued staff bonus provided in 2018 and subsequently paid in 2019, as the amount was tax deductible upon actual payment, (iii) the entitlement of a preferential tax rate of 20% with 75% reduction of their taxation income for the six months ended 30 June 2019 by six of our PRC subsidiaries which qualified as small low-profit enterprises and (iv) the increase in proportion of weighted pre-tax deduction of research and development expenses over profit before tax of the Group for the six months ended 30 June 2019, when compared with the preceding period.

Profit for the period

As a result of the foregoing, our profit for the period decreased by approximately RMB44.0 million or 72.4% from approximately RMB60.8 million for the six months ended 30 June 2018 to approximately RMB16.8 million for the six months ended 30 June 2019. Our net profit margin decreased from approximately 5.7% for the six months ended 30 June 2018 to 1.8% for the six months ended 30 June 2019, as a combined result of the above fluctuations.

Year ended 31 December 2018 compared with year ended 31 December 2017

Revenue

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue” in this section for the description of changes in revenue of the Group for the years ended 31 December 2017 and 2018.

Cost of sales

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Cost of sales” in this section for the description of changes in cost of sales of the Group for the years ended 31 December 2017 and 2018.

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Gross profit and gross profit margin

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin” in this section for the description of changes in gross profit and gross profit margin for the years ended 31 December 2017 and 2018.

Other income

Our other income decreased by approximately RMB4.2 million or 52.9% from approximately RMB7.9 million for the year ended 31 December 2017 to approximately RMB3.7 million for the year ended 31 December 2018. The decrease in our other income was mainly due to decrease in our gross rental income by approximately RMB5.0 million as all of our Group’s investment properties held for rental purpose had been disposed after completion of disposal of Organic Chemicals Co. in October 2017.

Other gains and losses

We recorded net other losses of approximately RMB10.7 million for the year ended 31 December 2017 and recorded net other losses of approximately RMB1.4 million for the year ended 31 December 2018. Such change in our net other gains and losses was mainly because (i) there was a decrease in net exchange loss of approximately RMB3.4 million for the year ended 31 December 2017 to approximately RMB0.5 million for the year ended 31 December 2018 as a result of the appreciation of U.S. dollars against Renminbi throughout the year of 2018 and (ii) there was a loss on disposal of plant and equipment of approximately RMB3.6 million for the year ended 31 December 2017 due to ageing and wear and tear of equipment while the loss on disposal of plant and production-related equipment reduced to RMB1.4 million for the year ended 31 December 2018, and (iii) an impairment loss was recognised in respect of property, plant and equipment of approximately RMB3.7 million for the year ended 31 December 2017 as we disposed of some equipment in the PRC and Vietnam for the sake of strict compliance with increasingly stringent environment protection requirements, while the no such loss was recognised for the year ended 31 December 2018.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB4.3 million or 5.4% from approximately RMB79.2 million for the year ended 31 December 2017 to approximately RMB83.5 million for the year ended 31 December 2018. The increase in our selling and distribution expenses was primarily due to an increase in staff costs of approximately RMB1.1 million and port charges of approximately RMB1.6 million resulting from an increase in our sales for the year ended 31 December 2018.

Administrative expenses

Our administrative expenses decreased by approximately RMB6.5 million or 7.8% from approximately RMB84.2 million for the year ended 31 December 2017 to approximately RMB77.7 million for the year ended 31 December 2018. The decrease in our administrative expenses was primarily due to a decrease in repair expenses of approximately RMB6.2 million since some one-off major repair and maintenance work such as upgrade of production equipment was performed on our production plant in Tai’an, Shandong Province for the year ended 31 December 2017 to ensure compliance with the stringent environmental protection requirements effective in 2017.

Research and development expenses

Our research and development expenses increased by approximately RMB7.6 million or 23.3% from approximately RMB32.8 million for the year ended 31 December 2017 to approximately RMB40.4 million for the year ended 31 December 2018. The increase in our research and development expenses was primarily due to (i) an increase in cost of raw materials of approximately RMB3.3 million which were consumed for research and development in relation to the improvement in production methods of choline chloride and betaine; and (ii) the design fees of approximately RMB0.8 million to an Independent Third Party for its design of the new production method for choline chloride.

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Finance costs

Our finance costs slightly increased by approximately RMB0.1 million or 1.4% from approximately RMB10.7 million for the year ended 31 December 2017 to approximately RMB10.8 million for the year ended 31 December 2018. The increase in our finance costs was primarily due to an increase in the interest on our bank borrowings from approximately RMB9.6 million for the year ended 31 December 2017 to approximately RMB10.6 million for the year ended 31 December 2018 as a result of the increase in the average outstanding balance of interest bearing borrowings.

Income tax expenses

Our income tax expenses increased by approximately RMB2.4 million or 16.2% from approximately RMB14.6 million for the year ended 31 December 2017 to approximately RMB17.0 million for the year ended 31 December 2018. The increase in our income tax expenses was primarily due to (i) the increase in current tax of approximately RMB0.7 million, which is in line with our growth in profit before taxation and (ii) the increase in deferred tax charge of approximately RMB1.5 million, which is due to the taxable temporary differences derived from our property, plant and equipment.

Our effective tax rate increased from approximately 15.6% for the year ended 31 December 2017 to approximately 18.6% for the year ended 31 December 2018, primarily because we utilised tax loss brought forward from 2016 for the year ended 31 December 2017.

Profit for the year

As a result of the foregoing, our profit for the year slightly decreased by approximately RMB5.2 million or 6.5% from approximately RMB79.4 million for the year ended 31 December 2017 to approximately RMB74.3 million for the year ended 31 December 2018. Our net profit margin remained relatively stable at approximately 3.6% and 3.4% for the years ended 31 December 2017 and 2018, respectively.

Year ended 31 December 2017 compared with year ended 31 December 2016

Revenue

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue” in this section for the description of changes in revenue of the Group for the years ended 31 December 2016 and 2017.

Cost of sales

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Cost of sales” in this section for the description of changes in cost of sales of the Group for the years ended 31 December 2016 and 2017.

Gross profit and gross profit margin

Please refer to the paragraph headed “Description of Selected Items in the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Gross profit and gross profit margin” in this section for the description of changes in gross profit and gross profit margin for the years ended 31 December 2016 and 2017.

Other income

Our other income remained stable at approximately RMB8.6 million and RMB7.9 million for the years ended 31 December 2016 and 2017, respectively.

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Other gains and losses

We recorded net other gains of approximately RMB0.3 million for the year ended 31 December 2016 and net other losses of approximately RMB10.7 million for the year ended 31 December 2017, primarily because there was (i) increase in net exchange loss of approximately RMB2.7 million arising from depreciation of U.S. dollars against Renminbi, (ii) impairment loss recognised in respect of property, plant and equipment of approximately RMB3.7 million as we disposed of some equipment in the PRC and Vietnam for the sake of strict compliance with increasingly stringent environment protection requirements, (iii) increase in loss on disposal of plant and equipment of approximately RMB3.5 million due to ageing and wear and tear of equipment and (iv) decrease in gain of approximately RMB1.0 million on disposal of available-for-sale investments as we disposed of our 10% interest in a company which principally engaged in sale and development of computer software and hardware to an Independent Third Party, with a view to focus on the Group's business and such gain was recorded in the year ended 31 December 2016.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB11.5 million or 17.0% from approximately RMB67.7 million for the year ended 31 December 2016 to approximately RMB79.2 million for the year ended 31 December 2017. The increase in our selling and distribution expenses was primarily due to the increase in the transportation expenses of our products to customers in the amount of approximately RMB7.6 million, increase in staff cost of approximately RMB2.6 million as a result of increase in number of our sales staff and salary in light of our business growth and port charges of approximately RMB1.0 million resulting from an increase in our sales for the year ended 31 December 2017.

Administrative expenses

Our administrative expenses increased by approximately RMB32.0 million or 61.3% from approximately RMB52.2 million for the year ended 31 December 2016 to approximately RMB84.2 million for the year ended 31 December 2017. The increase in our administrative expenses was primarily due to (i) the aggregate increase of staff costs in the amount of approximately RMB9.4 million as a result of increase in number of staff and salary in light of our business growth, (ii) the aggregate increase in travelling expenses and entertainment expenses of approximately RMB4.4 million as we visited customers more frequently to strengthen our business relationship and increase our effort on trade receivables collection and (iii) the aggregate increase in our safety costs and environmental protection costs and repair expenses of approximately RMB12.5 million as we strengthened our environmental measures on handling hazardous waste and repaired our production plant to ensure our compliance with the increasingly stringent environmental protection requirements.

Research and development expenses

Our research and development expenses increased by approximately RMB10.1 million or 44.4% from approximately RMB22.7 million for the year ended 31 December 2016 to approximately RMB32.8 million for the year ended 31 December 2017. The increase in our research and development expenses was primarily due to the increase in the cost of raw materials used in the research and development activities as we carried out more research and development activities for production of new fine chemicals and animal nutrition chemicals and improving the production methods and equipment used in the production of certain products such as potassium iodide for the year ended 31 December 2017.

Finance costs

Our finance costs increased by approximately RMB1.5 million or 16.6% from approximately RMB9.2 million for the year ended 31 December 2016 to RMB10.7 million for the year ended 31 December 2017. The increase in our finance costs was primarily due to the increase in the interest on our bank borrowings and discounted bills of approximately RMB1.8 million as a result of the increase in level of interest bearing bank borrowings repayable within one year.

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Income tax expenses

Our income tax expenses increased by approximately RMB14.2 million from approximately RMB0.5 million for the year ended 31 December 2016 to approximately RMB14.6 million for the year ended 31 December 2017. The increase in our income tax expenses was primarily due to the increase in current tax of approximately RMB14.3 million, which is in line with our growth in revenue and profit before taxation.

Our effective tax rate increased from approximately 2.1% for the year ended 31 December 2016 to approximately 15.6% for the year ended 31 December 2017, primarily due to (i) the relatively large proportion of utilisation of tax losses previously not recognised in the amount of approximately RMB6.0 million for the year ended 31 December 2016, net off by (ii) the tax benefit amounting to RMB6.9 million derived from Havay Group for the year ended 31 December 2017, which was qualified as a High and New Technology Enterprise and therefore was entitled to 15% preferential tax rate from 2017 to 2019.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately RMB58.7 million from approximately RMB20.8 million for the year ended 31 December 2016 to approximately RMB79.4 million for the year ended 31 December 2017. Our net profit margin increased from approximately 1.3% for the year ended 31 December 2016 to 3.6% for the year ended 31 December 2017. The increase in net profit margin was mainly due to the combined effect of the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for operating activities and capital expenditure. We have historically financed our operations primarily through a combination of cash generated from our operations and bank borrowings and advance from shareholders. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would be financially independent from our related parties or Shareholders and we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed “Future Plans and Use of proceeds” in this prospectus.

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The table below summarises our statements of cash flows during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2018 (RMB'000) (unaudited)	2019 (RMB'000)
Operating profit before movements in working capital	45,542	129,973	120,781	88,530	40,387
Net cash generated from/(used in) operating activities	69,024	54,351	19,801	761	(50,970)
Net cash (used in)/generated from investing activities	(43,488)	(53,302)	(19,351)	24,271	(33,477)
Net cash (used in)/generated from financing activities	<u>(10,571)</u>	<u>(8,633)</u>	<u>(4,048)</u>	<u>3,588</u>	<u>87,930</u>
Net increase/(decrease) in cash and cash equivalents	14,965	(7,584)	(3,598)	28,620	3,483
Cash and cash equivalents at beginning of the year/period	27,205	40,877	34,620	34,620	30,261
Effect of foreign exchange rate changes, net	<u>(1,293)</u>	<u>1,327</u>	<u>(761)</u>	<u>(518)</u>	<u>(58)</u>
Cash and cash equivalents at the end of the year/period	<u>40,877</u>	<u>34,620</u>	<u>30,261</u>	<u>62,722</u>	<u>33,686</u>

Cash flow used in/from operating activities

During our Track Record Period, our cash inflow from operating activities was principally derived from our sale of products under the segments of polyurethane materials, animal nutrition chemicals, fine chemicals and pharmaceutical products and intermediates. Our cash outflow used in operating activities was principally for costs and expenses relating to the operations of our business.

For the six months ended 30 June 2019, our net cash used in operating activities amounted to approximately RMB51.0 million, which was a combined result of cash generated from operations before changes in working capital of approximately RMB40.4 million, income tax paid of approximately RMB7.5 million and negative change in working capital of approximately RMB83.8 million. The change in our working capital primarily reflected (i) an increase in inventories of approximately RMB54.0 million primarily because of the increase in volume on hand of different products, in particular, there was increase in the volume of choline chloride in order to meet the increasing demand in terms of sales volume from our customers, iodine as the management of our Group expected that the price of iodine and iodine derivatives would further increase as a result of increasing demand from downstream industry players and polymeric MDI, which were substantially sold in July 2019 subsequently, (ii) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million, primarily relating to increase in discounted bank issued bill receivables to banks in the amount of approximately RMB53.7 million as at 30 June 2019 and the carrying amount of such discounted bank issued bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings, as a result of the increase in customer's payment settling with issued bills for the six months ended 30 June 2019, partially offset by (i) an increase in contract liabilities of approximately RMB9.6 million primarily due to the increase in amounts received from our customers for sales in July 2019, including an amount of approximately RMB3.4 million received from a customer of potassium iodate for a sales amount of approximately RMB6.8 million and (ii) an increase in trade and bill payables of approximately RMB11.6 million, which was in line with the increase in our inventory level, particular for the purchase of iodine and polymer polyether for our use in production.

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For the year ended 31 December 2018, our net cash generated from operating activities amounted to approximately RMB19.8 million, which was a combined result of cash generated from operations before changes in working capital of approximately RMB120.8 million, income tax paid of approximately RMB23.1 million and negative change in working capital of approximately RMB77.9 million. The change in our working capital primarily reflected (i) an increase in trade receivables of approximately RMB17.9 million primarily because of the increase in trade receivables from one of our major customers of approximately RMB11.1 million, resulting from increase in sales transaction near the year end of 2018, (ii) a decrease in other payables and accrued charges of approximately RMB14.8 million primarily because of a decrease in PRC value added tax payable and other tax payables we have settled the capital gains tax payable derived from disposal of Organic Chemical Co., and a decrease in accrued repairment expenses as we had settled in 2018 for the accrued expenses for repair and maintenance work of production plant as at 31 December 2017 and there was no similar major repair and maintenance work performed in 2018, offset by an increase in payables for property, plant and equipment primarily due to our technological enhancement for increasing production capacity of our existing products at our Tai'an Production Plant, which has been completed as at the Latest Practicable Date and funded by our internal financial resources, (iii) an increase in bill receivables at fair value through other comprehensive income of approximately RMB12.7 million primarily because we had discounted bank issued bill receivables to banks, which were at the same amount as the carrying amounts of associated liabilities, (iv) an increase in other receivables and prepayments of approximately RMB12.5 million primarily because of the increase in value-added tax recoverable as a result of increasing purchase and sales in the PRC and Vietnam, respectively, and increase in deposits paid to suppliers which were mainly our pharmaceutical products suppliers, (v) an increase in inventories of approximately RMB12.3 million primarily because the price for imported iodine as raw materials for our production of iodine derivatives was increasing and the management of our Group expected that the price would further go up, hence the inventory balance of iodine was increased to meet the future sales order and (vi) a decrease in contract liabilities of approximately RMB11.5 million primarily due to our delivery of goods near the end of 2018 to our customers which we received deposit, partially offset by an increase in trade and bill payables of approximately RMB3.8 million primarily due to increase in procurement of raw materials from suppliers who granted us credit period for our purchase to meet the production needs in light of the business growth, offset by the settlement of bills payable during the period.

For the year ended 31 December 2017, our net cash generated from operating activities amounted to approximately RMB54.4 million, which was a combined result of cash generated from operations before changes in working capital of approximately RMB130.0 million, PRC enterprise income tax paid of approximately RMB1.0 million and negative change in working capital of approximately RMB74.6 million. The change in our working capital primarily reflected (i) a decrease in contract liabilities of approximately RMB14.8 million primarily because of decrease in receipt in advance from customers for finished goods as we delivered goods near the end of 2017 to the customers which we received deposit in the same year when compared to that of 2016 which we delivered some of the goods in early 2017 to customers after we received deposit near the end of 2016, (ii) an increase in inventories of approximately RMB52.1 million primarily because the price for imported iodine as raw materials for our production of iodine derivatives was increasing from the third quarter of 2017 and the management of our Group expected that the price would further go up in 2018, hence the inventory balance of iodine was increased in order to meet the sales order in early 2018; and there was an increase in cost of raw materials for production of animal nutrition chemicals such as trimethylamine and hence the increase in carrying value of our finished goods such as choline chloride, (iii) a decrease in trade and bill payables of approximately RMB11.6 million primarily because of the decrease in our trade payable as a result of the decrease in our procurement of MIBK from a major supplier in Japan in 2017 which we were granted credit period for payment due to the anti-dumping measures in the PRC imposed on our Japanese suppliers, offset by the increase in bills payable as a result of the increase in average purchase price of trimethylamine as raw materials for production of animal nutrition chemicals and the increase in our purchase of trimethylamine from one of our major suppliers which we generally issued bank acceptance bills to settle our payment in 2017, and (iv) an increase in trade and bill receivables of approximately RMB13.0 million primarily because of the increase in sales to our larger customers which were granted credit period, partially offset by an increase in other payables, deposits received and accrued charges of approximately RMB25.9 million primarily because of an increase in payable for Listing expenses, an increase in accrued repairment expenses for Tai'an Production Plant in 2017, an increase in PRC value-added tax payable and other tax payables as the increase in output value-added tax derived from sales and capital gains tax payable derived from disposal of Organic Chemicals co. outweighs the increase in input value-added tax derived from purchase, an increase in accrued salaries

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and welfare expenses primarily as a result of the increase in accrued expenses for the staff benefit in 2017, offset by a decrease in payables for property, plant and equipment as a result of our settlement of payables for our previous purchase of property, plant and equipment.

For the year ended 31 December 2016, our net cash generated from operating activities amounted to approximately RMB69.0 million, which was a combined result of cash generated from operations before changes in working capital of approximately RMB45.5 million, PRC enterprise income tax paid of approximately RMB0.5 million and positive change in working capital of approximately RMB23.9 million. The change in our working capital primarily reflected (i) an increase in other payables, deposits received and accrued charges of approximately RMB5.4 million, (ii) a decrease in trade and bill receivables of approximately RMB11.8 million, (iii) a decrease in other receivables and prepayments of approximately RMB8.6 million, (iv) an increase in trade and bill payables of approximately RMB4.3 million and (v) an increase in contract liabilities of approximately RMB21.6 million primarily because there was an increase in receipt in advance from customers of choline chloride resulting from expansion of our business operation and increase in sales of choline chloride and more goods, in particular, choline chloride were delivered before the year end of 2015 to customers which we received deposit when compared to that of 2016, partially offset by an increase in inventories of approximately RMB21.6 million as our production plant in Tai'an delivered more goods, in particular, choline chloride, before the year end of 2015.

Cash flow from investing activities

During the Track Record Period, our cash inflow or outflow from investing activities was principally derived from (i) sale or purchases of property, plant and equipment and (ii) release or placement of pledged bank deposits.

For the six months ended 30 June 2019, our net cash used in investing activities of approximately RMB33.5 million was primarily attributable to (i) placement of restricted bank deposits of approximately RMB27.9 million, (ii) payment for purchase of property, plant and equipment of approximately RMB27.7 million and (iii) payment for the land use fees for construction land in the amount of approximately RMB3.8 million for the Construction Land on which our New Production Plant is expected to be constructed, partially offset by proceeds from release of restricted bank deposits of approximately RMB25.9 million.

For the year ended 31 December 2018, our net cash used in investing activities of approximately RMB19.4 million was primarily attributable to (i) placement of restricted bank deposits of approximately RMB25.9 million, (ii) payment for purchase of property, plant and equipment of approximately RMB23.3 million and (iii) deposit for acquisition of land use right in respect of RMB15.8 million in respect of the Potential Land on which our New Production Plant is expected to be located, partially offset by proceeds from release of restricted bank deposits of approximately RMB43.2 million.

For the year ended 31 December 2017, our net cash used in investing activities of approximately RMB53.3 million was primarily attributable to (i) placement of pledged bank deposits of approximately RMB43.2 million and (ii) payment for purchase of property, plant and equipment of approximately RMB45.0 million, partially offset by proceeds from release of pledged bank deposit of approximately RMB26.6 million.

For the year ended 31 December 2016, our net cash used in investing activities of approximately RMB43.5 million was primarily attributable to (i) payment for purchase of property, plant and equipment of approximately RMB50.1 million and (ii) placement of pledged bank deposits of approximately RMB26.6 million, partially offset by proceeds from release of pledged bank deposit of approximately RMB25.2 million.

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Cash flow from financing activities

During the Track Record Period, our cash inflow from financing activities was principally derived from the new bank loans raised while our cash outflow used in financing activities was principally for repayment of borrowings, payment of dividends and payment of interest and repayment to shareholders.

For the six months ended 30 June 2019, our net cash generated from financing activities of approximately RMB87.9 million was primarily attributable to new bank loans raised of approximately RMB285.0 million, partially offset by (i) repayment of bank loans of approximately RMB159.3 million, (ii) repayment to shareholders of approximately RMB19.1 million, (iii) interest paid of approximately RMB7.5 million and (vi) payment of dividends of approximately RMB7.1 million.

For the year ended 31 December 2018, our net cash used in financing activities of approximately RMB4.0 million was primarily attributable to (i) repayment of bank loans of approximately RMB211.7 million and (ii) interest paid of approximately RMB10.6 million, partially offset by new bank loans raised of approximately RMB230.7 million.

For the year ended 31 December 2017, our net cash used in financing activities of approximately RMB8.6 million was primarily attributable to (i) repayment of bank loans of approximately RMB231.0 million, (ii) dividend paid of approximately RMB10.5 million, (iii) repayment to a related party of approximately RMB17.3 million, and (iv) interest paid of approximately RMB9.4 million, partially offset by (i) new bank loans raised of approximately RMB251.1 million and (ii) proceeds of approximately RMB17.6 million from disposal of 86.3846% equity interest in Organic Chemical Co., to Hanhe Enterprises on 31 October 2017.

For the year ended 31 December 2016, our net cash used in financing activities of approximately RMB10.6 million was primarily attributable to (i) repayment of bank loans of approximately RMB176.2 million and (ii) repayment to shareholders of approximately RMB14.5 million, partially offset by new bank loans raised of approximately RMB187.6 million.

Net Current Liabilities

We recorded net current liabilities of approximately RMB80.3 million, RMB80.0 million, RMB111.9 million and RMB76.2 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our net current liabilities position during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 was primarily due to bank and other borrowings repayable within a year. The balance of the borrowings under current liabilities in aggregate accounted for approximately 35.8%, 34.9%, 35.0% and 43.4% of our total current liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, and the balance of our amount due to shareholders/former shareholders and dividend payables under current liabilities in aggregate accounted for approximately 9.2%, 15.7%, 25.3% and 18.3% of our total current liabilities as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

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The table below sets forth selected information for our current assets and current liabilities as at 31 December 2016, 2017 and 2018, 30 June 2019 and 30 November 2019, respectively:

	As at 31 December			As at	As at
	2016	2017	2018	30 June	30 November
	(RMB'000)	(RMB'000)	(RMB'000)	2019	2019
				(RMB'000)	(RMB'000)
					(unaudited)
Current assets					
Inventories	100,388	152,471	164,601	215,054	193,068
Prepaid lease payments	416	412	410	–	–
Trade receivables	128,432	140,119	150,572	148,913	136,440
Bill receivables	3,149	879	–	–	–
Bill receivables at fair value through other comprehensive income	–	–	13,602	54,700	61,029
Other receivables and prepayments	36,004	42,096	57,018	62,434	64,197
Amount due from a related party	5,330	–	–	–	–
Amounts due from immediate holding companies	–	–	69	69	70
Tax recoverable	10	–	48	2,243	–
Restricted bank deposits	26,639	43,246	25,850	27,938	64,555
Bank balances and cash	40,877	34,620	30,261	33,686	21,065
Total current assets	<u>341,245</u>	<u>413,843</u>	<u>442,431</u>	<u>545,037</u>	<u>540,424</u>
Current liabilities					
Trade and bill payables	162,310	149,552	153,308	165,525	180,254
Other payables and accrued charges	28,822	57,525	48,616	43,044	42,029
Lease liabilities	–	–	–	5,599	5,100
Contract liabilities	38,187	23,392	11,902	21,494	14,931
Amounts due to shareholders/ former shareholders	38,843	11,966	83,604	64,485	64,580
Tax payables	–	13,651	6,183	2,218	3,564
Defined benefit plan	2,400	–	–	–	–
Borrowings	150,963	172,312	194,225	269,495	276,024
Dividend payables	–	65,420	56,459	49,400	49,400
Total current liabilities	<u>421,525</u>	<u>493,818</u>	<u>554,297</u>	<u>621,260</u>	<u>635,882</u>
Net current liabilities	<u>(80,280)</u>	<u>(79,975)</u>	<u>(111,866)</u>	<u>(76,223)</u>	<u>(95,458)</u>

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As at 31 December 2016, the net current liabilities of the Group were approximately RMB80.3 million, which primarily included the Group's borrowings in the amount of approximately RMB151.0 million classified as current liabilities. Among the borrowings classified as current liabilities, approximately RMB117.0 million were recurring term loans with repayment period within one year.

Apart from the maintenance of sufficient working capital for operation, our Group also utilised bank balance and cash to invest in non-current assets, which mainly represented the property, plant and equipment at Tai'an Production Plant and Vietnam Production Plant during the years. The cash outflow for purchase of the property, plant and equipment during the year ended 31 December 2016 was approximately RMB50.1 million and the carrying amount of the property, plant and equipment as at 31 December 2016 was approximately RMB145.7 million. The investment in non-current assets led to a result of net current liabilities of the Group as at 31 December 2016.

Our Group's net current liabilities decreased from approximately RMB80.3 million as at 31 December 2016 to approximately RMB80.0 million as at 31 December 2017. The decrease in the amount of approximately RMB0.3 million was primarily attributable to (i) an increase in inventories of approximately RMB52.1 million primarily because the price for imported iodine as raw materials for our production of iodine derivatives was increasing from the third quarter of 2017 and the management of our Group expected that the price would further go up in 2018, hence the inventory balance of iodine was increased in order to meet the sales order in early 2018; and there was an increase in cost of raw materials for production of animal nutrition chemicals such as trimethylamine and hence the increase in carrying value of our finished goods such as choline chloride, (ii) an increase in restricted bank deposits of approximately RMB16.6 million primarily because we maintained more restricted cash at banks throughout the year ended 2017 for issue of banks' acceptance bills as we used less cash and more amount of bills to pay for our purchases in 2017, (iii) a decrease in amounts due to shareholders of approximately RMB26.9 million primarily as a result of settlement of the amount due to Mr. Yin of approximately RMB18.9 million, partially offset by (i) an increase in dividend payables of approximately RMB65.4 million primarily because of declaration of dividend of approximately RMB75.9 million by GHW International SCM to its then shareholders, (ii) an increase in tax payables of approximately RMB13.7 million primarily because of the increase in our profit for the year ended 31 December 2017, (iii) an increase in borrowings of approximately RMB21.3 million and (iv) an increase in other payables, deposits received and accrued charges of approximately RMB28.7 million primarily because of an increase in payable for Listing expenses, an increase in accrued repairment expenses for Tai'an Production Plant in 2017, an increase in PRC value-added tax payable and other tax payables as the increase in output value-added tax derived from sales and capital gains tax payable derived from disposal of Organic Chemicals co. outweighs the increase in input value-added tax derived from purchase, an increase in accrued salaries and welfare expenses primarily as a result of the increase in accrued expenses for the staff benefit in 2017, offset by a decrease in payables for property, plant and equipment as a result of our settlement of payables for our previous purchase of property, plant and equipment.

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Our Group's net current liabilities increased from approximately RMB80.0 million as at 31 December 2017 to approximately RMB111.9 million as at 31 December 2018. The increase in the amount of approximately RMB31.9 million was primarily attributable to (i) an increase in the amount due to shareholders/former shareholders of approximately RMB71.6 million which was mainly attributable to the consideration to be settled by our Group before the Listing for the transfer to the entire equity interest in GHW International SCM from Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear to GHW Holdings, (ii) an increase in borrowings of approximately RMB21.9 million, and (iii) a decrease in the restricted bank deposits of approximately RMB17.4 million primarily because we had less bills payable as at 31 December 2018, partially offset by (i) an increase in trade receivables and bill receivables/bill receivables at fair value through other comprehensive income of approximately RMB23.2 million primarily because of the increase in trade receivables from one of our major customers of approximately RMB11.1 million, resulting from increase in sales transaction near the year end of 2018 and increase in bill receivables at fair value through other comprehensive income as we had discounted bank issued bill receivables to banks of approximately RMB9.5 million, which were the same as the carrying amounts of associated liabilities, i.e. borrowings, (ii) an increase in other receivables, deposits and prepayments of approximately RMB14.9 million primarily because of an increase in value-added tax recoverable and other tax prepaid as a result of increasing purchase and sales in the PRC and Vietnam, respectively, and increase in deposits paid to suppliers, which were mainly our pharmaceutical products suppliers, (iii) an increase in inventories of approximately RMB12.1 million primarily because the price for imported iodine as raw materials for our production of iodine derivatives was increasing since the third quarter of 2017 and the management of our Group expected that the price would further go up in 2018, hence the inventory balance of iodine as raw materials and consumables was further increased in order to meet the future sales order, (iv) a decrease in contract liabilities of approximately RMB11.5 million primarily because we delivered goods near the end of 2018 to our customers which we received deposit, (v) a decrease in other payables and accrued charges of approximately RMB8.9 million primarily because of a decrease in PRC value-added tax payable and other tax payables as we have settled the capital gains tax payable derived from disposal of Organic Chemicals Co., and a decrease in accrued repairment expenses as we had settled in 2018 for the accrued expenses for repair and maintenance work of production plant as at 31 December 2017 and there was no similar major repair and maintenance work performed in 2018, offset by an increase in payables for property, plant and equipment primarily due to our technological enhancement for increasing production capacity of our existing products at our Tai'an Production Plant, which has been completed as at the Latest Practicable Date and funded by our internal financial resources, (vi) a decrease in dividend payables of approximately RMB9.0 million, and (vii) a decrease in tax payables of approximately RMB7.5 million primarily because of payment of PRC enterprise income tax during the year ended 31 December 2018 for our profit generated in 2017 as well as in the quarters of 2018.

Our Group's net current liabilities decreased from approximately RMB111.9 million as at 31 December 2018 to approximately RMB76.2 million as at 30 June 2019. The decrease in the amount of approximately RMB35.6 million was primarily attributable to (i) an increase in inventories of approximately RMB50.5 million primarily because of the increase in volume on hand of different products, in particular, there was increase in the volume of choline chloride in order to meet the increasing demand in terms of sales volume from our customers, iodine as the management of our Group expected that the price of iodine and iodine derivatives would further increase as a result of increasing demand from downstream industry players and polymeric MDI, which were substantially sold in July 2019 subsequently, (ii) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million primarily relating to the increase in discounted bank issued bill receivables to banks in the amount of approximately RMB53.7 million as at 30 June 2019, and the carrying amount of such discounted bank issued bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings, as a result of the increase in customers' payment settling with issued bills for the six months ended 30 June 2019, (iii) a decrease in the amount due to shareholders/former shareholders of approximately RMB19.1 million and (iv) a decrease in dividend payables of approximately RMB7.1 million, partially offset by an increase in borrowings of approximately RMB75.3 million.

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Our Group's net current liabilities increased from approximately RMB76.2 million as at 30 June 2019 to approximately RMB95.5 million as at 30 November 2019. The increase in the amount of approximately RMB19.3 million was primarily because of (i) a decrease in inventories of approximately RMB22.0 million due to the decrease in inventory level of iodine and choline chloride in our Tai'an Production Plant in the amount of approximately RMB22.6 million, (ii) an increase in trade and bill payables of approximately RMB14.7 million due to the increase in bills payable to our suppliers, such as one of our trimethylamine supplier in the amount of approximately RMB18.1 million, (iii) a decrease in bank balances and cash of approximately RMB12.6 million, and (iv) a decrease in trade receivables of approximately RMB12.5 million due to an increased amount of settlement by our customers who had purchased pharmaceutical products, polyurethane materials and animal nutrition products from us, offset by an increase in restricted bank deposits of approximately RMB36.6 million due to the increase deposits placed in our banks for issuance of bills to our suppliers.

Working Capital Sufficiency

Although we had significant net current liabilities during the Track Record Period, our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this prospectus, taking into account cash flow generated from our business, available facilities and net proceeds from the Global Offering, and considering the fact that the dividend payables and amounts due to Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear arising from the Reorganisation will be repaid by us before Listing. The details of these factors are as follow:

- *Cash flow generated from our business.* We had net cash flow from operating activities in the amount of RMB69.0 million, RMB54.4 million, and RMB19.8 million for the year ended 31 December 2016, 2017 and 2018, respectively. Although we had net cash outflow in operating activities in the amount of approximately RMB51.0 million for the six months ended 30 June 2019, such amount primarily included (i) an increase in bill receivables at fair value through other comprehensive income of approximately RMB41.1 million, which the balance as at 30 June 2019 primarily comprised discounted bank issued bill receivables at fair value through other comprehensive income in the amount of approximately RMB53.7 million, mainly resulting from the increase in our customers' payment settling with issued bills and (ii) an increase in inventories of approximately RMB54.0 million, as described in the paragraph headed "Financial Information – Liquidity and Capital Resources – Cash Flow – Cash flow used in/from operating activities" in this prospectus. Based on the subsequent utilisation of inventories as at the Latest Practicable Date, we believe that there was no slow moving item and our Group is able to manage the inventory level of different products taking into account the market and our liquidity position. In respect of the increase in bill receivables, such bills were generally endorsed by the issuing banks which guaranteed the payment obligations and based on our historical experience that there had been no recourse on these discounted issued bills, there is minimal probability of recourse by the banks on these discounted issued bills going forward. In addition, as the majority of the balance of bill receivables as at 30 June 2019 had been discounted to bank and the Group had recognised the cash received on the discounting of such bill receivables to banks as borrowing (i.e. under financing activities), the increase in bill receivables would not have material impact on the overall cashflow position of the Group, including the cash flow in operating activities and financing activities;
- *Bank loans.* Historically, we have been able to refinance our short-term bank borrowings at maturity if needed, and we do not foresee any impediment in continuing to do so in the future. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material delay or default in repaying our borrowings. We had demonstrated our repayment ability by making the repayment of our borrowings of approximately RMB176.2 million, RMB231.0 million, RMB211.7 million and RMB159.3 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Further, our Group raised new bank loans of approximately RMB187.6 million, RMB251.1 million and RMB230.7 million and RMB285.0 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. Our Directors believe that we had no difficulties in obtaining bank and other loans based on our credit history during the Track Record Period;

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- *Banking facilities.* We have obtained various term loan facilities of RMB298.0 million from the Nanjing branch of a licensed bank in the PRC, the Hong Kong branch of a licensed bank in the PRC and a financial institution authorised by the China Banking Regulatory Commission (the “**Banking Facilities**”), which stipulate that their use is limited to general working capital and/or repayment of amount due to shareholders/related parties. We intend to use part of the Banking Facilities to settle the remaining balance in the amounts due to Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear and dividend payables. Among the Banking Facilities, we had unutilised bank facilities of RMB310.1 million as at 31 October 2019, being the latest practicable date for determining our indebtedness;
- *One-off item.* A significant portion of our current liabilities was due to non-recurring items, including amounts due to Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear of approximately RMB60.4 million, which was attributable to the consideration to be settled by our Group as part of the Reorganisation, and dividend payables of approximately RMB49.4 million as at 31 October 2019, which we plan to repay by long-term bank borrowing draw down from the Banking Facilities, which the utilised amounts are repayable after three years from the respective drawdown date before Listing; and
- *Net proceeds from the Global Offering.* We expect to receive net proceeds from the Global Offering of approximately HK\$79.8 million based on the low end of the Offer Price range set out in this prospectus. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of cash flows from operations, our cash and cash equivalents, bank borrowings and net proceeds from the Global Offering. As at 31 October 2019, we had RMB678.8 million available bank facilities consisting of the Banking Facilities and trade financing facilities, of which RMB310.1 million were unutilised. Other than the bank borrowings that we may obtain as aforesaid, we do not have any plans for material external debt financing.

Our Group manages our overall cash flow by setting up the following measures:

- (i) **Preparation of monthly cash flow forecast** – our Group prepares a monthly cash flow forecast to closely monitor our cash position in our operations. Our Directors take into account our cash position and available banking facilities at the time prior to proceeding with any of our expansion plans; and
- (ii) **Management of our banking facilities and gearing ratio** – we fund our working capital and expansion plans by available banking facilities. Our Directors consider and monitor the utilised banking facilities and gearing ratio each month and make the financial decision with reference to our repayment ability and credit risk.

After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that the Company cannot meet the working capital requirements for the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group’s liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed “Future Plans and Use of Proceeds” in this prospectus.

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DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

The majority of our inventory balance consists of finished goods, while the rest being raw materials and consumables and work in progress.

The table below sets forth the balance of our inventories during the Track Record Period:

	As at 31 December			As at 30 June
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Raw materials and consumables	16,392	35,904	45,631	64,347
Work in progress	251	5,813	9,387	14,431
Finished goods	83,745	110,754	109,583	136,276
Total	<u>100,388</u>	<u>152,471</u>	<u>164,601</u>	<u>215,054</u>

Our balance of inventories increased by approximately RMB52.1 million or 51.9% from approximately RMB100.4 million as at 31 December 2016 to approximately RMB152.5 million as at 31 December 2017 primarily attributable to an increase in the balance of our inventory of raw materials and consumables, work in progress and finished goods. Our balance of inventories increased by approximately RMB12.1 million or 8.0% to approximately RMB164.6 million as at 31 December 2018 primarily attributable to increase in the balance of raw materials and consumables. The details for the fluctuations are further explained below. Our balance of inventories increased by approximately RMB50.5 million or 30.7% to approximately RMB215.1 million as at 30 June 2019 primarily attributable to increase in the balance of finished goods.

The inventory balance of raw materials and consumables increased from approximately RMB16.4 million as at 31 December 2016 to approximately RMB35.9 million as at 31 December 2017 and RMB45.6 million as at 31 December 2018, primarily because the price for imported iodine as raw materials for our production of iodine derivatives was increasing since the third quarter of 2017 and the management of our Group expected that the price would further go up, hence the inventory balance of iodine was increased in order to meet the future sales order. The inventory balance of raw materials and consumables increased from approximately RMB45.6 million as at 31 December 2018 to approximately RMB64.3 million as at 30 June 2019, primarily because of the continuous increase of the price of imported iodine, which was used in the production of iodine derivatives, in 2019.

The inventory balance of work in progress increased from approximately RMB0.3 million as at 31 December 2016 to approximately RMB5.8 million as at 31 December 2017. The inventory balance of finished goods increased from approximately RMB83.7 million as at 31 December 2016 to approximately RMB110.8 million as at 31 December 2017. These increases in inventories were mainly due to the increase in cost of raw materials for the production of animal nutrition chemicals, such as trimethylamine, and hence the carrying values of our finished goods, such as choline chloride, were increased.

The inventory balance of work in progress and finished goods remained stable at approximately RMB116.6 million and RMB119.0 million as at 31 December 2017 and 2018, respectively.

The inventory balance of work in progress and finished goods increased by approximately RMB31.7 million to approximately RMB150.7 million as at 30 June 2019, primarily because of the increase in volume on hand of different products such as choline chloride and polymeric MDI near period end in order to meet the increasing demand in terms of sales volume from our customers.

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We recorded written down of inventories of approximately RMB0.2 million, reversal of written down of approximately RMB24,000 and written down of inventories of approximately RMB0.2 million and RMB3.5 million for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, respectively. The increase in written down of inventories for the six months ended 30 June 2019 was primarily because impairment was made on inventories of GHW USA. In order to minimise the cost impact to our Group in respect of the potential increase of tariff imposed by the U.S., we have manufactured or procured more inventory of finished goods in advance, which primarily include choline chloride and feed additives, and provision was made in respect of these inventories since the market price of the products decreased.

The table below sets forth the turnover days of our inventories during the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Average inventory turnover days ^(Note)	22.7	24.8	31.4	42.2

Note: Average inventory turnover days for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 are calculated by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant year/period by cost of sales and multiplying by 365 days in the case of the years ended 31 December 2016, 2017 and 2018 and 181 days in the case of the six months ended 30 June 2019.

Our average inventory turnover days increased from approximately 22.7 days for the year ended 31 December 2016 to approximately 24.8 days for the year ended 31 December 2017 primarily due to the increase in average inventories balance discussed above outweighs the increase in cost of sales from 2016 to 2017 as a result of the increase in cost of raw materials and inventories resulting from increase in sale of polyurethane materials and animal nutrition chemicals. It increased to approximately 31.4 days for the year ended 31 December 2018 primarily due to increase in inventory balance as described above and the decrease in cost of raw materials and inventories resulting from decrease in the market price of the polyurethane materials. It further increased to approximately 42.2 days for the six months ended 30 June 2019 primarily due to increase in inventory balance as described above and the decrease in cost of raw materials and inventories resulting from decrease in the market price of the polyurethane materials and animal nutrition chemicals.

As at the Latest Practicable Date, approximately RMB204.2 million or 95.0% of our inventories as at 30 June 2019 had been sold or utilised.

Trade and bill receivables/Bill receivables at fair value through other comprehensive income

The table below sets forth our trade and bill receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Trade receivables	129,984	141,518	158,574	157,292
Less: allowance of doubtful debts	1,552	1,399	8,002	8,379
	<u>128,432</u>	<u>140,119</u>	<u>150,572</u>	<u>148,913</u>
Bill receivables	<u>3,149</u>	<u>879</u>	<u>-</u>	<u>-</u>
Bill receivables at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>13,602</u>	<u>54,700</u>

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Our trade receivables (before allowance of doubtful debts) increased from approximately RMB130.0 million as at 31 December 2016 to approximately RMB141.5 million as at 31 December 2017, which was primarily due to the increase in sales to our larger customers which were granted credit period. Our trade receivables increased from approximately RMB141.5 million as at 31 December 2017 to approximately RMB158.6 million as at 31 December 2018, which was primarily due to the increase in trade receivables from one of our major customers of approximately RMB11.1 million, resulting from increase in sales transaction near the year end of 2018. Our trade receivables remained relatively stable at approximately RMB157.3 million as at 30 June 2019 as compared to approximately RMB158.6 million as at 31 December 2018.

Our allowance of doubtful debts remained stable at approximately RMB1.6 million and RMB1.4 million as at 31 December 2016 and 2017, respectively. Our allowance of doubtful debt allowance increased from approximately RMB1.4 million as at 31 December 2017 to approximately RMB8.0 million as at 31 December 2018, which was primarily because the Group has reassessed the credit risks and expected credit losses on the trade receivables upon the adoption of IFRS 9 “Financial Instruments” on 1 January 2018. Our allowance for doubtful debts remained relatively stable at approximately RMB8.4 million as at 30 June 2019 as compared to approximately RMB8.0 million as at 31 December 2018.

Our bills receivables and bill receivables at fair value through other comprehensive income represented receivables evidence by bills issued by banks. We allow our customers to use banks’ acceptance bills to settle their purchases with us. These bills, once received by us, may be discounted to cash with banks prior to their maturity dates subject to the payment of discount interest, or endorsed by us to settle our payables. Our bills receivables decreased from approximately RMB3.1 million as at 31 December 2016 to approximately RMB0.9 million as at 31 December 2017, which was primarily because we endorsed more bills received from our customers to settle the payables with our suppliers. Our bills receivables at fair value through other comprehensive income increased to approximately RMB13.6 million as at 31 December 2018, which was primarily because we had discounted bank issued bill receivables to banks, amounting to approximately RMB9.5 million, which were the same as the carrying amounts of associated liabilities, i.e. borrowings. Our bills receivables at fair value through other comprehensive income further increased to approximately RMB54.7 million as at 30 June 2019, mainly comprising the increase in discounted bank issued bill receivables to the amount of approximately RMB53.7 million as at 30 June 2019 which the relevant issued bills were received by us and had been discounted to banks, and the carrying amount of such discounted bank issued bill receivables were the same as the carrying amounts of associated liabilities, i.e. borrowings. The increase in bank issued bill receivables as at 30 June 2019 was primarily because of the increase in customers’ payment settling with bank issued bills for the six months ended 30 June 2019. Such increase was primarily attributable to (i) the increase in sale of iodine to certain large customers and (ii) the increasing popularity of electronic commercial bills in business dealings in the PRC after the issue of certain notices by the People’s Bank of China which aimed to enhance the administration of electronic commercial bills system and encourage the safe and stable operation of such bills system. In particular, as advised by Frost & Sullivan, electronic commercial bills are becoming more popular in the PRC during recent years, especially in 2018 and the first half of 2019 after Shanghai Commercial Paper Exchange Corporation Ltd. was authorised to manage the electronic commercial bill system nationwide in October 2017 and the issue of the notice in relation to measures for administration of electronic commercial bills system by the People’s Bank of China in 2018.

Despite that we generally granted a credit period of only 15 to 30 days, while the maturity date of bank issued bills received by our Group as at 30 June 2019 generally ranged from 90 days to one year from their issue date, we believe that making this payment option available to our customers is justified after taking into consideration the relatively small amount of finance cost, being approximately RMB0.9 million compared to the carrying amount of the discounted bank issued bills in the amount of approximately RMB53.7 million as at 30 June 2019, and the generally higher price we could charge on our customers who settled the purchase by way of bills instead of cash to cover the finance cost in relation to such discounting of the bank issued bills to banks. After receiving more bank issued bills from the customers as explained above, our Group discounted more bank issued bills as at 30 June 2019, primarily because we believed that the cash converted from the discounting of these bank issued bills would form an important part of the liquid capital of our Group used in the operation and enable our Group to get access to funds quickly instead of upon the maturity date of these bank issued bills, while the finance cost associated to such discounting would be mostly recovered by the price premium of the relevant purchases.

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Our Group's trading terms with some of our customers are mainly on credit after taking into account factors including but not limited to their scale of operations, business relationship with our Group, transaction amount and historical payment records. The credit period is generally for a period of 15 to 30 days for our customers. Before accepting any new customers, our Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limit by customer. Credit limits attributable to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good credit quality. We typically do not require any collateral over these trade receivable balances.

Our policy for impairment on trade and bill receivables is based on an evaluation of objective evidence which demonstrates significant financial difficulty of the counterparty, default or delinquency in interest or principal payments, or probability of bankruptcy or financial reorganisation of the borrower. In determining the recoverability of trade receivables, our management considers if there is any change in the credit quality of the trade receivables from the date of grant of the credit up to the end of each reporting period. Our management considers the receivables to be impaired if the estimated future cash flow of the receivables have been affected as a result of the above events in the evidence.

The table below sets forth the ageing analysis of our trade receivables, based on the invoice date during the Track Record Period:

	As at 31 December		2018 (RMB'000)	As at 30 June
	2016 (RMB'000)	2017 (RMB'000)		2019 (RMB'000)
Within 30 days	60,545	86,746	88,080	82,309
31 to 60 days	28,264	25,331	35,738	33,526
61 to 90 days	10,081	10,070	14,633	20,852
Over 90 days	<u>29,542</u>	<u>17,972</u>	<u>12,121</u>	<u>12,226</u>
Total	<u><u>128,432</u></u>	<u><u>140,119</u></u>	<u><u>150,572</u></u>	<u><u>148,913</u></u>

The table below sets forth the ageing analysis of our trade which are past due but not impaired during the Track Record Period:

	As at 31 December		2018 (RMB'000)	As at 30 June
	2016 (RMB'000)	2017 (RMB'000)		2019 (RMB'000)
61 to 90 days	10,081	10,070	14,633	20,852
Over 90 days	<u>29,542</u>	<u>17,972</u>	<u>12,121</u>	<u>12,226</u>
Total	<u><u>39,623</u></u>	<u><u>28,042</u></u>	<u><u>26,754</u></u>	<u><u>33,078</u></u>

As at 31 December 2016, 2017 and 2018 and 30 June 2019, trade receivables of approximately RMB39.6 million, RMB28.0 million, RMB26.8 million and RMB33.1 million, respectively, were past due but not impaired. The trade receivables past due but not provided for as at the end of the reporting period were either subsequently settled or there was no historical default of payments by the respective customers. The Group does not hold any collateral over these balances. After fully considering the nature of trade and bills receivables and their recoverability, the management believes no impairment is required.

As at the Latest Practicable Date, approximately RMB148.9 million or 100.0% of our trade receivables outstanding as at 30 June 2019 were settled.

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The table below sets forth a summary of average turnover days of trade receivables during the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Average turnover days of trade receivables ^(Note)	30.9	22.5	24.6	29.0

Note: Average turnover days of trade receivables for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 are calculated using the average balance of net trade receivables (excluding the bills receivables) divided by revenue for the relevant year/period and multiplied by 365 days in the case of the years ended 31 December 2016, 2017 and 2018 and 181 days in the case of the six months ended 30 June 2019. Average balance of trade receivables is calculated as the sum of the beginning and the ending balance for the relevant year/period, divided by two.

During the Track Record Period, our average turnover days of trade receivables decreased from approximately 30.9 days for the year ended 31 December 2016 to approximately 22.5 days for the year ended 31 December 2017, mainly because our staff strengthened the effort in collecting the trade receivables. It increased from approximately 22.5 days for the year ended 31 December 2017 to approximately 24.6 days for the year ended 31 December 2018, mainly because of increasing trade receivables balance as at 31 December 2018. Such increase was primarily due to the increase in trade receivables from one of our major customers of approximately RMB11.1 million, resulting from increase in sales transaction near the year end of 2018. Our average turnover days further increased from approximately 24.6 days for the year ended 31 December 2018 to approximately 29.0 days for the six months ended 30 June 2019, mainly because of (i) the decreasing revenue for the six months ended 30 June 2019 primarily due to the decrease in average selling price of polyurethane materials and animal nutrition chemicals and (ii) increase in overseas sales, as the time of trade receivables settlements for some of the overseas customers is slightly longer comparatively.

The table below sets forth a summary of average turnover days of trade receivables and bill receivables/bill receivables at fair value through other comprehensive income during the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Average turnover days of trade receivables and bill receivables/bill receivables at fair value through other comprehensive income ^(Note)	31.3	22.8	25.9	35.6

Note: Average turnover days of trade receivables and bill receivables/bill receivables at fair value through other comprehensive income for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 are calculated using the average balance of net trade receivables and bill receivables/bill receivables at fair value through other comprehensive income divided by revenue for the relevant year/period and multiplied by 365 days in the case of the years ended 31 December 2016, 2017 and 2018 and 181 days in the case of the six months ended 30 June 2019. Average balance of trade receivables and bill receivables/bill receivables at fair value through other comprehensive income is calculated as the sum of the beginning and the ending balance for the relevant year/period, divided by two.

During the Track Record Period, our average turnover days of trade receivables and bill receivables/bill receivables at fair value through other comprehensive income decreased from approximately 31.3 days for the year ended 31 December 2016 to approximately 22.8 days for the year ended 31 December 2017, mainly because our staff strengthened the effort in collecting the trade receivables. It increased from approximately 22.8 days for the year ended 31 December 2017 to approximately 25.9 days for the year ended 31 December 2018, mainly because of increasing trade receivables balance as at 31 December 2018. Such increase was primarily due to the increase in trade receivables from one of our major customers of approximately RMB11.1 million, resulting from increase in sales transaction near the year end of 2018. Our average turnover days further increased from approximately 25.9 days for the year ended 31 December 2018 to approximately 35.6 days for the six months ended 30 June 2019, mainly because of (i) the decreasing revenue for the six months ended 30 June 2019 primarily due to the decrease in average selling price of polyurethane materials and animal nutrition chemicals, (ii) increase in overseas sales, as the time of trade receivables settlements for some

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of the overseas customers is slightly longer comparatively, and (iii) increase in balance of bill receivables at fair value through other comprehensive income as at 30 June 2019 primarily attributable to (a) the increase in sale of iodine to certain large customers and (b) the increasing popularity of electronic bills in business dealings in the PRC after the issue of certain notices by the People's Bank of China which aimed to enhance the administration of electronic commercial bills system and encourage the safe and stable operation of such bills system.

As at the Latest Practicable Date, approximately RMB54.7 million or 100.0% of our bill receivables/ bill receivables at fair value through other comprehensive income outstanding as at 30 June 2019 were mature and derecognised.

Other receivables and prepayments

The table below sets forth the breakdown of our other receivables, deposits and prepayments.

	As at 31 December		As at 30 June	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Prepayments for materials	21,884	15,157	17,565	21,426
Value-added tax recoverable and other tax prepaid	6,435	14,246	23,949	21,909
Deferred and prepaid expenses	3,273	6,215	6,013	7,809
Advance to staff	1,933	765	670	1,412
Deposits paid	833	750	1,726	1,667
Deferred issue costs	–	3,325	5,800	6,849
Other receivables	1,646	1,638	1,295	1,362
Total	36,004	42,096	57,018	62,434

Our receivables, deposits and prepayments mainly comprise (i) prepayments to suppliers for purchase of raw materials and inventory; (ii) value-added tax recoverable and other tax prepaid which refers to recoverable for the value-added tax we paid for our raw materials purchased in the PRC and Vietnam as part of our sales were export sales during the Track Record Period which is eligible for value-added tax refund and prepaid custom duty; (iii) deferred and prepaid expenses primarily in relation to implementation of environmental protection measures, repair works and insurance; (iv) advance to staff; (v) deposits paid to suppliers; and (vi) deferred issue costs.

The total balances increased by approximately RMB6.1 million or 16.9% from approximately RMB36.0 million as at 31 December 2016 to approximately RMB42.1 million as at 31 December 2017, which was mainly due to (i) the increase in deferred issue costs of approximately RMB3.3 million in respect of Listing; (ii) the increase in value-added tax recoverable and other tax prepaid of approximately RMB7.8 million as a result our increased purchase of raw materials which are available for future value-added tax and custom duty deductions; and (iii) the increase in deferred and prepaid expenses on repair and maintenance work at Tai'an Production Plant of approximately RMB2.9 million as we strengthened our environmental protection measures to ensure compliance with the increasing stringent environmental protection requirements, offset by the decrease in prepayment for materials of approximately RMB6.7 million as we had paid for purchases of some raw materials just before 31 December 2016 and received the raw materials subsequently in 2017 due to the lead time for the delivery process.

The total balances increased by approximately RMB14.9 million or 35.4% to approximately RMB57.0 million as at 31 December 2018, primarily due to (i) increase in value-added tax recoverable of approximately RMB9.7 million as a result of increasing purchase and sales in the PRC and Vietnam, respectively, and (ii) increase in deposits paid to suppliers of approximately RMB1.0 million, which were mainly our pharmaceutical products suppliers.

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The total balances increased by approximately RMB5.4 million or 9.5% to approximately RMB62.4 million as at 30 June 2019, primarily due to (i) increase in prepayment for materials of approximately RMB3.9 million as a result of an increase of prepayment made for a purchase transaction of iodine shipped from Chile and (ii) increase in deferred issue costs of approximately RMB1.0 million resulting from additional cost recognised in respect of the Listing.

Amounts due from a related party/Amounts due from immediate holding companies

The table below sets forth a summary of our amounts due from/to shareholders for the Track Record Period:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Amount due from a related company (non-trade)				
Hanhe Enterprises ⁽¹⁾	5,330	-	-	-
Amounts due from immediate holding companies (non-trade)				
Commonwealth B Limited ⁽²⁾	-	-	35	35
Commonwealth GHW Limited ⁽²⁾	-	-	17	17
Commonwealth Happy Elephant Limited ⁽²⁾	-	-	16	16
Commonwealth Feibear Limited ⁽²⁾	-	-	1	1

Notes:

- (1) The amount represents current account with Hanhe Enterprises. The amount mainly arises from the funds available to Hanhe Enterprises. Hanhe Enterprises is no longer a shareholder of the Group.
- (2) The amounts represent consideration receivable from each of the shareholders for the share subscription of the Company.

Amount due from a related company and amounts due from immediate holding companies are unsecured, interest-free and expected to be repayable on demand. All amounts due from immediate holding companies which are of non-trade nature as at 30 June 2019 will be settled before Listing.

Restricted bank deposits

Our restricted bank deposits represent the deposits pledged to banks for securing letter of credit facilities and bank loans, which carried interest at market rates with ranges from 0.30% to 1.35% per annum as at 31 December 2016, from 0.30% to 1.50% per annum as at 31 December 2017 and from 0.3% to 1.55% per annum as at 31 December 2018 and 30 June 2019, respectively. Our restricted bank deposits increased by approximately RMB16.6 million from approximately RMB26.6 million as at 31 December 2016 to approximately RMB43.2 million as at 31 December 2017, which was mainly because we maintained more restricted cash at banks throughout the year ended 31 December 2017 for issue of banks' acceptance bills as we used less cash and more amount of bills to pay for our purchases in 2017. Our restricted bank deposits decreased by approximately RMB17.4 million to approximately RMB25.9 million as at 31 December 2018, primarily because we had less bills payable as at 31 December 2018. Our restricted bank deposits remained relatively stable at approximately RMB27.9 million as at 30 June 2019 as compared to approximately RMB25.9 million as at 31 December 2018.

Trade and bill payables

Our trade payables represent payables from our purchase of raw materials and our bills payables represent payables from bills we have issued to our suppliers.

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The table below set forth the breakdown of our trade and bill payables.

	As at 31 December			As at 30 June
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Trade payable	157,310	118,552	134,308	155,804
Bill payable	<u>5,000</u>	<u>31,000</u>	<u>19,000</u>	<u>9,721</u>
Total	<u>162,310</u>	<u>149,552</u>	<u>153,308</u>	<u>165,525</u>

Our trade and bills payables decreased from approximately RMB162.3 million as at 31 December 2016 to RMB149.6 million as at 31 December 2017. It increased to approximately RMB153.3 million as at 31 December 2018. Our trade and bills payables further increased to approximately RMB165.5 million as at 30 June 2019.

Our trade payables decreased from approximately RMB157.3 million as at 31 December 2016 to RMB118.6 million as at 31 December 2017. Such decrease was primarily because of the decrease in our procurement of MIBK from a major supplier in Japan in 2017 which we were granted credit period for payment due to the anti-dumping measures in the PRC imposed on our Japanese suppliers. It increased to approximately RMB134.3 million as at 31 December 2018. Such increase was primarily due to the increase in procurement of raw materials from suppliers, who granted us credit period for our purchase, to meet the production needs in light of the business growth. Our trade payables further increased to approximately RMB155.8 million as at 30 June 2019. Such increase was in line with the increase in our inventory level, particularly for the purchase of iodine and polyether for our use in production, as well as the increase in purchase of polymeric MDI near period end but not yet settled as at 30 June 2019.

Our bills payable increased from approximately RMB5.0 million as at 31 December 2016 to approximately RMB31.0 million as at 31 December 2017. Such increase was primarily because of (i) the increase in average purchase price of trimethylamine as raw materials for production of animal nutrition chemicals and (ii) the increase in our purchase of trimethylamine from one of our major suppliers which we generally issued bank acceptance bills to settle our payment in 2017. It decreased to approximately RMB19.0 million as at 31 December 2018. Such decrease was primarily due to the settlement of bills payable during the period. Our bills payable further decreased to approximately RMB9.7 million as at 30 June 2019. Such decrease was primarily due to the settlement of bills payable during the period.

The credit period on our purchase of inventories is generally 90 days. The table below sets forth the ageing analysis of our trade payables, based on the invoice date, during the Track Record Period:

	As at 31 December			As at 30 June
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Within 30 days	111,985	93,081	86,042	99,203
31 to 60 days	25,812	12,448	20,786	21,257
61 to 90 days	2,366	4,203	9,249	14,782
Over 90 days	<u>17,147</u>	<u>8,820</u>	<u>18,231</u>	<u>20,562</u>
Total	<u>157,310</u>	<u>118,552</u>	<u>134,308</u>	<u>155,804</u>

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The table below sets forth a summary of average turnover days of trade payables for the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Average turnover days of trade payables ^(Note)	40.9	27.0	25.0	32.3

Note: Average turnover days of trade payables for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 are calculated using the average balance of trade payables (excluding the bills payables) divided by cost of sales for the relevant year/period and multiplied by 365 days in the case of the years ended 31 December 2016, 2017 and 2018 and 181 days in the case of the six months ended 30 June 2019.

During the Track Record Period, our average turnover days of trade payables decreased from approximately 40.9 days for the year ended 31 December 2016 to approximately 27.0 days for the year ended 31 December 2017, mainly due to (i) the increase in issuance of bills to pay for our purchases, and (ii) decrease in our procurement of MIBK from a major supplier in Japan in 2017 which we were granted credit period of 90 days for payment. It remained relatively stable at approximately 25.0 days for the year ended 31 December 2018. Our average turnover days increased to approximately 32.3 days for the six months ended 30 June 2019, mainly due to (i) the decrease in issuance of bills to pay for our purchases, and (ii) the increase in purchase of iodine and polyether for our use in production, as well as the increase in purchase of polymeric MDI near period end but not yet settled as at 30 June 2019.

As at the Latest Practicable Date, approximately RMB150.4 million or 96.5% of trade payables outstanding as at 30 June 2019 had been fully settled.

Other payables and accrued charges

Our other payables mainly represent accrued salaries and welfare expenses, payable for Listing expenses, PRC value-added tax payables and other tax payables which primarily represent the tax payables in respect of value-added tax on PRC local sales and purchase, land use tax, property tax as well as maintenance and construction tax, accrued repairment expenses, payables for storage fee, advance from staff which represents disbursements paid on behalf by our staff, payables for property, plant and equipment.

The table below sets forth the breakdown of our other payables and accrued charges during the Track Record Period:

	As at 31 December		As at 30 June	
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Accrued salaries and welfare expenses	8,063	10,091	9,811	5,073
Listing expenses and issued costs payable	–	9,503	9,459	4,958
Accrued repairment expenses	–	7,602	444	160
Payables for property, plant and equipment	10,335	7,249	12,924	14,920
Accrued expenses	7,803	6,701	8,474	11,127
PRC value-added tax payables and other tax payables	317	13,504	3,961	2,633
Advance from staff	542	472	95	90
Others	1,762	2,403	3,448	4,083
Total	28,822	57,525	48,616	43,044

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Other payables increased by approximately RMB28.7 million from approximately RMB28.8 million as at 31 December 2016 to approximately RMB57.5 million as at 31 December 2017, which was mainly attributable to (i) an increase in payable for Listing expenses and issued costs payable of approximately RMB9.5 million, (ii) an increase in accrued repairment expenses for the Tai'an Production Plant in 2017 for approximately RMB7.6 million, (iii) an increase in PRC value-added tax payable and other tax payables of approximately RMB13.2 million as the increase in output value-added tax derived from sales and the capital gains tax payable derived from disposal of Organic Chemicals Co. outweighs the increase in input value-added tax derived from purchase, which leads to an increase in value-added tax payable as at 31 December 2017, and (iv) an increase in accrued salaries and welfare expenses of approximately RMB2.0 million primarily as a result of the increase in accrued expenses for the staff benefit in 2017, offset by a decrease in payables for property, plant and equipment of approximately RMB3.1 million as a result of our settlement of payables for our previous purchase of property, plant and equipment.

Other payables decreased by approximately RMB8.9 million from approximately RMB57.5 million as at 31 December 2017 to RMB48.6 million as at 31 December 2018 which was mainly attributable to (i) a decrease in PRC value-added tax payable and other tax payables of approximately RMB9.5 million as we have settled the capital gains tax payable derived from disposal of Organic Chemicals Co., and (ii) a decrease in accrued repairment expenses of approximately RMB7.2 million as we had settled in 2018 for the accrued expenses for repair and maintenance work of production plant as at 31 December 2017 and there was no similar major repair and maintenance work performed in 2018, offset by an increase in payables for property, plant and equipment of approximately RMB5.7 million primarily due to our technological enhancement for increasing production capacity of our existing products at our Tai'an Production Plant, which has been completed as at the Latest Practicable Date and funded by our internal financial resources.

Other payables decreased by approximately RMB5.6 million from approximately RMB48.6 million as at 31 December 2018 to RMB43.0 million as at 30 June 2019 which was mainly attributable to (i) decrease in accrued salaries and welfare expenses of approximately RMB4.7 million, primarily because an annual staff bonus of approximately RMB4.3 million was accrued as at 31 December 2018 based on the outperformance during the year and (ii) decrease in Listing expenses and issued costs payable of approximately RMB4.5 million as we had settled part of the Listing expenses incurred, offset by an increase in accrued expenses of approximately RMB2.7 million, primarily as a result of an increase in accrued logistic costs near the end of the period.

Our Directors confirm that, our Group did not have any material defaults in payment of trade and non-trade payables during the Track Record Period.

Contract liabilities

Our contract liabilities represents the deposits made by customers to us before delivery of goods, mainly polyurethane materials and cefpodoxime. Our contract liabilities decreased from approximately RMB38.2 million as at 31 December 2016 to approximately RMB23.4 million as at 31 December 2017, primarily because of decrease in receipt in advance from customers for finished goods as we delivered goods near the end of 2017 to the customers which we received deposit in the same year when compared to that of 2016 which we delivered some of the goods in early 2017 to customers after we received deposit near the end of 2016. Our contract liabilities decreased from RMB23.4 million as at 31 December 2017 to RMB11.9 million as at 31 December 2018, primarily because we delivered goods near the end of 2018 to our customers which we received deposit. Our contract liabilities increased to approximately RMB21.5 million as at 30 June 2019, primarily because of the increase in amounts received from our customers for sales in July 2019, including an amount of approximately RMB3.4 million received from a customer of potassium iodate for a sales amount of approximately RMB6.8 million.

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Tax payables

Our Group's tax payables as at 31 December 2016, 2017 and 2018 amounted to approximately nil, RMB13.7 million and RMB6.2 million, respectively. It primarily represents the tax payables in respect of the PRC enterprise income tax. Our tax paid for the respective periods amount to approximately RMB0.5 million, RMB1.0 million and RMB23.1 million, respectively. The difference between the tax provision made by our Group and the tax paid by our Group for the Track Record Period was attributable to the timing difference between our Group making its tax provision and tax payments. The increase in tax payables of approximately RMB13.7 million as at 31 December 2017 was primarily because of the aforementioned increase in our profit in the same year.

Our tax payables decreased from approximately RMB13.7 million as at 31 December 2017 to approximately RMB6.2 million as at 31 December 2018 primarily due to payment of PRC enterprise income tax during the year ended 31 December 2018 for our profit generated in 2017 as well as in the first three quarters of 2018.

Our tax payables decreased to approximately RMB2.2 million as at 30 June 2019, primarily because of (i) payment of income tax in the amount of approximately RMB7.5 million during the six months ended 30 June 2019, and (ii) provision of current income tax expense of approximately RMB2.3 million for the six months ended 30 June 2019, which was smaller than the provision amount for the year ended 31 December 2018 and was in line with the decrease in taxable profit for the six months ended 30 June 2019.

CAPITAL EXPENDITURE

The table below sets forth our capital expenditure during the Track Record Period:

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2019
				(RMB'000)
Land and buildings	4,138	10,780	917	23
Leasehold improvements	1,060	321	299	976
Office equipment	550	1,305	857	75
Motor vehicles	3,512	4,097	1,234	383
Plant and machinery	1,555	2,162	4,648	756
Construction in progress	<u>42,203</u>	<u>23,292</u>	<u>20,990</u>	<u>27,471</u>
Total	<u>53,018</u>	<u>41,957</u>	<u>28,945</u>	<u>29,684</u>

Our Group's capital expenditure have principally consisted of expenditure on additions to property, plant and equipment and construction in progress in our operations. During the Track Record Period, our Group incurred capital expenditure of approximately RMB53.0 million, RMB42.0 million, RMB28.9 million and RMB29.7 million, respectively, the majority of which came from acquisition of land and buildings and construction of plant in Tai'an and Vietnam primarily used for our expansion of operations. Between 30 June 2019 and the Latest Practicable Date, there is no material capital expenditure by our Group.

Projected capital expenditure

Save for the planned usage of the net proceeds from the Global Offering as disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus and the additions of property, plant and equipment necessary for our business operations which will be made by our Group from time to time, our Group had no material planned capital expenditure as at the Latest Practicable Date.

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We expect to fund our capital expenditure principally through the net proceeds we receive from the Global Offering, bank borrowings and cash generated from our operating activities. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months from the date of this prospectus.

PROPERTY INTERESTS

Our Directors confirm that, as at 30 June 2019, 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.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, our Group, as lessee, had commitments for future minimum lease payments in respect of offices premises under non-cancellable operating lease arrangements, which fall due as follows:

	As at 31 December			As at 30 June
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)
Within one year	3,260	3,782	3,929	–
In the second to fifth years inclusive	5,000	2,804	4,864	–
After five years	895	627	299	–
Total	9,155	7,213	9,092	–

Our Group did not have any commitment for future minimum lease payments due to the adoption of IFRS 16 by the Group from 1 January 2019 and onwards.

As at the end of the reporting periods during the Track Record Period, our Group, as lessor, had contracted with tenants for the following future minimum lease payments in respect of office under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 30 June 2019 (RMB'000)
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	
Within one year	6,609	565	499	
In the second to fifth years inclusive	7,137	–	980	
Total	13,746	565	1,479	
Within one year				490
More than one year but not exceeding two years				490
Total				980

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Capital commitments

We had the following capital commitments, which were not provided for in our consolidated financial statements:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:				
– Acquisition of property, plant and equipment	1,384	102	4,760	3,401

The capital commitments described above primarily related to the purchase of machinery and equipment for existing usage. For details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. We intend to fund these commitments with cash generated from our operations, bank borrowings and proceeds from the Global Offering.

INDEBTEDNESS

The following paragraphs set forth the level of indebtedness of the Group as at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019.

Borrowings

The table below sets forth our total interest bearing bank borrowings by repayment schedule as at 31 December 2016, 2017 and 2018 and 30 June 2019:

	As at 31 December			As at
	2016	2017	2018	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2019
				(RMB'000)
The carrying amounts of the bank borrowings are repayable:				
Within one year	150,963	172,312	194,225	269,495
More than one year but not exceeding two years	1,425	2,622	4,132	4,871
More than two years but not exceeding five years	7,125	3,932	–	49,962
Total	<u>159,513</u>	<u>178,866</u>	<u>198,357</u>	<u>324,328</u>

Our secured and unsecured bank borrowings are principally denominated in Renminbi, U.S. dollars and Euro. It increased from approximately RMB159.5 million as at 31 December 2016 to approximately RMB178.9 million as at 31 December 2017. Our bank and other borrowings further increased to approximately RMB198.4 million and RMB324.3 million as at 31 December 2018 and as at 30 June 2019, respectively.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our bank borrowings are secured by the Group’s pledged leasehold land with a net book value of approximately RMB13.8 million, RMB18.4 million, RMB18.1 million and RMB13.0 million, respectively. The Group has also pledged buildings, plant and machinery and motor vehicles with a net book value of approximately RMB23.0 million, RMB33.1 million, RMB9.1 million and RMB18.7 million, respectively. In addition, our Group pledged investment properties with a net book value of approximately RMB7.5 million, nil, nil and nil, as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

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For the years ended 31 December 2016, 2017 and 2018, 30 June 2019 and 31 October 2019, Organic Chemicals Co., Mr. Yin and Ms. Wu Hailing, who are our Controlling Shareholders, had provided guarantees and assets security to banks to support facilities granted to our Group in the amount of approximately RMB76.8 million, RMB128.9 million, RMB32.0 million, RMB10.0 million and RMB10.0 million, respectively. The guarantees and assets security will be released before the Listing. For details, please refer to the paragraph headed “Relationship with Controlling Shareholders – Independence from our Controlling Shareholders – Financial Independence” in this prospectus.

As at 31 October 2019, being the Latest Practicable Date for the purpose of this indebtedness statements, we had total banking facilities of approximately RMB678.8 million, of which approximately RMB310.1 million were unutilised. As at 31 October 2019, being the latest practicable date for this indebtedness statement, our Group had total bank borrowings of approximately RMB336.5 million, of which RMB198.7 million are unsecured and unguaranteed, RMB14.2 million are guaranteed by a third party, RMB113.6 million are secured by certain of the Group’s property, plant and equipment, rights-of-use assets, patents and restricted bank deposits and RMB10.0 million are guaranteed by shareholders and secured by certain of the Group’s property, plant and equipment.

The table below sets forth the range of effective interest rates per annum on our Group’s borrowings as at the end of each reporting period during the Track Record Period:

	As at 31 December 2016	As at 31 December 2017	2018	As at 30 June 2019	As at 31 October 2019
Effective interest rate:					
Variable-rate borrowings	2.6%-4.8%	3.7%-5.7%	4.7%-7.8%	4.7%-5.8%	4.7%-5.8%
Fixed-rate borrowings	3.3%-6.5%	2.9%-6.5%	5.6%-8.6%	3.0%-7.4%	3.0%-7.4%

Our Directors confirm that we did not experience any material default in repayment of borrowings, breach of financial covenants nor experience any difficulty in obtaining loans during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that there were no material covenants relating to our outstanding bank borrowings.

Amounts due to shareholders/former shareholders

	As at 31 December 2016 (RMB'000)	As at 31 December 2017 (RMB'000)	2018 (RMB'000)	As at 30 June 2019 (RMB'000)	As at 31 October 2019 (RMB'000) (unaudited)
Amounts due to shareholders/ former shareholders (non-trade)					
Hanhe Enterprises	–	–	69,974	57,382	57,367
Mr. Xu Zhengwei	4,630	4,636	5,900	–	–
Mr. Chen Yankang	3,105	2,918	3,064	2,683	2,753
Hanhe Investment	–	–	2,000	2,001	2,000
Ms. Bao Weiwei	8,336	2,332	–	–	–
Mr. Tang Jianpin	1,627	1,529	1,606	1,358	1,394
Commonwealth Armyfeibear	–	–	1,055	1,056	1,055
Ms. Wang Wei	448	421	–	–	–
Mr. Yin	19,016	130	5	5	5
Ms. Gu Ying	1,681	–	–	–	–
Total	38,843	11,966	83,064	64,485	64,574

Amounts due to shareholders/former shareholders are unsecured, interest-free and repayable on demand. All amounts due to shareholders/former shareholders which are of non-trade nature as at 31 October 2019 will be settled before Listing.

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Lease liabilities

	As at 31 December			As
	2016	2017	2018	at 30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2019
				(RMB'000)
Within one year	-	-	-	5,599
More than one year, but not exceeding two years	-	-	-	3,163
More than two years, but not exceeding five years	-	-	-	3,886
Total	-	-	-	12,648

We had lease liabilities of approximately RMB12.6 million and RMB11.7 million as at 30 June 2019 and 31 October 2019, respectively. The Group does not face a significant liquidity risk with regard to its lease liabilities, which are monitored within the Group's treasury function.

We had dividend payables of approximately RMB65.4 million, RMB56.5 million, RMB49.4 million and RMB49.4 million as at 31 December 2017 and 2018, 30 June 2019 and 31 October 2019, respectively, which was attributable to the dividends to be paid to the shareholders.

We have obtained various loan facilities of RMB298.0 million in aggregate, among which, RMB95.0 million is in relation to the trust loan granted by Guangda Xinglong Trusts Co., Ltd. (a financial institution authorised by the China Banking Regulatory Commission) as further particularised in the paragraph headed "Appendix IV – Statutory and General Information – B. Further Information About our Business – 1. Summary of material contracts" in this prospectus, and the remaining loan facilities were granted by the Nanjing branch of a licensed bank in the PRC and the Hong Kong branch of a licensed bank in the PRC, from which the utilised amounts are repayable after three years from the respective drawdown date. The purpose of these loan facilities is limited to general working capital and/or repayment of amount due to shareholders/related parties. We plan to draw down part of the funds before the Listing to settle our outstanding dividend payables and amounts due to related companies. As at 31 October 2019, we had made drawdown of approximately RMB40.6 million under the aforementioned loan or credit facilities and among which, approximately RMB0.6 million had been repaid. Save as aforesaid, our Directors confirm that there is no material change in our indebtedness position since 31 October 2019 and up to the Latest Practicable Date.

Contingent liabilities

Save as aforesaid or as otherwise disclosed herein, as at 31 October 2019, being the Latest Practicable Date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at 31 October 2019, being the latest practicable date for this indebtedness statement, save as disclosed herein, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, lease liabilities or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in the Accountants' 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.

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KEY FINANCIAL RATIOS

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

	For the year ended 31 December			For the six months ended
	2016	2017	2018	30 June 2019
Net profit margin (%) ⁽¹⁾	1.3	3.6	3.4	1.8
Return on equity (%) ⁽²⁾	31.3	84.6	83.4	N/A ⁽⁹⁾
Return on total assets (%) ⁽³⁾	4.0	13.4	11.4	N/A ⁽⁹⁾
Interest coverage ratio (times) ⁽⁴⁾	3.3	9.8	9.4	3.4
	As at 31 December			As at 30 June
	2016	2017	2018	2019
Current ratio (times) ⁽⁵⁾	0.8	0.8	0.8	0.9
Quick ratio (times) ⁽⁶⁾	0.6	0.5	0.5	0.5
Gearing ratio (%) ⁽⁷⁾	247.1	193.4	222.9	311.8
Net debt to equity ratio (%) ⁽⁸⁾	142.5	109.2	159.8	252.5

Notes:

- (1) Net profit margin for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 was calculated by dividing the profit for the year/period by revenue for the respective year/period and multiplied by 100%.
- (2) Return on equity for the years ended 31 December 2016, 2017 and 2018 was calculated by dividing the profit for the year attributable to the Shareholders by the total equity attributable to the Shareholders as at the end of the respective year and multiplied by 100%.
- (3) Return on total assets for the years ended 31 December 2016, 2017 and 2018 was calculated by dividing the profit for the year by the total assets for the respective year and multiplied by 100%.
- (4) Interest coverage ratio for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 was calculated by dividing the profits before interest and taxation by finance costs for the respective year/period.
- (5) Current ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was calculated by dividing the total current assets by the total current liabilities as at the end of the respective year/period.
- (6) Quick ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was calculated by dividing the total current assets less inventories by total current liabilities as at the end of the respective year/period.
- (7) Gearing ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was calculated by dividing the total interest bearing external borrowings by total equity as at the end of the respective year/period and multiplied by 100%.
- (8) Net debt to equity ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was calculated by dividing total interest bearing external borrowings net of cash and cash equivalents by total equity as at the end of the respective year/period and multiplied by 100%.
- (9) Return on equity and return on total assets is not applicable as our Group for the six months ended 30 June 2019 since the profit attributable to the Shareholders and the net profit recorded only represents the amount for the six months ended 30 June 2019.

Net profit margin

Our net profit margin increased from approximately 1.3% for the year ended 31 December 2016 to approximately 3.6% for the year ended 31 December 2017.

Our net profit margin remained relatively stable at approximately 3.6% and 3.4% for the years ended 31 December 2017 and 2018, respectively.

Our net profit margin decreased from approximately 3.4% for the year ended 31 December 2018 to approximately 1.8% for the six months ended 30 June 2019.

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Please refer to the paragraph headed “Review of Historical Results of Operation” in this section for more details on our net profit margin.

Return on equity

Our return on equity increased from approximately 31.3% for the year ended 31 December 2016 to approximately 84.6% for the year ended 31 December 2017, primarily due to our increase in net profit recorded for the year ended 31 December 2017.

Our return on equity remained relatively stable at approximately 84.6% and 83.4% for the years ended 31 December 2017 and 2018.

Return on total assets

Our return on total assets increased from approximately 4.0% for the year ended 31 December 2016 to approximately 13.4% for the year ended 31 December 2017, primarily due to our increase in net profit recorded for the year ended 31 December 2017.

Our return on total assets decreased from approximately 13.4% for the year ended 31 December 2017 to approximately 11.4% for the year ended 31 December 2018, primarily due to our increase in total assets as at 31 December 2018 resulting from our continuing expansion of business.

Interest coverage ratio

Our interest coverage ratio increased from approximately 3.3 times for the year ended 31 December 2016 to approximately 9.8 times for the year ended 31 December 2017, primarily due to an increase in profit before interest and taxation by approximately RMB74.4 million from approximately RMB30.4 million for the year ended 31 December 2016 to approximately RMB104.7 million for the year ended 31 December 2017. The increase in profit was mainly resulting from the increase in revenue and other income for the year ended 31 December 2017, partially offset by the increase in operating expenses for the year ended 31 December 2017.

Our interest coverage ratio remained stable at approximately 9.8 times and 9.4 times for the years ended 31 December 2017 and 2018, respectively.

Our interest coverage ratio decreased to approximately 3.4 times for the six months ended 30 June 2019, primarily due to the combined effect of increase in interest bearing bank and other borrowings as at 30 June 2019 and decrease in profit for the period as explained above.

Current ratio

Our current ratio remained stable at approximately 0.8 times as at 31 December 2016, 2017 and 2018 and approximately 0.9 times as at 30 June 2019.

Quick ratio

Our quick ratio remained stable at approximately 0.6 times, 0.5 times, 0.5 times and 0.5 times as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

Gearing ratio

Our gearing ratio decreased from approximately 247.1% as at 31 December 2016 to approximately 193.4% as at 31 December 2017, primarily due to increase in our total equity mainly as a result of the deemed contribution, being the difference in the then carrying value and the consideration which was based on a valuation report, from shareholders, net of tax of approximately RMB25.5 million for the year ended 31 December 2017 from the transfer of 70% equity interests of Havay Group on 28 September 2017 and the transfer of 86.3846% equity interest in Organic Chemicals Co. on 31 October 2017.

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Our gearing ratio increased from approximately 193.4% as at 31 December 2017 to approximately 222.9% as at 31 December 2018, which was primarily due to (i) increase in bank and other borrowings from approximately RMB178.9 million as at 31 December 2017 to approximately RMB198.4 million as at 31 December 2018 and (ii) decrease in total equity mainly as a result of the deemed distribution to shareholders and deemed contribution from a shareholder of approximately RMB72.6 million for the year ended 31 December 2018.

Our gearing ratio increased from approximately 222.9% as at 31 December 2018 to approximately 311.8% as at 30 June 2019, which was primarily due to increase in bank and other borrowings from approximately RMB198.4 million as at 31 December 2018 to approximately RMB324.3 million as at 30 June 2019.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 142.5% as at 31 December 2016 to approximately 109.2% as at 31 December 2017, primarily due to increase in our total equity mainly as a result of the deemed contribution, being the difference in the then carrying value and the consideration which was based on a valuation report, from shareholders, net of tax of approximately RMB25.5 million for the year ended 31 December 2017 from the transfer of 70% equity interests of Havay Group on 28 September 2017 and the transfer of 86.3846% equity interest in Organic Chemicals Co. on 31 October 2017.

Our net debt to equity ratio increased from approximately 109.2% as at 31 December 2017 to approximately 159.8% as at 31 December 2018, which was primarily due to (i) increase in bank and other borrowings from approximately RMB178.9 million as at 31 December 2017 to approximately RMB198.4 million as at 31 December 2018 and (ii) decrease in total equity mainly as a result of the deemed distribution to shareholders and deemed contribution from a shareholder of approximately RMB72.6 million for the year ended 31 December 2018.

Our net debt to equity ratio increased from approximately 159.8% as at 31 December 2018 to approximately 252.5% as at 30 June 2019, which was primarily due to increase in bank and other borrowings from approximately RMB198.4 million as at 31 December 2018 to approximately RMB324.3 million as at 30 June 2019.

As the Listing will enable us to have access to capital markets for raising funds both at the time of the Listing and at later stages through the issuance of equity and/or debt securities as and when necessary in furtherance of our strategies with relatively lower finance costs, we expect that our gearing ratio and net debt to equity ratio will decrease. Given that our gearing ratio and net debt to equity ratio will improve, and the fact that during the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any difficulties in obtaining bank borrowings nor any default in repayment on borrowings, our Directors consider that the relatively high level of gearing ratio and net debt to equity ratio during the Track Record Period would not affect the sustainability of our business operation and our growth.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, foreign currency credit and liquidity.

Details of the risk to which we are exposed are set out in Note 41 to the Historical Financial Information in the Accountants' Report included in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

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LISTING EXPENSES

Total listing expenses in relation to the Listing are estimated to be approximately RMB43.1 million (assuming an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range between HK\$0.51 and HK\$0.65 per Offer Share, and assume that the Over-allotment Option is not exercised). During the Track Record Period, we incurred Listing expenses of approximately RMB10.9 million, RMB7.5 million and RMB3.5 million, respectively, for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019 which was recognised as administrative expenses in our consolidated statements of profit or loss and other comprehensive income. Approximately RMB5.0 million is expected to be recognised as administrative expenses from the period from 1 July 2019 to the Listing Date and approximately RMB16.2 million is expected to be recognised as deduction from equity.

The amount of the Listing expenses is a current estimate for reference only and the final amount to be recognised in the consolidated financial statements of our Group is subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of Group for the year ending 31 December 2019 is expected to be affected by the Listing expenses mentioned above, the nature of which are non-recurring.

DIVIDEND

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, our subsidiaries declared the dividends of nil, approximately RMB75.9 million, nil and nil, respectively. The dividends declared for the year ended 31 December 2017 in the aggregate amount of approximately RMB26.5 million have been paid by the Group's internal financial resources and bank borrowings as at 30 June 2019 and the remaining dividends declared in the aggregate amount of approximately RMB49.4 million are expected to be settled by the Group's internal financial resources and bank borrowings before the Listing. As advised by the PRC Legal Advisers, the declaration of dividends for the year ended 31 December 2017 is in compliance with the applicable PRC laws and regulations as the relevant dividends distributed to the then shareholders was approximately RMB75.9 million, which did not exceed the permitted amount of dividend distribution payable to the shareholders of GHW International SCM as at 31 December 2017 under the relevant PRC laws and regulations in the amount of approximately RMB77.5 million, and that the accumulated loss as at 31 December 2017 only occurred in the consolidated financial results of the Group.

Save as the above, our Group did not pay or declare any dividend during the Track Record Period and up to the Latest Practicable Date.

We are a holding company incorporated in the Cayman Islands. The payment and amount of our future dividends will depend on the availability of dividends received from our subsidiaries. Distributions from us and our subsidiaries may also subject to any restrictive covenants in bank credit facilities or loan agreements that we or they may enter into in the future. We currently do not have any fixed dividend policy and do not have any pre-determined payout ratio. The amount of dividends actually distributed to our Shareholders will depend on our results of operations, cash flows and financial conditions, operation and capital requirements, applicable laws and regulations and any other factors that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividends. Our 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 us in the future.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 25 April 2018 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted net tangible assets, please refer to the section headed “Unaudited Pro Forma Financial Information of the Group” in Appendix II to this prospectus.

RECENT DEVELOPMENT

Please refer to the paragraph headed “Summary – Recent Development” in this prospectus and “Events after the reporting period” in Note 47 to our consolidated financial statements included in the Accountants’ Report in Appendix I to this prospectus.

MATERIAL ADVERSE CHANGE

Save as disclosed in the prospectus, our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our Group’s financial and trading position since 30 June 2019 and there is no event since 30 June 2019 which would materially affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

We aim to expand our business to maintain and strengthen our market position by pursuing the following strategies:

- Enrich our product portfolio and expand our supply chain vertically in order to capture new market opportunities;
- Further strengthen our research and development to optimise production processes and develop new products;
- Increase our production capacity by upgrading production facilities in the PRC;
- Upgrade and optimise our integrated data operation platform for better service quality and operational efficiency and increase our online sales capability; and
- Continue to invest in our facilities for environmentally friendly production and implement measures to reduce emissions.

For details of our objectives and strategies, please refer to the paragraph headed “Business – Business Strategies” in this prospectus.

FUTURE PLANS

Please refer to the paragraphs headed “Business – Business Strategies” and “Business – Production – Expansion plan” in this prospectus for a detailed discussion of our future plans.

Reasons for the Listing

Our Directors believe that the Listing would not only allow us to raise net proceeds of approximately HK\$96.3 million (assuming an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.51 to HK\$0.65 per Share and the Over-allotment Option is not exercised) to facilitate our expansion plan and our implementation of our business strategies set out in the section headed “Business” in this prospectus, but also allow us to access to a fund raising platform for our future development and to further enhance our corporate profile and competitiveness as the Listing will provide a broader shareholder base which will therefore provide liquidity in the trading of the Shares.

As part of our business strategies, we intend to enrich our product portfolio and expand our supply chain vertically in order to capture new market opportunities for enhancing our competitiveness in the fine chemicals and feed additives industries. As further detailed in the sections headed “Industry Overview” and “Business Strategies” in this prospectus, we are confident that the outlook of fine chemicals and feed additives industries would remain positive and we plan to further penetrate in the markets and increase our market share by introducing more products to expand our revenue base and to satisfy the needs of our customers, which has also been our key competitive strength. As such, we intend to apply a total of approximately 87.8%, or approximately HK\$84.6 million, of our net proceeds from the Global Offering to finance the construction of the New Production Plant, the production facilities for manufacturing trimethylamine and the pilot plant for manufacturing various types of pharmaceutical intermediates.

FUTURE PLANS AND USE OF PROCEEDS

Historically, we have financed our operations primarily through a combination of cash generated from our operations and bank borrowings and advance from shareholders. As at 31 October 2019, we had bank balances and cash of approximately RMB38.5 million and banking facilities of approximately RMB678.8 million, which stipulate that their use is limited to general working capital and/or repayment of amount due to shareholders/related parties, or trade financing. Therefore, capital expenditure is not within the scope of usage, the aforementioned banking facilities cannot be utilised for our business expansion. Since the scope of usage of our banking facilities is limited and more than 50% of our aforementioned banking facilities have been utilised, which equals to an amount of approximately RMB368.7 million, we do not have sufficient surplus cash for our business expansion. Amongst the unutilised banking facilities of approximately RMB310.1 million as at 31 October 2019, approximately RMB109.8 million from the banking facility is intended to use for settling our outstanding dividend payables and amounts due to Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear. Based on the expenses we incurred for the year ended 31 December 2018, our major operating cash outflow including selling and distribution expenses and administration expenses but excluding depreciation and amortisation expenses for each financial year is expected to be approximately RMB158.4 million. It is anticipated that the Group is also required to settle the following payment in the amount of approximately RMB123.1 million before or immediately after the Listing, including (i) the payment of dividends declared for the year ended 31 December 2017 in the amount of approximately RMB49.4 million, (ii) the amount of approximately RMB64.6 million due to shareholders/former shareholders including Mr. Xu Zhengwei, Mr. Chen Yankang, Mr. Tang Jianpin, Mr. Yin, Hanhe Enterprises, Hanhe Investment and Commonwealth Armyfeibear, (iii) payable for Listing expenses and issued costs of approximately RMB5.0 million, and (iv) approximately RMB4.1 million of Listing expenses, which is expected to be recognised as administrative expenses commencing from 1 July 2019.

Furthermore, we have bank borrowings of approximately RMB336.5 million as at 31 October 2019. Our finance costs during the Track Record Period amounted to approximately RMB9.2 million, RMB10.7 million, RMB10.8 million and RMB7.4 million, respectively, while our gearing ratio was approximately 247.1%, 193.4%, 222.9% and 311.8%, respectively. Based on our current gearing position, the Directors consider that it may have difficulty in obtaining sufficient debt financing to fully fund the New Production Plant and any substantial increase in the leverage of the Group's financing structure will pose risk on the liquidity of the Group as a whole. In addition, the Group may be subject to less favourable financing terms and higher finance costs in light of the current gearing ratio, the total amount required for completing the New Production Plant and the macro-economic conditions where the bank borrowing interest is expected to be on an increasing trend. Moreover, the Group was deferred by the security requirements imposed by the banks as they usually require us to pledge our fixed assets and properties as collateral for obtaining additional loan facilities. Given that our existing bank borrowings have already been secured by a substantial amount of the Group's fixed assets and properties including leasehold land, buildings, plant and machinery and investment properties, it is difficult for the Group to fulfil the collateral requirement of any additional banking facilities due to the limited availability of the Group's fixed assets and properties which have not been pledged in our existing borrowings. As such, our Directors believe that it is difficult for our Group to solely rely on bank borrowings to implement our expansion plans because there is no assurance that our Group is able to secure sufficient debt financing if no extra fixed assets or properties can be provided as security.

With a listing status, the Group will have more flexibility through relying on a combination of equity financing and debt financing instead of relying solely on bank borrowings, which enables the Group to have access to a wider range of financing sources in the capital market as and when necessary and to achieve its expansion plans as efficiently as possible without the exposure to uncertain financial risks in case of any tightening of credit control or change in market condition.

As such, we consider that our Group has genuine funding needs and the Listing would grant us access to the active capital market and allow us to fundraise through the issuance of equity and/or debt securities in future. We consider a combination of equity financing and debt financing will be more beneficial to our Group as it can maximise the return for our Shareholders with a more balanced capital structure. In order to obtain additional funding while minimising interest expenses, our Directors believe that the net proceeds from the Global Offering will provide us with the necessary additional financial resources to implement our business strategies. We believe that the enhanced capital structure as a result of the Listing would place us in a better position to negotiate with banks and other financial institutions for a more favourable financing terms when seeking banking facilities going forward. Equity funding, which does not entail a maturity date, would provide us with more flexibility in our cash and liquidity management.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.51 to HK\$0.65 per Share and the Over-allotment Option is not exercised, will be approximately HK\$96.3 million. We currently intend to apply the net proceeds from the Global Offering in the following manner:

- (i) approximately 17.2%, or HK\$16.6 million, will be used on the initial establishment of the New Production Plant which will consist of production facilities for the production of trimethylamine and a pilot plant for manufacturing pharmaceutical intermediates, respectively. Among the expenditure of approximately HK\$16.6 million, approximately HK\$8.4 million will be spent on the construction of basic infrastructure in the New Production Plant, including among others, construction of public work station, central control room, boiler room, gate guard station and other civil constructions. Approximately HK\$5.3 million will be used on the purchase and installation of ancillary facilities and utilities system in the New Production Plant such as sewage treatment system, electricity distribution system, cooling system and fire protection system, etc. All of the abovementioned infrastructure and facilities are expected to be commonly used by and shared among the production facilities for trimethylamine and the pilot plant for pharmaceutical intermediates. We will also spend approximately HK\$2.9 million on miscellaneous costs relating to construction of these common infrastructure and facilities such as survey and design fees, safety and environmental handling fees and construction supervision fees;
- (ii) approximately 60.4%, or HK\$58.2 million, will be used to construct production facilities at the New Production Plant for manufacturing trimethylamine, which is the principal raw material used to produce choline chloride and betaine. Among the expenditure of approximately HK\$58.2 million, we plan to spend approximately HK\$10.1 million and HK\$4.3 million on the construction of production facilities and storage facilities for trimethylamine, respectively. Approximately HK\$39.0 million will be spent on the purchase of major machinery and equipment for the production of trimethylamine and approximately HK\$4.8 million will be used on the installation of these major machinery and equipment;
- (iii) approximately 10.2%, or HK\$9.8 million, will be used on the construction of a pilot plant at the New Production Plant for small batch production of various types of pharmaceutical intermediates. Among the expenditure of approximately HK\$9.8 million, approximately HK\$5.9 million will be used on the construction of the pilot plant for the production of methyl iodide and IPBC, which are different variations of iodine derivatives, as well as moxifloxacin side chain, which is a key pharmaceutical intermediate used in the production process of moxifloxacin hydrochloride tablets, and a warehouse for dangerous goods storage. Approximately HK\$0.8 million will be spent on the purchase of major machinery and equipment for the production of the aforementioned pharmaceutical intermediates and approximately HK\$3.1 million will be used on the installation of these major machinery and equipment at the pilot plant;
- (iv) approximately 2.2% of HK\$2.1 million, will be used on the research and development process of our new pharmaceutical product, moxifloxacin hydrochloride tablets, by which we plan to engage a pharmaceutical company, which is an Independent Third Party, to conduct clinical trials on moxifloxacin hydrochloride tablets including preliminary and formal bioequivalence testings, raw materials purchase, sample preparation and other miscellaneous costs;
- (v) approximately 0.8%, or HK\$0.8 million, will be used on purchasing hardware and software for upgrading our existing financial and accounting management system, which will support the operation of our current OA system; and
- (vi) approximately 9.2%, or HK\$8.8 million, will be used as working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth a detailed breakdown of the use of proceeds for the aforesaid plans excluding the general working capital of approximately HK\$8.8 million:

	Amount of net proceeds to be utilised		Total (HK\$' million)	Approximate percentage of the total net proceeds (%)
	for the year ending 31 December			
	2020 (HK\$' million)	2021 (HK\$' million)		
Initial establishment of the New Production Plant (including construction of basic infrastructure and purchase and installation of ancillary facilities and utilities systems)	16.6	–	16.6	17.2
Construction of production facilities at the New Production Plant for the production of trimethylamine	46.1	12.1	58.2	60.4
Construction of pilot plant at the New Production Plant for the production of pharmaceutical intermediates	8.4	1.4	9.8	10.2
Research and development on moxifloxacin hydrochloride tablets	2.1	–	2.1	2.2
Upgrade of the financial and accounting management system	0.8	–	0.8	0.8
Total	74.0	13.5	87.5	90.8

If the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$0.65 per Share, the net proceeds we receive from the Global Offering will increase by approximately HK\$16.4 million. We intend to apply the additional net proceeds for the above purposes on a pro-rata basis. If the Offer Price is set at the low-end of the indicative range of the Offer Price, being HK\$0.51 per Share, the net proceeds we receive from the Global Offering will decrease by approximately HK\$16.4 million. We intend to reduce the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares to be received by us, after deducting underwriting fees and estimated expenses payable by it, will be approximately (i) HK\$22.9 million, assuming the Offer Price is fixed at the high-end of the indicative range of the Offer Price, being HK\$0.65 per Share; (ii) HK\$20.4 million, assuming the Offer Price is fixed at the mid-point of the indicative range of the Offer Price, being HK\$0.58 per Share; and (iii) HK\$18.0 million, assuming the Offer Price is fixed at the low-end of the indicative range of the Offer Price, being HK\$0.51 per Share. Any additional proceeds received by us from the exercise of the Over-allotment Option will also be allocated to the above business objectives and future plans on a pro-rata basis.

We will bear the underwriting commissions, SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of the new Shares together with any applicable fees relating to the Global Offering.

To the extent that the net proceeds are not immediately applied for the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong.

We will issue an appropriate announcement if there is any material change in the aforementioned use of proceeds.

UNDERWRITING

UNDERWRITERS

The Public Offer Underwriters and the Placing Underwriters are expected to be:

Fortune (HK) Securities Limited
Head & Shoulders Securities Limited
I Win Securities Limited
SPDB International Capital Limited
First Shanghai Securities Limited
Alpha International Securities (HONG KONG) Limited
Chung Sun Securities Limited
Standard Perpetual Securities Limited
Livermore Holdings Limited

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 Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the Placing Underwriting Agreement relating to the Placing on or around the Price Determination Date. The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement to be entered into.

PUBLIC OFFER UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the 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 Stock Exchange 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.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming unconditional and not having been terminated in accordance with its terms.

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 Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) have the right, in its sole and absolute 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:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change or prospective change (whether or not permanent) in the business or in the business or in the financial or trading position of our Group;
 - (ii) any change or development involving a prospective change or development, or any event or series of event resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, the PRC, the Cayman Islands, Vietnam or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**”);

UNDERWRITING

- (iii) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions;
- (iv) any new laws or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions;
- (v) a change or development or event involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares;
- (vi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions;
- (vii) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement pursuant to the indemnities contained therein;
- (viii) (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions;
- (ix) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions;
- (x) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions;
- (xi) any change or development involving a prospective change, or a materialisation of any of the risks set out under the section headed “Risk Factors” in this prospectus;
- (xii) any change in the system under which the value of the Hong Kong dollars is linked to that of the U.S.\$ or a material devaluation of Hong Kong dollars against any foreign currency;
- (xiii) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity;
- (xiv) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws;
- (xv) a prohibition on our Company for whatever reason from allotting the Shares pursuant to the terms of the Global Offering;
- (xvi) non-compliance of this prospectus or any aspect of the Global Offering with the Listing Rules or any other applicable laws;
- (xvii) an order or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto in respect of any member of our Group;

UNDERWRITING

- (xviii) any material loss or damage sustained by any member of our Group;
- (xix) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being instigated against any member of our Group;
- (xx) a Director being charged with an indictable offence or prohibited by the operation of law or is otherwise disqualified from taking part in the management of a company;
- (xxi) the chairman or president of our Company vacating his office;
- (xxii) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action;
- (xxiii) any matter or event resulting in a breach of any of the warranties, representations or undertakings contained in the Public Offer Underwriting Agreement or there has been a material breach of any other provisions thereof; or
- (xxiv) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC,

which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters):

- (i) is or will or may individually or in the aggregate have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operations, financial, trading or other condition or prospects or risks of our Group taken as a whole;
 - (ii) has or will or may have a material adverse effect on the success marketability or pricing of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
 - (iii) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, and/or the Global Offering to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Global Offering on the terms and in the manner contemplated in this prospectus; or
 - (iv) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) the Joint Global Coordinators or the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
- (i) any of the warranties given by our Company, Controlling Shareholders and executive Directors under the Public Offer Underwriting Agreement or pursuant to the Placing Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or as repeated, or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect;
 - (ii) any statement contained in this prospectus, the Application Forms, the formal notice or any announcement, advertisement or other documents issued by or on behalf of our Company in connection with the Public Offer (including any supplement or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if such document were to be issued at that time, constitute a material omission therefrom, or that any forecasts, expressions of opinion, intention or expectation expressed in such document are not, in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole;

UNDERWRITING

- (iii) there has been a material breach on the part of any of our Company, Controlling Shareholders and executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;
- (iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom;
- (v) any material adverse change or development involving a prospective change in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of our Group;
- (vi) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares to be issued or sold under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) we withdraw this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

UNDERTAKINGS

Undertakings pursuant to the Public Offer Underwriting Agreement

By Our Company

We have undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Public Offer Underwriters, and our Controlling Shareholders and executive Directors have undertaken to and covenants with the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Public Offer Underwriters that he/she/it will procure our Company that:

- (a) except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and the exercise of any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not to, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates (as defined in the Public Offer Underwriting Agreement)), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the period commencing from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-month Period**”);
- (b) not to, at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option or the exercise of the subscription rights attaching to any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note (2) to Rule 10.07(2) of the Listing Rules;

UNDERWRITING

- (c) not to, at any time within the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”) do any of the acts set out in (a) and (b) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Listing Rules); and
- (d) in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six-month Period or the Second Six-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein,

provided that none of the above undertakings shall (a) restrict our Company’s ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of the subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such Subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of the subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any such issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

By our Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Public Offer Underwriters and our Company that, except pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option, and unless in compliance with the Listing Rules, he/she/it shall not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters), directly or indirectly, and shall procure that none of his/her/its close associates (as defined in the Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it shall, during the First Six-month Period:

- (a) offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which he/she/it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest therein or any of the voting or other rights attaching thereto);
- (b) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under Note (2) to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules, and in the event of a disposal of any Shares (or any interest therein or any of the voting or other rights attaching thereto) or such securities at any time during the Second Six-month period, (1) such disposal shall not result in any of our Controlling Shareholders ceasing to be our controlling shareholder (as defined in the Listing Rules) of our Company at any time during the Second Six-month Period; and (2) he/she/it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

UNDERWRITING

Without prejudice to our Controlling Shareholders' undertaking above, each of our Controlling Shareholders has undertaken to the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Public Offer Underwriters and our Company that within the First Six-month Period and the Second Six-month Period he/she/it shall:

- (a) if and when he/she/it pledges or charges, directly or indirectly, any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company beneficially owned by him/her/it (or any beneficial interest therein), immediately inform our Company, the Sponsor, the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters) in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) if and when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any Shares (or any interest therein or any of the voting or other rights attaching thereto) or other securities of our Company (or any beneficial interest therein) pledged or charged by him/her/it will be disposed of, immediately inform our Company, the Sole Sponsor, the Joint Global Coordinators (for themselves and on behalf of the 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, our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all the requirements in accordance with the Listing Rules as soon as possible.

Each of our Company and our Controlling Shareholders agrees and undertakes that each of them will not, and each Controlling Shareholder further undertakes to procure that Company will not, effect any transactions, at any time within the First Six Months Period, which may reduce the holding of Shares in "public hands" (as such expression means under the Listing Rules) below the relevant prescribed minimum percentage (25%) as is set out in and calculated in accordance with the Listing Rules without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters).

Undertakings to the Stock Exchange Pursuant to the Listing Rules

By Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not, at any time within six months from the Listing Date, issue any Shares or other securities convertible into equity securities of our Company (whether or not of a class already listed) or form the subject of any agreement or arrangement to issue any Shares or such other securities (whether or not such issue of Shares or such other securities will be completed within six months from the Listing Date), except pursuant to the Capitalisation Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option and any options which were granted or to be granted under the Share Option Scheme) or under any of the circumstances provided under Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to the Stock Exchange and to our Company, respectively, that, except pursuant to the Global Offering, he/she/it will not and will procure that the relevant registered Shareholder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner; and

UNDERWRITING

- (b) in the period of six months commencing on the date on which the period referred to 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 if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a group of controlling shareholder of our Company.

In addition, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that he/she/it will, within a period of commencing on the date by reference to which disclosure of his/her/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date immediately inform us of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by our Controlling Shareholders in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of such Shares or other securities of our Company so pledged or charged; and
- (b) when he/she/it or the relevant requested holders receive indication, either verbal or written, from any pledgee or charge of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

PLACING

In connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, *inter alia*, the Placing Underwriters on or around the Price Determination Date, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above. Under the Placing Underwriting Agreement, subject to conditions set forth therein, the Placing Underwriters are expected to severally agree to subscribe or procure subscribers to subscribe for the Placing Shares being offered pursuant to the Placing.

It is expected that the Placing Underwriting Agreement may be terminated on grounds similar to those set out in the Public Offer Underwriting Agreement as described in the paragraph headed “Grounds for Termination” in this section.

Prospective investors should note that if the Placing Underwriting Agreement is not entered into or is terminated, the Global Offering will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated in accordance with its terms. It is expected that pursuant to the Placing Underwriting Agreement, our Company and the Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings” in this section.

COMMISSION AND EXPENSES

The Public Offer Underwriter will receive a gross underwriting commission of 6.0% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer out of which any sub-underwriting commission, praecipium and selling concession will be paid. For unsubscribed Public Offer Shares reallocated to the Placing and any Placing Shares reallocated from the Placing to the Public Offer, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Placing Underwriter(s) and not the Public Offer Underwriter.

The aggregate fees and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Placing (assuming the Over-allotment Option is not exercised), are currently estimated to be approximately HK\$43.1 million in aggregate, based on an Offer Price of HK\$0.58 per Offer Share, being the mid-point of the indicative Offer Price range, which will be payable by our Company.

UNDERWRITING

SOLE SPONSOR'S AND UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Sponsor will receive a combined sponsorship fee to the Global Offering. The Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and Expenses" in this section above.

Save for their respective interest and obligations to the Underwriting Agreements or as otherwise disclosed in this prospectus, none of the Sole Sponsor and the Underwriters is interested legally or beneficially in any Shares of any member of our Group or any right or option (whether legally enforceable or not) to subscribe or purchase for or to nominate persons to subscribe for securities in any member of our Group or has any interest in the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises:

- (a) the Public Offer of 25,000,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described in the paragraph headed “The Public Offer” in this section; and
- (b) the Placing of an aggregate of 225,000,000 Placing Shares (subject to reallocation and the Over-allotment Option as mentioned below).

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The 250,000,000 Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be issued pursuant to the Over-allotment Option and the exercise of any option which may be granted under the Share Option Scheme.

THE PUBLIC OFFER

Our Company is initially offering 25,000,000 Public Offer Shares for subscription (subject to reallocation) at the Offer Price by members of the public in Hong Kong under the Public Offer, representing 10.0% of the total number of Offer Shares initially available under the Global Offering. The Public Offer Shares initially offered under the Public Offer, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent 2.5% of our Company’s enlarged issued share capital after completion of the Global Offering and Capitalisation Issue without taking into account any Shares which may be issued pursuant to the Over-allotment Option and the exercise of any option which may be granted under the Share Option Scheme.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may be allotted more Public Offer Shares 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.

The total available Shares under the Public Offer (after taking into account 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\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. 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\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% 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

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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.

Accordingly, the maximum number of Public Offer Shares initially in pool A and pool B will be 12,500,000 and 12,500,000, respectively.

Multiple or suspected multiple applications under the Public Offer and any application for more than 12,500,000 Public Offer Shares initially available under the Public Offer will be rejected.

Reallocation between the Placing and the Public Offer

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) if both the Public Offer Shares and the Placing Shares are undersubscribed, the Global Offering shall not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements;
- (b) if the Public Offer Shares are undersubscribed and the Placing Shares are oversubscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Global Coordinators deem appropriate;
- (c) the Placing Shares are fully subscribed or oversubscribed, and:
 - (i) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offering, then 50,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 75,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering;
 - (ii) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 75,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 100,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering; and
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 100,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 125,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering,

in each case the additional Offer Shares reallocated to the Public Offer will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (d) pursuant to the Stock Exchange's Guidance Letter HKEX-GL91-18:
- (i) if the Placing Shares are undersubscribed and if the Public Offer Shares are fully subscribed or oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer in such circumstances; or
 - (ii) if the Placing Shares are fully subscribed or oversubscribed, and if the Public Offer Shares are fully subscribed or oversubscribed but the number of Shares validly applied for under the Public Offer represents less than 15 times of the initial number of the Public Offer Shares,

then, provided that the final Offer Price is fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.51 per Offer Share) stated in this prospectus, in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, up to 25,000,000 Offer Shares may be reallocated from the Placing to satisfy valid applications in pool A and pool B under the Public Offer, so that the total number of Offer Shares available for subscription under the Public Offer will be increased up to 50,000,000 Offer Shares, and such limit represents 20% of the number of the Offer Shares initially available under the Global Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she 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 Placing 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 if he or she has been or will be placed or allocated Placing Shares under the Placing.

PLACING

Number of the Placing Shares

The number of the Offer Shares to be initially offered for subscription under the Placing will be 225,000,000 Shares representing 90% of the Offer Shares initially available under the Global Offering (subject to re-allocation and the Over-allotment Option) and approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering and Capitalisation Issue without taking into account any Shares which may be issued pursuant to the Over-allotment Option and the exercise of any option which may be granted under the Share Option Scheme. The Placing is expected to be fully underwritten by the Placing Underwriters.

Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed on behalf of our Company by the Placing Underwriters or through selling agents appointed by them. The Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a stable demand for the Placing 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 Placing is subject to the Public Offer being unconditional.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the book-building process described in the paragraph headed “Structure and Conditions of the Global Offering – Pricing and Allocation” in this 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 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 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.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) so as to allow it to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

Over-allotment Option

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the Placing Underwriters, exercisable by the Joint Global Coordinators for themselves and on behalf of the Placing Underwriters.

Pursuant to the Over-allotment Option, the Placing Underwriters have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the Placing Underwriters) at any time from the Listing Date until the 30th day from the last day for lodging applications under the Public Offer, to require our Company to issue and allot up to an aggregate of 37,500,000 additional Shares, representing approximately 15% of the Offer Shares, at the same price per Share under the Placing, to cover overallocations in the Placing (if any). In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilisation

Stabilisation is a practice used by Underwriters in some markets to facilitate the distribution of securities. To stabilise, Underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. 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 of the relevant jurisdictions. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Fortune (HK) Securities Limited, as stabilising manager (the “**Stabilising Manager**”), its affiliates or any persons acting for it (for itself and on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it to conduct any such stabilising action. Such stabilising action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Public Offer and conducted at the absolute discretion of the Stabilising Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of Shares that may be overallocated will not be greater than the number of Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 37,500,000 additional Shares, which is 15% of our Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of our Company’s enlarged issued share capital on completion of the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) purchasing or agreeing to purchase our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell our Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer 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 our Shares;
- there is no certainty as to the extent to which, and the time or period for which, the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation and selling of any such long position in the open market by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilisation period which will begin on the Listing Date and is expected to expire on 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 our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may cover such over-allocation by using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including those in relation to stabilisation and the Securities and Futures (Price Stabilising) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed 37,500,000 Shares, being the number of Shares which may be issued and allotted by our Company upon full exercise of the Over-allotment Option and representing 15% of the Offer Shares initially available under the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Determination of the Offer Price

The Placing Underwriters will be soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of the Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 10 January 2020, by agreement between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

Offer Price Range

The Offer Price will not be more than HK\$0.65 per Offer Share and is expected to be not less than HK\$0.51 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus.

Price Payable on Application

Applicants for Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.65 for each Public Offer Share (plus the brokerage, Stock Exchange trading fee and SFC transaction levy payable on each Offer Share), amounting to a total of HK\$2,626.20 per board lot of 4,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.65 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Wednesday, 15 January 2020, the Global Offering will not proceed and will lapse.

Further details are set out in the section headed "How to Apply for Public Offer Shares" in this prospectus.

Changes to Offer Price Range

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during a bookbuilding process in respect of the Placing, and with the consent of our Company, change the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the Stock Exchange's website at www.hkexnews.hk, and our Company's website at www.goldenhighway.com, notices of such reduction. Upon issuing such notice, the revised Offer Price range will be final and conclusive. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics, and any other financial information in this prospectus which may change as a result of any such reduction.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price is reduced, applicants under the Public Offer will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

ANNOUNCEMENT OF THE BASIS OF ALLOCATIONS

We expect to announce the final Offer Price, 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 Monday, 20 January 2020 on the website of the Stock Exchange at www.hkexnews.hk, and our Company's website at www.goldenhighway.com.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Global Offering and Shares will fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme on the Stock Exchange and such approval not having been withdrawn;
- (b) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements; and
- (c) the Offer Price having been determined and the execution of the related agreement on or around the Price Determination Date,

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by our Company on the websites of our Company and the Stock Exchange at www.goldenhighway.com and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, 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 or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

Share certificates for the Offer Shares are expected to be issued on Monday, 20 January 2020 and will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in "Underwriting – Public Offer Underwriting Arrangements and Expenses – Grounds for termination" has not been exercised at or before that time.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

DEALING

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 21 January 2020, dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. (Hong Kong time) on Tuesday, 21 January 2020. Our Shares will be traded in board lot of 4,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to Stock Exchange granting the listing of, and permission to deal in, our Shares on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

If you are unsure about the details of CCASS settlement arrangement and how such arrangements will affect your rights and interests, you should seek the advice of your stockbroker or other professional adviser.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via **HK eIPO White Form** service by the IPO App or at www.hkeipo.hk; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. Our Company, the Joint Global Coordinators and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the Securities Act of the United States); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Joint Global Coordinators or their respective agents and nominees may accept or reject it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- (a) are an existing beneficial owner of Shares and/or any of our subsidiaries;
- (b) are a Director or chief executive officer of our Company and/or any of our subsidiaries;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (c) are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- (d) are a close associate of any of the above; and/or
- (e) have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE 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 the IPO App or **www.hkeipo.hk**.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 December 2019 until 12:00 noon on Friday, 10 January 2020 from:

- (a) any of the following address of the Underwriters:

Fortune (HK) Securities Limited	43/F Cosco Tower 183 Queen's Road Central Hong Kong
Head & Shoulders Securities Limited	Room 2511, 25/F Cosco Tower 183 Queen's Road Central Hong Kong
SPDB International Capital Limited	33/F, SPD Bank Tower One Hennessy, 1 Hennessy Road Hong Kong
I Win Securities Limited	Room 1916 Hong Kong Plaza 188 Connaught Road West Sai Wan Hong Kong
First Shanghai Securities Limited	19/F & Room 2505-10 Wing On House 71 Des Voeux Road Central Hong Kong
Alpha International Securities (HONG KONG) Limited	Unit 2301, 23/F Far East Consortium Building 121 Des Voeux Road Central Hong Kong
Chung Sun Securities Limited	Room 2538-2540 Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong
Standard Perpetual Securities Limited	Room 2104 K. Wah Centre 191 Java Road North Point Hong Kong
Livermore Holdings Limited	Unit 1214A, 12/F Tower II Cheung Sha Wan Plaza 833 Cheung Sha Wan Road Kowloon, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (b) or any of the following branches of Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong
Kowloon	Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon
New Territories	Fanling Centre Branch	Shop 2D-E & H, Fanling Centre, Fanling, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 31 December 2019 until 12:00 noon on Friday, 10 January 2020 from:

- (a) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (b) 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 – GHW PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 31 December 2019 – 9:00 a.m. to 5:00 p.m.
Thursday, 2 January 2020 – 9:00 a.m. to 5:00 p.m.
Friday, 3 January 2020 – 9:00 a.m. to 5:00 p.m.
Saturday, 4 January 2020 – 9:00 a.m. to 1:00 p.m.
Monday, 6 January 2020 – 9:00 a.m. to 5:00 p.m.
Tuesday, 7 January 2020 – 9:00 a.m. to 5:00 p.m.
Wednesday, 8 January 2020 – 9:00 a.m. to 5:00 p.m.
Thursday, 9 January 2020 – 9:00 a.m. to 5:00 p.m.
Friday, 10 January 2020 – 9:00 a.m. to 12:00 noon

The application for the Global Offering will commence on Tuesday, 31 December 2019 through Friday, 10 January 2020, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 10 January 2020, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR PUBLIC OFFER SHARES

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise our Company, and/or the Joint Global Coordinators (or their agents or nominees), as 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;
- (b) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) 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;
- (h) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and their respective agents and nominees will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; 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 HK EIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "Who can apply for the Public Offer Shares" in this prospectus, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the IPO App or the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are in the IPO App or 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 IPO App or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application online to the **HK eIPO White Form** Service Provider through the IPO App or the designated website at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 31 December 2019 until 11:30 a.m. on Friday, 10 January 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 10 January 2020 or such later time under the "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

HOW TO APPLY FOR PUBLIC OFFER SHARES

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** 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 **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies 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 at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square, 8 Connaught Place, Central,
Hong Kong

and complete an input request form.

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 Global Coordinators and the Hong Kong Branch Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - (ii) agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - (iv) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - (vi) confirm that you understand that our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and their respective agents and nominees will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - (vii) 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;
 - (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - (ix) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - (x) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - (xi) agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or its respective advisers and agents;
 - (xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a 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 a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- (xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- (xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;
- (xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles of Association; and
- (xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- (a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and 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 final Offer Price is less than the Offer Price per Public Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

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Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions ⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 31 December 2019 – 9:00 a.m. to 8:30 p.m.
Thursday, 2 January 2020 – 8:00 a.m. to 8:30p.m.
Friday, 3 January 2020 – 8:00 a.m. to 8:30p.m.
Saturday, 4 January 2020 – 8:00 a.m. to 1:00 p.m.
Monday, 6 January 2020 – 8:00 a.m. to 8:30p.m.
Tuesday, 7 January 2020 – 8:00 a.m. to 8:30p.m.
Wednesday, 8 January 2020 – 8:00 a.m. to 8:30p.m.
Thursday, 9 January 2020 – 8:00 a.m. to 8:30p.m.
Friday, 10 January 2020 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 31 December 2019 until 12:00 noon on Friday, 10 January 2020 (24 hours daily, except on 10 January 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 10 January 2020, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 **HK eIPO White Form** service is also only a facility provided by **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or persons applying through the **HK eIPO White Form** 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 Friday, 10 January 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- (a) an account number; or
- (b) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- (a) control the composition of the board of directors of the company;
- (b) control more than half of the voting power of the company; or
- (c) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR 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 the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and 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 **HK eIPO White Form** service in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the IPO App or on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and 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, please refer to the paragraph headed “Determination of the Offer Price” under the section headed “Structure and Conditions of the Global Offering” of this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 10 January 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 10 January 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the indication of the level of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Monday, 20 January 2020 on our Company’s website at **www.goldenhighway.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:

- (a) in the announcement to be posted on our website at **www.goldenhighway.com** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, 20 January 2020;

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- (b) from “Allotment Result” function in the IPO App or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/iporesult with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 20 January 2020 to 12:00 midnight on Friday, 24 January 2020;
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 20 January 2020 to Thursday, 23 January 2020 (excluding Saturday, Sunday and public holiday in Hong Kong); and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Monday, 20 January 2020 to Wednesday, 22 January 2020 at all the receiving bank’s designated branches.

If our Company accepts your offer to purchase (in whole or in part), which we 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 Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may withdraw 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of the Public Offer Shares is void:

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- (i) you make multiple applications or suspected multiple applications;
- (ii) 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;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the IPO App or on the designated website;
- (v) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (vi) the Underwriting Agreements do not become unconditional or are terminated;
- (vii) our Company or the Joint Global Coordinators believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- (viii) 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\$0.65 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and 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 Monday, 20 January 2020.

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:

- (a) share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- (b) 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 final Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the final Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and 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 despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Monday, 20 January 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 21 January 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting – Public Offer Underwriting Arrangements and Expenses – The 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 the Share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Company’s Hong Kong Branch Share Registrar at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 20 January 2020 or such other date as notified by us.

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 Branch Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Monday, 20 January 2020, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. 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 Monday, 20 January 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 20 January 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(c) 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.

(d) If you are applying as a CCASS investor participant

We 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. on Monday, 20 January 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(e) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 20 January 2020, or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 20 January 2020 by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(f) If you apply via Electronic Application Instructions to HKSCC

Allocation of the Public Offer Shares

For the purposes of allocating the 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

- (i) 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 Monday, 20 January 2020 or on any other date determined by HKSCC or HKSCC Nominees.
- (ii) 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 Shares in the manner specified in "Publication of Results" above on Monday, 20 January 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 20 January 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- (iii) 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.
- (iv) 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 Monday, 20 January 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (v) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications initially paid on application (including brokerage, SFC transaction levy and 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 Monday, 20 January 2020.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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, prepared for the purpose of inclusion in this prospectus, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GHW INTERNATIONAL AND FORTUNE FINANCIAL CAPITAL LIMITED

Introduction

We report on the historical financial information of GHW International (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on page I-4 to I-76, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, the statements of financial position of the Company as at 31 December 2018 and 30 June 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2018 and the six months ended 30 June 2019 (the “**Track Record Period**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-76 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 31 December 2019 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019, of the Company's financial position as at 31 December 2018 and 30 June 2019, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information. 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 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 accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends declared by a group entity and states that no dividend has been declared by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 December 2019

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Revenue	6	1,606,829	2,179,049	2,152,946	1,074,927	935,273
Cost of sales		<u>(1,441,863)</u>	<u>(1,861,438)</u>	<u>(1,843,384)</u>	<u>(894,400)</u>	<u>(813,309)</u>
Gross profit		164,966	317,611	309,562	180,527	121,964
Other income	8	8,552	7,921	3,731	1,496	1,719
Other gains and losses	8	320	(10,656)	(1,350)	(1,142)	2,826
Selling and distribution expenses		(67,661)	(79,196)	(83,502)	(41,129)	(46,065)
Administrative expenses		(52,227)	(84,232)	(77,690)	(35,485)	(36,920)
Research and development expenses		(22,709)	(32,788)	(40,437)	(21,598)	(14,130)
Listing expenses		-	(10,922)	(7,458)	(3,705)	(3,500)
Impairment losses, net of reversal		(870)	(2,991)	(773)	(1,466)	(428)
Finance costs	9	<u>(9,160)</u>	<u>(10,685)</u>	<u>(10,831)</u>	<u>(4,762)</u>	<u>(7,396)</u>
Profit before taxation	10	21,211	94,062	91,252	72,736	18,070
Taxation	11	<u>(454)</u>	<u>(14,631)</u>	<u>(16,995)</u>	<u>(11,925)</u>	<u>(1,263)</u>
Profit for the year/period		<u>20,757</u>	<u>79,431</u>	<u>74,257</u>	<u>60,811</u>	<u>16,807</u>
Other comprehensive income (expense)						
Item that may be reclassified subsequently to profit or loss:						
Exchange difference arising on translation of foreign operations		<u>476</u>	<u>(1,160)</u>	<u>653</u>	<u>553</u>	<u>(1,770)</u>
Total comprehensive income for the year/period		<u>21,233</u>	<u>78,271</u>	<u>74,910</u>	<u>61,364</u>	<u>15,037</u>
Profit for the year/period attributable to:						
Owners of the Company		19,148	78,223	74,257	60,811	16,807
Non-controlling interests		<u>1,609</u>	<u>1,208</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>20,757</u>	<u>79,431</u>	<u>74,257</u>	<u>60,811</u>	<u>16,807</u>
Total comprehensive income attributable to:						
Owners of the Company		19,624	77,063	74,910	61,364	15,037
Non-controlling interests		<u>1,609</u>	<u>1,208</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>21,233</u>	<u>78,271</u>	<u>74,910</u>	<u>61,364</u>	<u>15,037</u>
Earnings per share						
- Basic (RMB per share)	13	<u>0.026</u>	<u>0.104</u>	<u>0.099</u>	<u>0.081</u>	<u>0.022</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Group

	NOTES	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
Non-current assets					
Property, plant and equipment	14	145,718	160,812	172,005	192,534
Prepaid lease payments	15	18,599	18,001	17,676	–
Right-of-use assets	16	–	–	–	30,156
Investment properties	17	10,829	–	–	–
Rental deposits		175	181	112	314
Deposit for land use right		–	–	15,790	19,630
Deferred tax assets	18	–	–	744	770
		<u>175,321</u>	<u>178,994</u>	<u>206,327</u>	<u>243,404</u>
Current assets					
Inventories	19	100,388	152,471	164,601	215,054
Prepaid lease payments	15	416	412	410	–
Trade receivables	20	128,432	140,119	150,572	148,913
Bill receivables	21	3,149	879	–	–
Bill receivables at fair value through other comprehensive income (“FVTOCI”)	22	–	–	13,602	54,700
Other receivables and prepayments	24	36,004	42,096	57,018	62,434
Amount due from a related party	25	5,330	–	–	–
Amounts due from immediate holding companies	25	–	–	69	69
Tax recoverable		10	–	48	2,243
Restricted bank deposits	26	26,639	43,246	25,850	27,938
Bank balances and cash	26	40,877	34,620	30,261	33,686
		<u>341,245</u>	<u>413,843</u>	<u>442,431</u>	<u>545,037</u>
Current liabilities					
Trade and bill payables	27	162,310	149,552	153,308	165,525
Other payables and accrued charges	28	28,822	57,525	48,616	43,044
Lease liabilities	29	–	–	–	5,599
Contract liabilities	30	38,187	23,392	11,902	21,494
Amounts due to shareholders/former shareholders	25	38,843	11,966	83,604	64,485
Tax payables		–	13,651	6,183	2,218
Defined benefit plan	32	2,400	–	–	–
Borrowings	31	150,963	172,312	194,225	269,495
Dividend payables		–	65,420	56,459	49,400
		<u>421,525</u>	<u>493,818</u>	<u>554,297</u>	<u>621,260</u>
Net current liabilities		<u>(80,280)</u>	<u>(79,975)</u>	<u>(111,866)</u>	<u>(76,223)</u>
Total assets less current liabilities		<u>95,041</u>	<u>99,019</u>	<u>94,461</u>	<u>167,181</u>

	NOTES	As at 31 December			As at
		2016	2017	2018	30 June
		RMB'000	RMB'000	RMB'000	2019
					RMB'000
Non-current liabilities					
Borrowings	31	8,550	6,554	4,132	54,833
Defined benefit plan	32	21,751	-	-	-
Lease liabilities	29	-	-	-	7,049
Deferred revenue		183	-	-	-
Deferred tax liabilities	18	-	-	1,335	1,268
		<u>30,484</u>	<u>6,554</u>	<u>5,467</u>	<u>63,150</u>
Net assets		<u>64,557</u>	<u>92,465</u>	<u>88,994</u>	<u>104,031</u>
Capital and reserves					
Share capital	33	73,037	73,037	69	9
Reserves		<u>(11,789)</u>	<u>19,428</u>	<u>88,925</u>	<u>104,022</u>
Equity attributable to owners of the Company		61,248	92,465	88,994	104,031
Non-controlling interests		<u>3,309</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity		<u>64,557</u>	<u>92,465</u>	<u>88,994</u>	<u>104,031</u>

STATEMENTS OF FINANCIAL POSITION

The Company

	<i>Notes</i>	As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
Non-current asset			
Investment in a subsidiary	43	<u>69</u>	<u>69</u>
Current assets			
Deferred issue costs	24	5,800	6,849
Amounts due from shareholders	25	<u>69</u>	<u>69</u>
		<u>5,869</u>	<u>6,918</u>
Current liabilities			
Other payables	28	9,459	4,958
Amounts due to subsidiaries	25	<u>3,868</u>	<u>12,918</u>
		<u>13,327</u>	<u>17,876</u>
Net current liabilities		<u>(7,458)</u>	<u>(10,958)</u>
Net liabilities		<u>(7,389)</u>	<u>(10,889)</u>
Capital and reserves			
Share capital	33	69	9
Reserves	44	<u>(7,458)</u>	<u>(10,898)</u>
		<u>(7,389)</u>	<u>(10,889)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Attributable to non-controlling interests		Total
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Safety reserve RMB'000 (Note b)	Translation reserve RMB'000	Statutory reserve RMB'000 (Note c)	Accumulated losses/retained earnings RMB'000	Total RMB'000	Total RMB'000	
At 1 January 2016	73,032	26,071	214	(4,929)	10,206	(62,975)	41,619	1,700	43,319
Profit for the year	-	-	-	-	-	19,148	19,148	1,609	20,757
Other comprehensive income for the year	-	-	-	476	-	-	476	-	476
Total comprehensive income for the year	-	-	-	476	-	19,148	19,624	1,609	21,233
Capital injection from shareholders	5	-	-	-	-	-	5	-	5
Transfer to safety reserve	-	-	285	-	-	(285)	-	-	-
At 31 December 2016	73,037	26,071	499	(4,453)	10,206	(44,112)	61,248	3,309	64,557
Profit for the year	-	-	-	-	-	78,223	78,223	1,208	79,431
Other comprehensive expense for the year	-	-	-	(1,160)	-	-	(1,160)	-	(1,160)
Total comprehensive income (expense) for the year	-	-	-	(1,160)	-	78,223	77,063	1,208	78,271
Contribution from shareholders (note 37)	-	37,236	-	-	-	-	37,236	(2,800)	34,436
Capital gain tax (note 37)	-	(8,900)	-	-	-	-	(8,900)	-	(8,900)
Acquisition of additional interest in a subsidiary	-	1,717	-	-	-	-	1,717	(1,717)	-
Dividends to shareholders (note 12)	-	-	-	-	-	(75,899)	(75,899)	-	(75,899)
Appropriation	-	-	-	-	16,535	(16,535)	-	-	-
Reverse from safety reserve	-	-	(499)	-	-	499	-	-	-
At 31 December 2017	73,037	56,124	-	(5,613)	26,741	(57,824)	92,465	-	92,465
Adoption of IFRS 9 (note d)	-	-	-	-	-	(5,857)	(5,857)	-	(5,857)
At 1 January 2018 (restated)	73,037	56,124	-	(5,613)	26,741	(63,681)	86,608	-	86,608
Profit for the year	-	-	-	-	-	74,257	74,257	-	74,257
Other comprehensive income for the year	-	-	-	653	-	-	653	-	653
Total comprehensive income for the year	-	-	-	653	-	74,257	74,910	-	74,910
Deemed distribution to shareholders (note 25)	(73,037)	-	-	-	-	-	(73,037)	-	(73,037)
Deemed contribution from a shareholder	-	444	-	-	-	-	444	-	444
Issue of shares	69	-	-	-	-	-	69	-	69
Appropriation	-	-	-	-	8,303	(8,303)	-	-	-
At 31 December 2018	69	56,568	-	(4,960)	35,044	2,273	88,994	-	88,994
Profit for the period	-	-	-	-	-	16,807	16,807	-	16,807
Other comprehensive expense for the period	-	-	-	(1,770)	-	-	(1,770)	-	(1,770)
Total comprehensive income (expense) for the period	-	-	-	(1,770)	-	16,807	15,037	-	15,037
Effect of re-denomination of shares (note 33)	(60)	60	-	-	-	-	-	-	-
At 30 June 2019	9	56,628	-	(6,730)	35,044	19,080	104,031	-	104,031
At 1 January 2018 (restated)	73,037	56,124	-	(5,613)	26,741	(63,681)	86,608	-	86,608
Profit for the period (unaudited)	-	-	-	-	-	60,811	60,811	-	60,811
Other comprehensive income for the period (unaudited)	-	-	-	553	-	-	553	-	553
Total comprehensive income for the period (unaudited)	-	-	-	553	-	60,811	61,364	-	61,364
Deemed contribution from a shareholder (unaudited)	-	444	-	-	-	-	444	-	444
At 30 June 2018 (unaudited)	73,037	56,568	-	(5,060)	26,741	(2,870)	148,416	-	148,416

- Note a:* Capital reserve represented (i) the capital injection from owners of Nanjing Goldenhighway International Supply Chain Management Company Limited (formerly known as Nanjing Goldenhighway International Supply Chain Management Corporation) ("GHW International SCM") in excess of nominal value of share capital amounting to RMB26,071,000; (ii) contribution from shareholders net of capital gain tax related to reorganisation amounting to RMB28,336,000; (iii) acquisition of additional interest in Taian Havay Group Co., Ltd. related to reorganisation amounting to RMB1,717,000; (iv) deemed contribution from a shareholder in relation to a waiver of amount due to a shareholder amounting to RMB444,000; and (v) effect of re-denominating the par value of the Company's shares amounting to RMB60,000.
- Note b:* Pursuant to the relevant regulation in the People's Republic of China (the "PRC"), two subsidiaries of the Group are required to provide for safety reserve based on annual sales revenue. The reserve can be used for improvements of safety storage and production process, and eligible to be reversed to retained earnings upon utilisation.
- Note c:* As stipulated by the relevant laws in the PRC, the PRC subsidiaries are required to maintain a statutory reserve fund. The minimum transfer to statutory reserve is 10% of profit after tax of the PRC subsidiaries according to the PRC subsidiaries' statutory financial statements. No appropriation is required if the balance of the statutory reserve has reached 50% of the registered capital of the PRC subsidiaries.
- Note d:* Upon adoption of IFRS 9 *Financial Instruments* on 1 January 2018, an additional impairment loss on financial assets recognised under expected credit loss model net of related deferred tax assets amounting to RMB5,857,000 was recorded as an adjustment to accumulated losses as at 1 January 2018.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Operating activities					
Profit before taxation	21,211	94,062	91,252	72,736	18,070
Adjustments for:					
Finance costs	9,160	10,685	10,831	4,762	7,396
Interest income	(425)	(594)	(481)	(305)	(224)
Depreciation of property, plant and equipment	12,503	15,535	16,109	8,253	8,912
Depreciation of investment properties	1,180	984	-	-	-
Depreciation of right-of-use assets	-	-	-	-	2,499
Release of prepaid lease payments	416	412	410	205	-
Write down (reversal of write-down) of inventories	210	(24)	197	130	3,505
Impairment for trade receivables	870	2,991	749	1,466	428
Impairment for other receivables	-	-	24	-	-
Impairment of property, plant and equipment	-	3,674	-	-	-
Losses on disposals of plant and equipment	95	3,557	1,390	360	197
Gain on disposal of available for sale investment	(1,000)	-	-	-	-
Net foreign exchange loss (gain)	1,322	(1,309)	300	923	(396)
Operating profit before movements in working capital	45,542	129,973	120,781	88,530	40,387
Increase in inventories	(21,620)	(52,059)	(12,327)	(25,452)	(53,958)
Decrease (increase) in trade receivables	14,121	(15,319)	(17,926)	(5,723)	861
(Increase) decrease in bill receivables	(2,288)	2,270	-	-	-
(Increase) decrease in bill receivables at FVTOCI	-	-	(12,723)	224	(41,098)
Decrease (increase) in other receivables and prepayments	8,615	(5,822)	(12,452)	(26,973)	(4,518)
Decrease (increase) in rental deposits	156	(6)	69	70	-
Increase (decrease) in trade and bill payables	4,274	(11,611)	3,756	(2,631)	11,559
Increase (decrease) in other payables and accrued charges	5,371	25,860	(14,834)	(11,787)	(6,279)
Increase (decrease) in contract liabilities	21,626	(14,795)	(11,490)	391	9,592
Decrease in deferred revenue	(25)	(183)	-	-	-
Decrease in defined benefit plan	(6,294)	(2,987)	-	-	-
Cash generated from (used in) operation	69,478	55,321	42,854	16,649	(43,454)
Income tax paid	(454)	(970)	(23,053)	(15,888)	(7,516)
Net cash from (used in) operating activities	69,024	54,351	19,801	761	(50,970)

	Note	Year ended 31 December			Six months ended 30 June	
		2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
INVESTING ACTIVITIES						
Interest received		425	594	481	305	224
Proceeds from disposals of property, plant and equipment		45	2,424	1,832	486	117
Redemption of structured bank deposits		5,600	-	-	-	-
Proceed from disposal of available for sale investment		2,000	-	-	-	-
Purchases of property, plant and equipment		(50,108)	(45,043)	(23,270)	(5,679)	(27,688)
Deposit for acquisition of land use right		-	-	(15,790)	-	(3,840)
Payments for rental deposits		-	-	-	-	(202)
Repayment from a related party		-	5,330	-	-	-
Advance to a related party		(10)	-	-	-	-
Proceeds from release of restricted bank deposits		25,199	26,639	43,246	43,246	25,850
Placements of restricted bank deposits		(26,639)	(43,246)	(25,850)	(14,087)	(27,938)
Net cash (used in) from investing activities		(43,488)	(53,302)	(19,351)	24,271	(33,477)
FINANCING ACTIVITIES						
Proceed on disposal of Nanjing Organic Chemicals Co., Ltd. ("Organic Chemicals Co.")	37	-	17,577	-	-	-
Dividend paid		-	(10,479)	(8,961)	(8,420)	(7,059)
Issue costs paid		-	(1,102)	(2,494)	(1,079)	(2,263)
Interest paid		(7,504)	(9,399)	(10,581)	(4,762)	(7,471)
Repayments of lease liabilities		-	-	-	-	(1,775)
Repayments of bank loans		(176,248)	(231,039)	(211,732)	(119,910)	(159,314)
New bank loans raised		187,646	251,077	230,667	138,053	284,951
Proceeds from capital injection from shareholders		5	-	-	-	-
Repayment to a related party		-	(17,280)	-	-	-
Advance from shareholders/former shareholders		-	-	1,510	-	-
Repayments to shareholders/a former shareholder		(14,470)	(7,988)	(2,457)	(294)	(19,139)
Net cash (used in) from financing activities		(10,571)	(8,633)	(4,048)	3,588	87,930
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		14,965	(7,584)	(3,598)	28,620	3,483
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		27,205	40,877	34,620	34,620	30,261
Effects of foreign exchange rate change		(1,293)	1,327	(761)	(518)	(58)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		40,877	34,620	30,261	62,722	33,686

NOTES TO HISTORICAL FINANCIAL INFORMATION**1. General**

The Company was incorporated in Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands as an exempted company with limited liability on 25 April 2018. Its shareholders are Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth Feibear Limited and Commonwealth GHW Limited. The Company is an investment holding company. The subsidiaries of the Company are principally engaged in manufacture and sale of chemical and pharmaceutical products. The addresses of the Company's registered office and the principle place of business is disclosed in the section headed "Corporate Information" in the Prospectus.

2. Reorganisation, basis of preparation and going concern basis

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with IFRSs issued by the IASB.

Historically, the operation of the Group was carried out by GHW International SCM and its subsidiaries. In preparation for the proposed listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), the entities now comprising the Group underwent a group reorganisation (the "Reorganisation"), as more fully explained in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus. The Reorganisation was completed on 31 July 2018 by interspersing the Company, GOHI Int'L Limited, GHW Holdings Limited between the shareholders and GHW International SCM after considering the disposal of Organic Chemicals Co., which were shown in note 37, and the Company became the holding company of the companies now comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if the Group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant entities, where this is a shorter period. The consolidated statements of financial position as at 31 December 2016 and 2017 present the assets and liabilities of the companies comprising the Group, which had been incorporated/established, at the end of each reporting period as if the Group structure upon completion of the Reorganisation had been in existence at those dates.

The Historical Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

In preparing the Historical Financial Information, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as at 30 June 2019, its current liabilities exceeded its current assets by approximately RMB76,223,000. Taking into account of internal generated funds and the available banking facilities, the directors of the Company considered that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the Historical Financial Information have been prepared on a going concern basis.

3. Application of new and revised IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the IFRSs issued by the IASB, which are effective for the accounting period beginning on 1 January 2019, including IFRS 15 *Revenue from contracts with customers* and the related amendments, consistently throughout the Track Record Period, except that the Group adopted IFRS 9 *Financial Instruments* beginning on 1 January 2018 and International Accounting Standard (“IAS”) 39 *Financial Instruments: Recognition and measurement* before 1 January 2018, and IFRS 16 *Leases* on 1 January 2019 and IAS 17 *Leases* for the three years ended 31 December 2018. The accounting policies for financial instruments under IFRS 9, IAS 39, IFRS 16 and IAS 17 are set out in note 4.

IFRS 9 Financial Instruments

Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

On 1 January 2018, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses, without restating the comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets previously classified as loans and receivables RMB'000	Bill receivables at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Deferred tax assets RMB'000	Accumulated losses RMB'000
Closing balance at 31 December 2017 (under IAS 39)		222,017	-	-	-	(57,824)
Effect arising from initial application of IFRS 9:						
Reclassification						
From loans and receivables	(a)	(222,017)	879	221,138	-	-
Remeasurement						
Impairment under ECL model	(b)	-	-	(6,724)	867	(5,857)
Opening balance at 1 January 2018 – IFRS 9		-	879	214,414	867	(63,681)

(a) Loans and receivables

From loans and receivables to bill receivables at FVTOCI

As part of the Group's cash flow management, the Group has the practice of discounting some of the bill receivables to banks or transferring some of the bill receivables to its suppliers to settle its payables through endorsing the bank issued bills to its supplier before the bills are due for payment and derecognises bill discounted and endorsed issued by the banks with good credit quality on the basis that the Group has transferred substantially all risks and rewards to relevant counterparties. Accordingly, the Group's bill receivables of RMB879,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to bill receivables at FVTOCI.

From loans and receivables to financial assets at amortised cost

Except for bill receivables, all remaining loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

(b) Impairment under ECL model

As at 1 January 2018, the additional credit loss allowance net of related deferred tax assets amounting to RMB5,857,000 has been recognised against accumulated losses. The additional loss allowance of RMB6,724,000 is charged against allowance for credit loss on trade receivable.

Except for the effects as disclosed above, the adoption of IFRS 9 would have no significant impact on the Group's financial position and performance compared to the requirements of IAS 39.

IFRS 16 Leases*Transition and summary of effects arising from initial application of IFRS 16*

On 1 January 2019, the Group has applied IFRS 16. IFRS 16 superseded IAS 17, and the related interpretations. The Group applied the IFRS 16 in accordance with the transition provisions of IFRS 16.

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by relevant group entities ranged from 4.05% to 6.09%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	<u>9,092</u>
Extension options reasonably certain to be exercised	775
Inclusion of non-lease components in leases as a single lease components	205
Contracts committed but not yet commenced at 1 January 2019	(553)
Effect from discounting at the incremental borrowing rates as at 1 January 2019	<u>(690)</u>
Lease liabilities as at 1 January 2019	<u><u>8,829</u></u>
Analysed as	
Current	4,687
Non-current	<u><u>4,142</u></u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of- use assets RMB'000
Lease liabilities as at 1 January 2019	8,829
Adjusted by prepayments for rental (a)	<u>151</u>
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	8,980
Reclassified from prepaid lease payments (b)	<u>18,086</u>
By class	
Leasehold lands	18,086
Building	<u>8,980</u>
	<u><u>27,066</u></u>

- (a) Upfront payments for leases of properties were recognised as prepayments for rental as at 31 December 2018. Upon application of IFRS 16, prepayments for rental amounted to RMB151,000 were reclassified to right-of-use assets.

- (b) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB410,000 and RMB17,676,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. During the six months ended 30 June 2019, application of IFRS 16 by the Group as a lessor has no material impact on the Group's consolidated financial statements.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets				
Prepaid lease payments	(b)	17,676	(17,676)	–
Right-of-use assets	(a), (b)	–	27,066	27,066
Current assets				
Prepaid lease payments	(b)	410	(410)	–
Other receivables and prepayments	(a)	57,018	(151)	56,867
Current liability				
Lease liabilities		–	4,687	4,687
Non-current liability				
Lease liabilities		–	4,142	4,142

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to IFRSs and an interpretation in issue but not yet effective

At the date of this report, the following new and amendments to IFRSs have been issued which are not yet effective:

IFRS 17	Insurance Contracts ²
Amendments to IFRS 3	Definition of a Business ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁴ Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRSs, will be effective for annual periods beginning on or after 1 January 2020.

Except for the revised Conceptual Framework for Financial Reporting mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in IFRSs

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. Significant accounting policies

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. In addition, the Historical financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based payment*, leasing transactions that are within the scope of IAS 17 for the three years ended 31 December 2018 and IFRS 16 for the six months ended 30 June 2019, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principle accounting policies adopted are set out below.

Investment in a subsidiary

Investment in a subsidiary is stated in the statements of financial position of the Company at cost less any identified impairment loss.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain is recognised in profit or loss or in equity if it represents contribution from shareholders and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets and liabilities of the subsidiary. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specially, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Upfront payment received by the Group is initially recognised as contract liabilities. A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group's revenue primarily arising from manufacture and sale of chemical related products and medicine during the Track Record Period, which is recognised at a point in time when the control of goods has transferred, i.e. when the goods have been delivered to customers.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Leasing (before application of IFRS 16 on 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Leasing (upon application IFRS 16 with transitions in accordance with note 3)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when the lease term has changed by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets which, are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below, are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Impairment on tangible assets

At the end of each reporting period, the management of Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, and when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customer which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial assets or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial assets or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial assets (before the adoption of IFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables and available-for-sale investments ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bill receivables, other receivables, amount due from a related party, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of loans and receivables below).

Interest income is recognised on an effective interest rate, except for short-term receivables where the recognition of interest would be material.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) financial assets at FVTPL or (b) loans and receivables.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

Impairment of loans and receivables and AFS financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For financial assets measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial assets. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortised cost and effective interest method

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial assets measured at amortised cost, exchange differences are recognised in profit or loss and are included in the “other gains and losses” line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, bill receivables at FVTOCI, rental deposits starting from 1 January 2019, other receivables, amounts due from immediate holding companies, restricted bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within twelve months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current condition at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are assessed individually for credit impaired trade receivables and collectively using a provision matrix with appropriate grouping for the remaining trade receivables.

For all other instruments, the Group measures the loss allowance equal to twelve-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations, namely the structure-based drug discovery services.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; or
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to twelve-month ECL at the current reporting date.

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and bill payables, other payables, dividend payables and amounts due to shareholders/former shareholders are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Retirement benefit costs

Payments to the defined contribution retirement benefit plan, Hong Kong's Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in accumulated loss and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item employee benefits expense. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in accumulated losses and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

5. Key sources of estimation uncertainties

In the application of the Group's accounting policies, which are described in note 4, management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months.

Estimated impairment of trade receivables

For trade receivables as at 31 December 2016 and 2017 under IAS 39

Impairment of trade receivables is estimated based on the evaluation of collectability and aging analysis of individual trade debts performed by the management. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

As at 31 December 2016 and 2017, the carrying amount of trade receivables is RMB128,432,000 net of allowance for doubtful debts of RMB1,552,000 and RMB140,119,000 net of allowance for doubtful debts of RMB1,399,000 respectively.

For trade receivables as at 1 January 2018, 31 December 2018 and 30 June 2019 under IFRS 9

The Group recognises lifetime ECL for trade receivables, using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. In addition, trade receivables with credit impaired are assessed for ECL individually. As at 31 December 2018 and 30 June 2019, the carrying amount of trade receivables is RMB150,572,000 (net of allowance for credit losses of RMB8,002,000) and RMB148,913,000 (net of allowance for credit losses of RMB8,379,000). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 20.

Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Group tests impairment for property, plant and equipment whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. During the years ended 31 December 2016, 2017 and 2018 and the six months ended 2018 and 2019, impairment loss on property, plant and equipment amounted nil, RMB3,674,000, nil, nil and nil were recognised respectively. Details are set out in note 14.

6. Revenue and segment information

Revenue represents revenue arising from manufacture and sale of chemical related products and medicine during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Types of goods					
Polyurethane raw materials	728,592	1,089,548	881,563	451,206	331,905
Animal nutrition	326,692	535,848	702,657	340,329	278,906
Fine chemicals	319,590	330,495	286,801	155,099	126,471
Medicine	223,155	212,984	270,650	122,842	193,283
Others	8,800	10,174	11,275	5,451	4,708
	<u>1,606,829</u>	<u>2,179,049</u>	<u>2,152,946</u>	<u>1,074,927</u>	<u>935,273</u>
Timing of revenue recognition					
A point in time	<u>1,606,829</u>	<u>2,179,049</u>	<u>2,152,946</u>	<u>1,074,927</u>	<u>935,273</u>

The Group's revenue are under fixed price arrangement with the corporate customers. Under the Group's standard contract terms, the credit term is generally 60 days and customers have a right to exchange or return the goods only under the condition of quality issue tested by a third party testing institution. In the opinion of the directors of the Company, based on historical experiences, the impact of revenue reversal would be immaterial.

During the Track Record Period, all performance obligations for sales of goods are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to unsatisfied performance obligations as at the end of each reporting period is not disclosed.

For the purpose of resources allocation and performance assessment, the key management of the entities comprising the Group, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers					Non-current assets (excluding deferred tax assets and financial instruments)			
	Year ended 31 December			Six months ended 30 June		As at 31 December		As at 30 June	
	2016	2017	2018	2018	2019	2016	2017	2018	2019
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
PRC	1,394,359	1,858,675	1,677,947	852,046	718,752	147,258	129,094	162,191	193,052
Europe	89,894	118,527	191,242	98,045	65,413	1,065	925	931	993
Vietnam	46,768	75,760	127,842	55,061	69,936	26,959	38,136	31,347	36,483
Other countries in Asia (excluding PRC and Vietnam)	48,249	80,655	88,098	41,038	41,069	36	10,830	10,785	10,788
Others	27,559	45,432	67,817	28,737	40,103	3	9	329	1,004
	<u>1,606,829</u>	<u>2,179,049</u>	<u>2,152,946</u>	<u>1,074,927</u>	<u>935,273</u>	<u>175,321</u>	<u>178,994</u>	<u>205,583</u>	<u>242,320</u>

Information about major customers

There was no revenue from individual customer contributing over 10% of total revenue of the Group during the Track Record Period.

7. Directors', chief executive officer's and employees' emoluments

(a) Directors' and chief executive officer's emoluments

Name	Position	Date of appointment as the directors of the Company
Mr. Yin Yanbin	Executive director and chief executive officer	25 April 2018
Mr. Zhuang Zhaohui	Executive director	25 April 2018
Mr. Chen Zhaohui	Executive director	25 April 2018
Mr. Zhou Chunnian	Executive director	25 April 2018
Mr. Chen Hua	Executive director	25 April 2018
Mr. Sun Guibin	Executive director	25 April 2018
Ms. Zheng Qin	Independent non-executive director	16 December 2019
Mr. Sun Hongbin	Independent non-executive director	16 December 2019
Mr. Wang Guangji	Independent non-executive director	16 December 2019

Details of the emoluments paid or payable (including emoluments for the services as directors of the group entities prior to becoming directors of the Company) to the directors of the Company during the Track Record Period for their service rendered are as follows:

	Directors' fee	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2016					
Executive directors					
Mr. Yin Yanbin	-	144	108	38	290
Mr. Zhuang Zhaohui	-	74	108	18	200
Mr. Chen Zhaohui	-	74	108	18	200
Mr. Zhou Chunnian	-	74	108	18	200
Mr. Chen Hua	-	74	108	18	200
Mr. Sun Guibin	-	74	108	18	200
	-	514	648	128	1,290
For the year ended 31 December 2017					
Executive directors					
Mr. Yin Yanbin	-	144	420	45	609
Mr. Zhuang Zhaohui	-	74	108	20	202
Mr. Chen Zhaohui	-	74	108	20	202
Mr. Zhou Chunnian	-	74	108	20	202
Mr. Chen Hua	-	74	108	20	202
Mr. Sun Guibin	-	74	108	20	202
	-	514	960	145	1,619
For the year ended 31 December 2018					
Executive directors					
Mr. Yin Yanbin	-	960	420	51	1,431
Mr. Zhuang Zhaohui	-	588	78	35	701
Mr. Chen Zhaohui	-	504	78	35	617
Mr. Zhou Chunnian	-	432	78	35	545
Mr. Chen Hua	-	402	78	35	515
Mr. Sun Guibin	-	360	78	35	473
	-	3,246	810	226	4,282

	Directors' fee	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note)		
For six months ended 30 June 2018 (unaudited)					
Executive directors					
Mr. Yin Yanbin	-	480	336	24	840
Mr. Zhuang Zhaohui	-	294	62	11	367
Mr. Chen Zhaohui	-	252	62	11	325
Mr. Zhou Chunnian	-	216	62	11	289
Mr. Chen Hua	-	201	62	11	274
Mr. Sun Guibin	-	180	62	11	253
	-	1,623	646	79	2,348
For six months ended 30 June 2019					
Executive directors					
Mr. Yin Yanbin	-	480	-	27	507
Mr. Zhuang Zhaohui	-	294	-	24	318
Mr. Chen Zhaohui	-	252	-	24	276
Mr. Zhou Chunnian	-	216	-	24	240
Mr. Chen Hua	-	201	-	24	225
Mr. Sun Guibin	-	180	-	24	204
	-	1,623	-	147	1,770

Note: The discretionary bonuses are determined with reference to the Group's and individual performance.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

During the Track Record Period, no remuneration was paid by the Group to the directors and the chief executive officer of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any remuneration during the Track Record Period.

(b) Employees' emoluments

During the Track Record Period, all of the five highest paid individuals' were directors of the Company and their emoluments were disclosed in (a) above.

8. Other income and other gains and losses

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Other income					
Government grants (Note)	746	1,510	2,399	658	1,028
Rental income	7,317	5,814	815	521	249
Bank interest income	425	594	481	305	224
Others	64	3	36	12	218
	<u>8,552</u>	<u>7,921</u>	<u>3,731</u>	<u>1,496</u>	<u>1,719</u>
Other gains and losses					
Net exchange (losses) gains	(719)	(3,399)	(509)	(923)	2,966
Losses on disposals of plant and equipment	(95)	(3,557)	(1,390)	(360)	(197)
Gain on disposal of AFS investment	1,000	-	-	-	-
Impairment loss recognised in respect of property, plant and equipment (note 14)	-	(3,674)	-	-	-
Others	134	(26)	549	141	57
	<u>320</u>	<u>(10,656)</u>	<u>(1,350)</u>	<u>(1,142)</u>	<u>2,826</u>

Note: During the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the relevant government authority granted one-off and unconditional subsidies to the Group amounting to RMB746,000, RMB1,510,000, RMB2,399,000, RMB658,000 (unaudited) and RMB1,028,000 respectively in relation to the Group's contribution in local district, which were recognised in the profit or loss in the year which they received.

9. Finance costs

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on bank borrowings	7,604	9,624	10,598	4,762	6,116
Interest on discounted bills	757	536	233	-	1,062
Interest on defined benefit plan (note 32)	799	525	-	-	-
Interest on lease liabilities	-	-	-	-	218
	<u>9,160</u>	<u>10,685</u>	<u>10,831</u>	<u>4,762</u>	<u>7,396</u>

10. Profit before taxation

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting) to profit and loss:				(unaudited)	
Auditor's remuneration	66	495	306	176	89
Cost of inventories recognised as expenses	1,441,863	1,861,438	1,843,384	894,400	813,309
Depreciation of property, plant and equipment	12,503	15,535	16,109	8,253	8,912
Depreciation of right-of-use assets	–	–	–	–	2,499
Amortisation of prepaid lease payments	416	412	410	205	–
Depreciation of investment properties	1,180	984	–	–	–
Total depreciation and amortisation	14,099	16,931	16,519	8,458	11,411
Capitalised as cost of inventories manufactured	(8,857)	(11,437)	(12,344)	(6,690)	(6,280)
	<u>5,242</u>	<u>5,494</u>	<u>4,175</u>	<u>1,768</u>	<u>5,131</u>
Directors' remuneration (<i>note 7</i>)	1,290	1,619	4,282	2,348	1,770
Other staff costs					
Salaries and other benefits	32,209	44,880	53,588	27,498	25,354
Retirement benefits	7,244	9,894	11,903	4,036	5,481
Defined benefit costs recognised in profit or loss	(3,077)	(764)	–	–	–
Total staff costs	<u>37,666</u>	<u>55,629</u>	<u>69,773</u>	<u>33,882</u>	<u>32,605</u>
Minimum lease payments under operating leases in respect of land and buildings	3,531	3,364	4,659	2,006	–
Gross rental income	(7,317)	(5,814)	(815)	(560)	(249)
Less: direct operating expenses	<u>2,535</u>	<u>1,541</u>	<u>589</u>	<u>446</u>	<u>117</u>
	<u>(4,782)</u>	<u>(4,273)</u>	<u>(226)</u>	<u>(114)</u>	<u>(132)</u>
Write-down (reversal of write-down) of inventories	<u>210</u>	<u>(24)</u>	<u>197</u>	<u>130</u>	<u>3,505</u>

11. Taxation

The Company was incorporated in the Cayman Island and is exempted from Cayman Islands income tax.

Pursuant to the Enterprise Income Tax Laws and Implementation Regulations of the Law of the PRC (the "PRC EIT Law"), the applicable tax rate of PRC subsidiaries is 25% for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018 and 2019.

In 2016, Taian Havay Group Co., Ltd. ("泰安漢威集團有限公司"), was recognised as a High and New Technology Enterprise and enjoyed a tax rate of 15% for the subsequent three years starting from the year ended 31 December 2016, according to the PRC EIT Law.

Nanjing Tianyu Transportation Co., Ltd. and Wuhan Jinruntai Chemicals Co., Ltd., were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 50% reduction of their taxation income starting during the year ended 2017 (i.e. 10%). Taian Yueda Logistics Co., Ltd. and Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd. were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 50% reduction of their taxation income starting during the year ended 2018 (i.e. 10%). Nanjing Tianyu Transportation Co., Ltd., Wuhan Jinruntai Chemicals Co., Ltd., Taian Yueda Logistics Co., Ltd., Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd., Xuzhou Havay Feeds Co.,Ltd. and Tianjin Nuowei Trading Co.,Ltd. were qualified as small low-profit enterprises and enjoyed a preferential tax rate of 20% with 75% reduction of their taxation income starting during the year ended 2019 (i.e. 5%).

No provision for income tax has been made for subsidiaries in India, Hong Kong and Canada, as there was no estimated assessable profit during the Track Record Period.

Under the tax law in Vietnam, GHW (Vietnam) Co., Ltd. has been granted to enjoy 2-years exemption of income tax followed by 4-years 50% reduction of income tax from the first profit making year. No assessable profit was generated during the Track Record Period.

Pursuant to the relevant tax law of Ukraine, Ukraine profits tax has been provided at the rate of 18% on the estimated assessable profits arising in Ukraine during the Track Record Period.

Pursuant to the relevant tax law of Russia, Russia profits tax has been provided at the rate of 20% on the estimated assessable profits arising in Russia during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current tax	186	14,524	15,268	11,241	2,323
Under (over) provision in prior years	268	107	269	269	(967)
	454	14,631	15,537	11,510	1,356
Deferred tax	—	—	1,458	415	(93)
Total	454	14,631	16,995	11,925	1,263

	Year ended 31 December			Six months ended 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Profit before taxation	21,211	94,062	91,252	72,736	18,070
Tax at PRC enterprise income tax rate of 25%	5,303	23,516	22,813	18,184	4,518
Tax effect of expenses not deductible for tax purpose	477	3,625	3,592	1,128	1,454
Tax effect of income not taxable for tax purpose	(215)	(2,535)	(2,905)	(1,836)	(2,305)
Tax effect of tax losses not recognised	2,557	2,338	5,043	1,232	2,098
Utilisation of tax losses previously not recognised	(6,043)	(9,133)	(518)	(85)	(904)
Additional deduction of research and development expenses	(492)	(588)	(2,058)	(1,677)	(1,375)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(9)	(30)	(58)	(63)	(50)
Income tax at concessionary rates	-	(6,870)	(7,171)	(4,149)	(624)
Tax effect of deductible temporary differences not recognised	164	4,371	853	995	993
Utilisation of deductible temporary differences previously not recognised	(1,556)	(170)	(2,865)	(2,073)	(1,575)
Under (over) provision in prior years	268	107	269	269	(967)
Taxation for the year/period	454	14,631	16,995	11,925	1,263

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of unrecognised deductible temporary differences were RMB2,233,000, RMB19,037,000, RMB10,989,000 and RMB8,661,000, respectively while tax losses not recognised were RMB49,661,000, RMB19,952,000, RMB38,052,000 and RMB42,828,000, respectively. In the opinion of the directors of the Company, no deferred tax assets are recognised due to the unpredictability of future profit streams. As at 31 December 2016, 2017 and 2018 and 30 June 2019, such unrecognised losses for the Group entities will expire at various dates up to and including 2021, 2022, 2023 and 2024, respectively.

12. Dividends

During the year ended 31 December 2017, GHW International SCM declared dividend of RMB75,899,000 to its then shareholders. As at 31 December 2017 and 2018 and 30 June 2019, dividend payables of RMB65,420,000, RMB56,459,000 and RMB49,400,000 were not settled. Save for the above, no other dividend was declared or paid by the group entities during the Track Record Period.

No dividend was paid or declared by the Company since its incorporation.

13. Earnings per share

The basic earnings per share is calculated based on the profit attributable to the owners of the Company and the weighted average number of ordinary shares of 750,000,000 shares on the assumption that the Group Reorganisation and Capitalisation Issue (as defined in note 33), details are set out in Appendix IV to the Prospectus, has been effective on 1 January 2016.

There were no dilutive potential ordinary shares during the Track Record Period and therefore, diluted earnings per share are not presented.

14. Property, plant and equipment

	Plant and machinery RMB'000	Buildings, properties and structures RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2016	60,906	43,777	2,151	5,685	8,657	12,545	133,721
Additions	1,555	4,138	1,060	550	3,512	42,203	53,018
Transfers	26,710	5,482	-	169	-	(32,361)	-
Disposals	(99)	-	-	(1,189)	(30)	-	(1,318)
Exchange adjustment	9	(71)	(4)	-	(3)	490	421
At 31 December 2016	89,081	53,326	3,207	5,215	12,136	22,877	185,842
Additions	2,162	10,780	321	1,305	4,097	23,292	41,957
Transfers	27,017	678	-	-	-	(27,695)	-
Disposals	(6,939)	-	(477)	(717)	(3,466)	-	(11,599)
Exchange adjustment	(645)	(657)	(38)	(10)	(27)	(401)	(1,778)
At 31 December 2017	110,676	64,127	3,013	5,793	12,740	18,073	214,422
Additions	4,648	917	299	857	1,234	20,990	28,945
Transfers	10,463	14,933	315	-	-	(25,711)	-
Disposals	(9,263)	(23)	(240)	(829)	(176)	-	(10,531)
Exchange adjustment	603	914	5	29	75	186	1,812
At 31 December 2018	117,127	80,868	3,392	5,850	13,873	13,538	234,648
Additions	756	23	976	75	383	27,471	29,684
Transfers	19,918	4,982	-	-	59	(24,959)	-
Disposals	(647)	-	(55)	(33)	-	-	(735)
Exchange adjustment	(31)	75	2	3	4	64	117
At 30 June 2019	137,123	85,948	4,315	5,895	14,319	16,114	263,714
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	(13,843)	(4,464)	(59)	(4,012)	(6,439)	-	(28,817)
Provided for the year	(6,501)	(2,531)	(1,440)	(746)	(1,285)	-	(12,503)
Eliminated on disposals	22	-	-	1,127	29	-	1,178
Exchange adjustment	1	10	2	2	3	-	18
At 31 December 2016	(20,321)	(6,985)	(1,497)	(3,629)	(7,692)	-	(40,124)
Provided for the year	(9,570)	(2,886)	(1,020)	(633)	(1,426)	-	(15,535)
Eliminated on disposals	2,517	-	171	652	2,278	-	5,618
Exchange adjustment	29	46	16	6	8	-	105
Impairment	(3,674)	-	-	-	-	-	(3,674)
At 31 December 2017	(31,019)	(9,825)	(2,330)	(3,604)	(6,832)	-	(53,610)
Provided for the year	(9,724)	(3,257)	(707)	(724)	(1,697)	-	(16,109)
Eliminated on disposals	6,247	18	238	639	167	-	7,309
Exchange adjustment	(101)	(99)	(3)	(8)	(22)	-	(233)
At 31 December 2018	(34,597)	(13,163)	(2,802)	(3,697)	(8,384)	-	(62,643)
Provided for the period	(5,540)	(1,921)	(348)	(314)	(789)	-	(8,912)
Eliminated on disposals	374	-	27	20	-	-	421
Exchange adjustment	(9)	(28)	(1)	(3)	(5)	-	(46)
At 30 June 2019	(39,772)	(15,112)	(3,124)	(3,994)	(9,178)	-	(71,180)
CARRYING AMOUNTS							
At 31 December 2016	68,760	46,341	1,710	1,586	4,444	22,877	145,718
At 31 December 2017	79,657	54,302	683	2,189	5,908	18,073	160,812
At 31 December 2018	82,530	67,705	590	2,153	5,489	13,538	172,005
At 30 June 2019	97,351	70,836	1,191	1,901	5,141	16,114	192,534

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the factory buildings located in Xuzhou, the PRC, with total net carrying amounts of approximately RMB1,039,000, RMB967,000, RMB883,000, and RMB813,000 respectively, have no certificate of ownership.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's buildings, properties and structures amounted to RMB8,828,000, RMB1,009,000 and nil, RMB8,095,000, RMB865,000 and RMB10,750,000, RMB8,547,000, RMB865,000 and RMB10,742,000, and RMB8,239,000, RMB913,000 and RMB10,484,000 were located in Vietnam, Ukraine and Hong Kong, respectively. The remaining buildings, properties and structures were located in the PRC.

The above items of property, plant and equipment, except for construction in progress, are depreciated after taking into account the estimated residual value on a straight-line basis at the following rates per annum:

Plant and machinery	10 years
Buildings, properties and structures	Shorter of lease terms or 10-38 years
Leasehold improvements	Shorter of lease terms or 5 years
Office equipment	5-10 years
Motor vehicles	4-6 years

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group has pledged buildings, plant and machinery and motor vehicles with a net book value of approximately RMB22,976,000, RMB33,123,000, RMB9,051,000 and RMB18,723,000, respectively to secure general banking facilities granted to the Group.

During the year ended 31 December 2017, the environment authority in Vietnam issued a new environmental requirements in Vietnam. After detailed review on the recoverable amount of that production line determined on the basis of its value in use by the directors of the Company, the recoverable amount was considered to be zero, and the Group has recognised an impairment loss of RMB3,674,000.

15. Prepaid lease payments

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purpose as:				
Non-current assets	18,599	18,001	17,676	-
Current assets	416	412	410	-
	<u>19,015</u>	<u>18,413</u>	<u>18,086</u>	<u>-</u>

The prepaid lease payments represented land use rights in PRC and Vietnam held under medium-term leases of 45 to 50 years.

During the years ended 31 December 2016, 2017 and 2018, the Group has pledged leasehold land with a net book value of approximately RMB13,826,000, RMB18,413,000 and RMB18,086,000, respectively to secure general banking facilities granted to the Group.

Upon application of IFRS 16 on 1 January 2019, the prepaid lease payments were classified to right-of-use assets.

16. Right-of-use assets

	Leasehold lands RMB'000	Building RMB'000	Total RMB'000
COST			
At 1 January 2019 (restated as note 3)	18,086	8,980	27,066
Additions	–	6,740	6,740
Termination of lease	–	(1,146)	(1,146)
Exchange adjustment	(5)	–	(5)
As at 30 June 2019	<u>18,081</u>	<u>14,574</u>	<u>32,655</u>
DEPRECIATION			
As at 1 January 2019 (restated as note 3)	–	–	–
Provided for the period	(207)	(2,292)	(2,499)
As at 30 June 2019	<u>(207)</u>	<u>(2,292)</u>	<u>(2,499)</u>
CARRYING VALUES			
As at 1 January 2019 (restated as note 3)	<u>18,086</u>	<u>8,980</u>	<u>27,066</u>
As at 30 June 2019	<u>17,874</u>	<u>12,282</u>	<u>30,156</u>

The right-of-use assets are depreciated over shorter of the lease term and their estimated useful lives, using straight-line method, at the following rates per annum:

Leasehold lands	Over the lease term
Building	Over the lease term

As at 30 June 2019, the Group's right-of-use assets amounted to RMB3,921,000, RMB659,000, RMB200,000, RMB65,000 and RMB38,000 were located in Vietnam, America, India, Hong Kong and Europe respectively. The remaining right-of-use assets were located in the PRC.

As at 30 June 2019, the Group has pledged leasehold land with a net book value of approximately RMB12,962,000 to secure general banking facilities granted to the Group.

17. Investment properties

	<i>RMB'000</i>
COST	
At 1 January 2016 and 31 December 2016	23,607
Derecognised on disposal of a subsidiary (<i>note 37</i>)	<u>(23,607)</u>
At 31 December 2017 and 31 December 2018 and 30 June 2019	<u>–</u>
DEPRECIATION	
At 1 January 2016	(11,598)
Provided for the year	<u>(1,180)</u>
At 31 December 2016	(12,778)
Provided for the year	(984)
Eliminated on disposal of a subsidiary (<i>note 37</i>)	<u>13,762</u>
At 31 December 2017 and 31 December 2018 and 30 June 2019	<u>–</u>
CARRYING VALUES	
At 31 December 2016	<u><u>10,829</u></u>
At 31 December 2017 and 31 December 2018 and 30 June 2019	<u><u>–</u></u>

The fair value of the Group's investment properties as at 31 December 2016 was RMB61,260,000. The fair value has been arrived at based on valuations carried out by Nanjing ShouJia Assets Appraisal Firm, independent valuers not connected with the Group. The valuation was determined by reference to the cost of replacing the properties, less depreciation from physical deterioration and functional obsolescence. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy are as follows:

	As at 31 December 2016	
	Carrying amount <i>RMB'000</i>	Level 3 fair value <i>RMB'000</i>
Commercial property units:		
Shuiximen Main Street front-house located in Nanjing	10,829	61,260

The investment properties are depreciated over the period of shorter of the term of lease of the respective land use rights and twenty years using the straight-line method.

After the disposal of Organic Chemicals Co., all investment properties were disposed.

As at 31 December 2016, the Group has pledged investment properties with a net book value of approximately RMB7,543,000 to secure general banking facilities granted to the Group.

18. Deferred taxation

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	-	-	744	770
Deferred tax liabilities	-	-	(1,335)	(1,268)
	-	-	(591)	(498)

The followings are the major deferred tax liability and asset recognised and movement thereon during the Track Record Period.

	Accelerated tax depreciation RMB'000	ECL provision RMB'000	Total RMB'000
At 1 January 2016, 31 December 2016 and 31 December 2017	-	-	-
Adjustment upon initial application of IFRS 9 (note 3)	-	867	867
At 1 January 2018 (restated)	-	867	867
Charge to profit or loss	(1,335)	(123)	(1,458)
At 31 December 2018	(1,335)	744	(591)
Credit to profit or loss	67	26	93
At 30 June 2019	(1,268)	770	(498)

19. Inventories

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	16,392	35,904	45,631	64,347
Work in progress	251	5,813	9,387	14,431
Finished goods	83,745	110,754	109,583	136,276
	100,388	152,471	164,601	215,054

20. Trade receivables

	As at	As at 31 December			As at 30
	1 January	2016	2017	2018	June
	2016	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	144,600	129,984	141,518	158,574	157,292
Less: allowance for credit losses	(1,177)	(1,552)	(1,399)	(8,002)	(8,379)
	143,423	128,432	140,119	150,572	148,913

Generally, credit terms of 60 days is granted to customers. An aging analysis of the trade receivables presented based on the invoice dates, which approximate the dates of revenue recognition, at the end of each reporting period:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	60,545	86,746	88,080	82,309
31-60 days	28,264	25,331	35,738	33,526
61-90 days	10,081	10,070	14,633	20,852
Over 90 days	29,542	17,972	12,121	12,226
	<u>128,432</u>	<u>140,119</u>	<u>150,572</u>	<u>148,913</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Trade receivables that are neither past due nor impaired have good credit quality.

The Group does not hold any collateral over these balances.

Aging analysis of trade receivables which are past due but not impaired:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
61-90 days	10,081	10,070
Over 90 days	<u>29,542</u>	<u>17,972</u>
	<u>39,623</u>	<u>28,042</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or there was no historical default of payments by the respective customers. The management of the Group believes that no impairment is required.

Movement in the allowance for doubtful debts

	2016	2017
	RMB'000	RMB'000
At 1 January	1,177	1,552
Impairment for trade receivables	870	2,991
Amounts written off as uncollectible	<u>(495)</u>	<u>(3,144)</u>
At 31 December	<u>1,552</u>	<u>1,399</u>

Starting from 1 January 2018, as part of the Group's credit risk management under the requirement of IFRS 9, the Group applied internal credit rating for its customers. The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables
Group A	The counter party has a low risk of default based on historical repayment records and has a good reputation	Lifetime ECL – not credit-impaired
Group B	The counter parties, which are hospitals, have higher creditability but sometimes repays in full after due dates	Lifetime ECL – not credit-impaired
Group C	The counter party usually settles after due day with a higher risk of default	Lifetime ECL – not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). As at 31 December 2018 and 30 June 2019, the debtors with credit-impaired amounted to RMB799,000 and RMB885,000 are assessed individually, and the rest of debtors amounted to RMB157,775,000 and RMB156,407,000 are assessed under a provision matrix based on internal credit rating.

Gross carrying amount

Internal credit rating	Average loss rate	Trade receivables	
		As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
Group A	1.95%	107,956	104,972
Group B	1.95%	15,533	14,200
Group C	13.97%	34,286	37,235
		<u>157,775</u>	<u>156,407</u>

The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

As at 31 December 2018 and 30 June 2019, included in the Group's trade receivables balance within Group A, B and C are debtors with aggregate carrying amount of RMB28,034,000 and RMB34,619,000 which are past due as at the reporting date. Out of the past due balances, RMB4,271,000 and RMB3,644,000 has been past due 90 days or more and is not considered as in default. In the opinion of the directors of the Company, the trade receivables within Group A, B and C at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the historical and expected subsequent repayment from the trade debtors.

Movement in the allowance for impairment of trade receivables:

	Lifetime ECL (not credit – impaired) RMB'000	Lifetime ECL (credit – impaired) RMB'000
As at 31 December 2017 under IAS 39	–	1,399
Adoption of IFRS 9	<u>6,724</u>	<u>–</u>
As at 1 January 2018 – As restated	6,724	1,399
Net remeasurement of impairment recognised on receivables	479	270
Amounts written off as uncollectible	<u>–</u>	<u>(870)</u>
As at 31 December 2018	7,203	799
Net remeasurement of impairment recognised on receivables	291	137
Amounts written off as uncollectible	<u>–</u>	<u>(51)</u>
As at 30 June 2019	<u><u>7,494</u></u>	<u><u>885</u></u>

The carrying amounts of the Group's trade receivables that were denominated in foreign currencies were re-translated in RMB and stated for reporting purposes as:

	As at 31 December		As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
United States Dollar ("U.S.\$")	22,550	23,480	31,971	27,554
Euro ("EUR")	<u>1,145</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>23,695</u></u>	<u><u>23,480</u></u>	<u><u>31,971</u></u>	<u><u>27,554</u></u>

21. Bill receivables

	As at 31 December		As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Bill receivables	<u>3,149</u>	<u>879</u>	<u>–</u>	<u>–</u>

The following is an aging analysis of bill receivables presented based on bill issuance date at the end of each reporting period:

	As at 31 December		As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
0-180 days	<u>3,149</u>	<u>879</u>	<u>–</u>	<u>–</u>

22. Bill receivables at FVTOCI

	As at 31 December		As at 30 June	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Bill receivables at FVTOCI	<u>–</u>	<u>–</u>	<u>13,602</u>	<u>54,700</u>

The following is an aging analysis of bill receivables at FVTOCI presented based on bill issuance date at the end of each reporting period:

	As at 31 December			As at 30 June	
	2016	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000	
0-180 days	-	-	13,602	54,700	

23. Transfers of financial assets

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group has discounted bank issued bill receivables to banks and transferred bank issued bills receivables to its suppliers to settle its payables through endorsing the bank issued bills to its suppliers. The Group has limited exposure in respect of the settlement obligation of these bank issued bills receivables under the relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the risk of non-settlement by the issuing banks with good credit quality on maturity is insignificant. In the opinion of the directors of the Company, the Group transferred and did not retain substantially all the risks and rewards of ownership of this part of bank issued bills. Accordingly, the Group has derecognised this part of bank issued bill receivables and the payables to the suppliers in their entirety.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's maximum exposure to loss, which is the same as the amount payables by the Group to banks or the suppliers in respect of the discounted bank issued bills and endorsed bank issued bills, should the issuing banks fail to settle the bills on maturity, amounted to RMB19,782,000 and RMB93,385,000, RMB5,000,000 and RMB101,879,000, and RMB9,502,000 and RMB130,873,000, and RMB53,716,000 and RMB111,428,000, respectively.

For the part of transferred bank issued bills that were not derecognised as the Group has not transferred the significant risks and rewards relating to these receivables, the Group continued to recognise the remaining part of bank issued and has recognised the cash received on the transfer as a collateralised borrowing. These financial assets are carried at amortised cost in the Historical Financial Information. As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of these transferred bank issued bills were RMB17,000,000, RMB5,000,000, RMB9,502,000 and RMB53,716,000, respectively, which were the same as the carrying amounts of associated liabilities.

All the bank issued bills receivables discounted to banks or endorsed to suppliers of the Group have a maturity date of less than six months from the end of each reporting period.

24. Other receivables and prepayments

	The Group			The Company		
	As at 31 December			As at 30	As at	As at 30
	2016	2017	2018	June 2019	31 December 2018	June 2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Value-added tax recoverable	6,435	14,246	22,475	21,909	-	-
Prepayments for materials	21,884	15,157	17,565	21,426	-	-
Deferred and prepaid expenses	3,273	6,215	6,013	7,809	-	-
Deferred issue costs	-	3,325	5,800	6,849	5,800	6,849
Deposits paid to suppliers	833	750	1,726	1,667	-	-
Other taxes prepaid	-	-	1,474	-	-	-
Advance to staff	1,933	765	670	1,412	-	-
Other receivables	1,646	1,638	1,295	1,362	-	-
	<u>36,004</u>	<u>42,096</u>	<u>57,018</u>	<u>62,434</u>	<u>5,800</u>	<u>6,849</u>

25. Amount(s) due from a related party/immediate holding companies/Amounts due to shareholders/former shareholders/subsidiaries

The Group and the Company

Amounts due from immediate holding companies

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Commonwealth B Limited	-	-	35	35
Commonwealth GHW Limited	-	-	17	17
Commonwealth Happy Elephant Limited	-	-	16	16
Commonwealth Feibear Limited	-	-	1	1
	<u>-</u>	<u>-</u>	<u>69</u>	<u>69</u>

The Group

Amount due from a related party

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Nanjing Hanhe Enterprises Co., Ltd.	<u>5,330</u>	<u>-</u>	<u>-</u>	<u>-</u>

The related company was under the common control of certain shareholders and directors. The amount was non-trade nature, unsecured, interest-free and repayable on demand. The maximum outstanding balance during the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 were RMB5,330,000, RMB5,330,000, nil and nil, respectively and the opening balance as at 1 January 2016 was RMB5,320,000.

The amounts are non-trade nature, unsecured, interest-free and repayable on demand.

Amounts due to shareholders/former shareholders

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Name				
Mr. Yin Yanbin	19,016	130	5	5
Ms. Bao Weiwei	8,336	2,332	-	-
Mr. Xu Zhengwei	4,630	4,636	5,900	-
Mr. Chen Yankang	3,105	2,918	3,064	2,683
Ms. Gu Ying	1,681	-	-	-
Mr. Tang Jianpin	1,627	1,529	1,606	1,358
Ms. Wang Wei	448	421	-	-
Nanjing Hanhe Enterprises Co., Ltd.	-	-	69,974	57,382
Nanjing Hanhe Investment Co., Ltd.	-	-	2,000	2,001
Commonwealth Armyfeibear (HK) Limited	-	-	1,055	1,056
	<u>38,843</u>	<u>11,966</u>	<u>83,604</u>	<u>64,485</u>

On 31 July 2018, Nanjing Hanhe Enterprises Co., Ltd. (being a company owned as to 89.53% by Nanjing Hanhe Investment Co., Ltd., which is controlled by Mr. Yin Yanbin), Nanjing Hanhe Investment Co., Ltd. and Commonwealth Armyfeibear (HK) Limited (being a company with common shareholders as Commonwealth Feibear Limited) transferred the entire equity interest in GHW International SCM to GHW Holdings Limited for a cash consideration of U.S.\$10,619,000 (equivalent to approximately RMB73,037,000), which was based on the net asset value of GHW International SCM as at 31 December 2017. During the six month ended 30 June 2019, RMB12,610,000 of the consideration was settled. As represented by the directors of the Company, the remaining will be settled before the Listing.

The amounts are non-trade nature, unsecured, interest-free and repayable on demand.

As represented by the directors of the Company, the amounts will be settled before the Listing.

The Company

Amounts due to subsidiaries are non-trade nature, unsecured, interest-free and repayable on demand.

26. Bank balances and cash and restricted bank deposits

Bank balances carry interest at market rates which range from 0.05% to 0.35% per annum, from 0.05% to 0.35% per annum, from 0.05% to 0.30% per annum, and from 0.05% to 0.30% per annum, as at 31 December 2016, 2017 and 2018 and 30 June 2019.

Restricted bank deposits represent the deposits pledged to banks for securing short-term banking facilities granted to the Group and are therefore classified as current assets. The restricted bank deposits carry interest at market rates which range from 0.30% to 1.35% per annum, from 0.30% to 1.50% per annum, from 0.30% to 1.55% per annum, and from 0.30% to 1.55% per annum, as at 31 December 2016, 2017 and 2018 and 30 June 2019 respectively.

The Group's bank balances and cash that were denominated in foreign currencies other than the functional currencies of the relevant group entities are set out below:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
U.S.\$	4,954	6,360	5,647	3,469
EUR	1,521	72	13	72
Other	2	444	1,737	1,121
	<u>6,477</u>	<u>6,876</u>	<u>7,397</u>	<u>4,662</u>

27. Trade and bill payables

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	157,310	118,552	134,308	155,804
Bill payables	5,000	31,000	19,000	9,721
Total trade and bill payables	<u>162,310</u>	<u>149,552</u>	<u>153,308</u>	<u>165,525</u>

The following is an aging analysis of bill payables at the end of each reporting period:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0-180 days	5,000	31,000	19,000	9,721

The credit period on purchase of inventories is generally 90 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	111,985	93,081	86,042	99,203
31-60 days	25,812	12,448	20,786	21,257
61-90 days	2,366	4,203	9,249	14,782
Over 90 days	17,147	8,820	18,231	20,562
	157,310	118,552	134,308	155,804

The carrying amounts of the Group's trade payables that were denominated in foreign currencies of the relevant group entities are set out below:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
U.S.\$	7,540	420	-	-
EUR	175	-	213	-
	7,715	420	213	-

28. Other payables and accrued charges

	The Group			The Company		
	As at 31 December		2018	As at	As at	As at
	2016	2017		30 June	31 December	30 June
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Payables for property, plant and equipment	10,335	7,249	12,924	14,920	-	-
Accrued salaries and welfare expenses	8,063	10,091	9,811	5,073	-	-
Listing expenses and issue costs payable	-	9,503	9,459	4,958	9,459	4,958
Payables for freight charge and storage fee	7,803	6,701	8,474	11,127	-	-
PRC value-added tax payables and other tax payables	317	13,504	3,961	2,633	-	-
Accrued repair and maintenance expense	-	7,602	444	160	-	-
Advance from staff	542	472	95	90	-	-
Others	1,762	2,403	3,448	4,083	-	-
	28,822	57,525	48,616	43,044	9,459	4,958

29. Lease liabilities

	As at 30 June 2019
	<i>RMB'000</i>
Non-current	7,049
Current	<u>5,599</u>
	<u>12,648</u>
	As at 30 June 2019
	<i>RMB'000</i>
Lease liabilities due:	
Within one year	5,751
More than one year, but not exceeding two years	3,452
More than two years, but not exceeding five years	<u>4,815</u>
	14,018
Less: future finance charges	<u>(1,370)</u>
Present value of lease liabilities	<u>12,648</u>
Less: Amounts due for settlement within 12 months (shown under current liabilities)	<u>5,599</u>
Amounts due for settlement after 12 months (shown under non-current liabilities)	<u>7,049</u>
	As at 30 June 2019
	<i>RMB'000</i>
Present value of lease liabilities:	
Within one year	5,599
More than one year, but not exceeding two years	3,163
More than two years, but not exceeding five years	<u>3,886</u>
	<u>12,648</u>

The Group leased various properties, as disclosed in note 16 to operate its logistics and office activities. The lease terms range from 11 months to 10 years. Extension options are included in certain lease agreements entered by the Group. The Group is reasonably certain to exercise most of the options at the date of initial application of IFRS 16 or lease commencement date. Therefore, the relevant periods covered by the extension options are included in these lease terms. The incremental borrowing rates applied ranged from 4.05% to 6.09%. These lease liabilities were measured at the present value of the lease payments that are not yet paid.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The lease agreements did not contain any contingent rent nor purchase option for leasee.

30. Contract liabilities

The amounts represent advance payments from customers for goods. The amounts of RMB16,561,000, RMB38,187,000, RMB23,392,000 and RMB11,902,000 that represented the entire contract liabilities balances at the beginning of the respective years, were recognised as revenue during the years ended 31 December 2016, 2017 and 2018 and the six months ended 2019, respectively.

The Group generally offer 100% credit term for customers with long-term relationship and request deposit of 40% to 100% on acceptance of orders for customers accessed to be of lower creditability.

31. Borrowings

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans (Note)	103,425	122,360	68,526	112,150
Unsecured bank loans	56,088	56,506	129,831	212,178
	159,513	178,866	198,357	324,328
The carrying amounts of the above borrowings are repayable based on scheduled repayment terms:				
Within one year	150,963	172,312	194,225	269,495
More than one year but not exceeding two years	1,425	2,622	4,132	4,871
More than two years but not exceeding five years	7,125	3,932	-	49,962
	159,513	178,866	198,357	324,328
Less: Amounts shown under non-current liabilities	8,550	6,554	4,132	54,833
Amounts shown under current liabilities	150,963	172,312	194,225	269,495

Note: The Group's bank borrowings were guaranteed by the related parties and shareholders of the Group and secured by assets of the Group as detailed in notes 14, 15, 16, 17, 36 and 39.

Analysis as followings:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings	150,305	159,401	129,870	260,805
Variable-rate borrowings	9,208	19,465	68,487	63,523
	159,513	178,866	198,357	324,328

The ranges of effective interest rates per annum on the Group's borrowings are as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
Effective interest rate:				
Variable-rate borrowings	2.6%-4.8%	3.7%-5.7%	4.7%-7.8%	4.7%-5.8%
Fixed-rate borrowings	3.3%-6.5%	2.9%-6.5%	5.6%-8.6%	3%-7.4%

Borrowings that are denominated in foreign currencies other than the functional currencies of the relevant group entities are as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
U.S.\$	25,296	20,049	13,216	18,084
EUR	911	-	-	-
RMB	-	-	-	12,561

32. Defined benefit plan

Pursuant to the circular issued by Nanjing Municipal People's Government in relation to the enterprise transformation, Organic Chemicals Co. has required to make periodic benefits payments to certain former qualifying employees (the "Qualifying Employees").

The plan exposes the Group to actuarial risks such as interest rate risk, longevity risk and benefit risk.

Interest rate risk	A decrease in the bond interest rate will increase the plan liability.
Benefit risk	The present value of the defined benefit plan liability is calculated by reference to the future benefits of plan participants. As such, an increase in the benefits of the plan participants will increase the plan liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2016 by Mercer Consulting (China) Ltd., fellow of the Institute of Actuaries in the PRC. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at 31 December 2016
Discount rate(s)	3.0%-3.1%
Expected rate(s) of salary increase	3.0%-7.0%
Average longevity for current pensioners (years)*	
Early retired	8.3
Special group	7.9-30.0

Amounts recognised in the consolidated statements of profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

	Year ended 31 December	
	2016	2017
	RMB'000	RMB'000
Components of defined benefit costs recognised in profit or loss	(3,077)	(764)

The amount of retirement and supplement benefit obligations recognised in the consolidated statements of financial position are determined as follows:

	As at 31 December 2016 RMB'000
Liability arising from defined benefit obligations	24,151
Less: Net amount due within one year (shown under current liabilities)	<u>(2,400)</u>
Net amount due after one year (shown under non-current liabilities)	<u><u>21,751</u></u>

Movements in the present value of the retirement and supplemental benefits obligations during the Track Record Period were as follows:

	2016 RMB'000	2017 RMB'000
At the beginning of the year	29,646	24,151
Interest cost	799	525
Benefits paid	(2,418)	(1,698)
Actuarial gains for early retired employees arising from changes in financial assumptions	(3,876)	(1,289)
Derecognised on disposal of a subsidiary	<u>–</u>	<u>(21,689)</u>
At the end of the year	<u><u>24,151</u></u>	<u><u>–</u></u>

Significant actuarial assumptions made in determining defined benefit obligations are discount rate, supplemental benefit rate and medical cost trend rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of each of the Track Record Period, while holding all other factors constant.

- If the discount rate on benefit obligations decrease by 0.5%, the defined benefit obligations would be increased by RMB772,000 for the year ended 31 December 2016.
- If the supplement benefit rate increase by 0.5%, the defined benefit obligations would be increased by RMB746,000 for the year ended 31 December 2016.
- If the mortality rate decrease by 5%, the defined benefit obligations would be increased by RMB63,000 for the year ended 31 December 2016.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be corrected.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the Projected Unit Credit Method at the end of each of the Track Record Period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the consolidated statements of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis during the Track Record Period.

On 31 October 2017, as a result of the disposal of Organic Chemicals Co., no further defined benefit was provided to the Group.

33. Share capital

As at 1 January 2016, the share capital of the Group represented the share capital of GHW International SCM.

As at 31 December 2016 and 31 December 2017, the share capital of the Group represented the combined share capital of GHW International SCM and Havay Industry Inc.

As at 31 December 2018 and 30 June 2019, the share capital represents the share capital of the Company.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2018. At the time of its incorporation, the initial authorised share capital of the Company was U.S.\$50,000 divided into 50,000,000 Shares of U.S.\$0.001 each.

On 25 April 2018, the Company has allotted and issued one share, credited as fully paid at a par value of U.S.\$0.001 each, to Commonwealth B Limited and further allotted and issued 4,999,999, 2,375,220, 2,480,780 and 144,000 shares of a par value of U.S.\$0.001 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively.

On 3 January 2019, for the purpose of redenomination of shares of the Company from U.S.\$ to Hong Kong Dollar ("HK\$"), (a) the Company increased the authorised share capital to HK\$100,000,000 divided into 10,000,000,000 shares of a par value of HK\$0.01 each; (b) allotted and issued 500,000 nil-paid shares of a par value of HK\$0.01 each, 237,522 nil-paid shares of a par value of HK\$0.01 each, 248,078 nil-paid shares of a par value of HK\$0.01 and 14,400 nil-paid shares of a par value of HK\$0.01 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively, for an aggregate price of U.S.\$10,000 (the "Subscription Price"); (c) repurchased all the old shares for an aggregate price of U.S.\$10,000, which was offset against the Subscription Price; (d) cancelled all the old shares following the repurchase and diminished the authorised but unissued share capital of our Company by the cancellation of all the 50,000,000 unissued shares of a par value of U.S.\$0.001 each in the share capital of the Company, and the authorised share capital of the Company became HK\$100,000,000 divided into 10,000,000,000 shares of a par value of HK\$0.01 each.

Details of the movement in the Company's shares are disclosed as follows:

	Number of Shares	Amount U.S.\$
Ordinary shares of U.S.\$0.001 each		
Authorised		
At 25 April 2018 (date of incorporation) and 31 December 2018	50,000,000	50,000
Cancelled during the period	(50,000,000)	(50,000)
At 3 January 2019 and 30 June 2019	<u>—</u>	<u>—</u>
Issued and fully paid		
At date of incorporation and 31 December 2018	10,000,000	10,000
Cancelled during the period	(10,000,000)	(10,000)
At 3 January 2019 and 30 June 2019	<u>—</u>	<u>—</u>

	Number of Shares	Amount HK\$
Ordinary shares of HK\$0.01 each Authorised At 3 January 2019 and 30 June 2019	<u>10,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid At 3 January 2019 and 30 June 2019	<u>1,000,000</u>	<u>10,000</u>
		<i>RMB'000</i>
Presented as at date of incorporation and 31 December 2018		<u>69</u>
Presented as at 30 June 2019		<u>9</u>

34. Retirement benefits schemes

The employees of the PRC subsidiaries are members of state-managed retirement benefits schemes operated by the local PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Group also participates in the Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employees.

For the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, the total expense recognised in profit or loss of RMB7,372,000, RMB10,039,000, RMB12,129,000, RMB4,115,000 (unaudited) and RMB5,628,000, respectively represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at end of the reporting period, there was no outstanding contributions payable to the schemes.

There is no statutory requirement to operate any retirement benefit schemes in other jurisdictions.

35. Operating lease commitments

The Group as lessee

	For the year ended 31 December		
	2016 RMB'000	2017 RMB'000	2018 RMB'000
Minimum lease payments paid under operating leases during the year	<u>3,531</u>	<u>3,364</u>	<u>4,659</u>

At the end of the each reporting period, the Group had commitments for future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2016 RMB'000	2017 RMB'000	2018 RMB'000
Within one year	3,260	3,782	3,929
In the second to fifth years inclusive	5,000	2,804	4,864
After five years	895	627	299
	<u>9,155</u>	<u>7,213</u>	<u>9,092</u>

Leases are negotiated with fixed monthly rentals for term of two to seven years.

Certain lease agreements entered into between the landlord and the Group include a renewal option at the discretion of the Group for a further two years from the end of the existing lease without specifying rental to be charged. Accordingly, this is not included in the above commitment.

The Group as lessor

Property rental income earned were RMB7,317,000, RMB5,814,000, RMB815,000, RMB560,000 (unaudited) and RMB249,000 for the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 respectively. After completion of the disposal of Organic Chemicals Co., all of the Group's investment properties held for rental purposes, with a carrying amount of RMB9,845,000 at the date of disposal, have been disposed in 2017.

During the six months ended 30 June 2019, income from subleasing right-of-use assets amounted to RMB249,000.

At the end of the each reporting period, the Group had contracted with tenants for the following future minimum lease payments in respect of office under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2016 RMB'000	2017 RMB'000	2018 RMB'000
Within one year	6,609	565	499
In the second to fifth years inclusive	7,137	-	980
	<u>13,746</u>	<u>565</u>	<u>1,479</u>
			As at 30 June 2019 RMB'000
Within one year			490
More than one year but not exceeding two years			<u>490</u>
			<u>980</u>

36. Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, the Group has entered into the following transactions with related parties, during the Track Record Period.

Provision of guarantees and security provided by related parties of the Group

Certain related parties of the Group have provided guarantees and assets security to banks to support facilities granted by those banks to the Group as follows:

	As at 31 December			As at 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets security					
Organic Chemicals Co. (Note)	–	68,383	22,000	10,000	10,000
	<u>–</u>	<u>68,383</u>	<u>22,000</u>	<u>10,000</u>	<u>10,000</u>
Provision of guarantee					
Mr. Yin Yanbin	66,794	51,507	10,000	10,000	10,000
Ms. Wu Hailing	10,000	9,000	–	10,000	10,000
	<u>10,000</u>	<u>9,000</u>	<u>–</u>	<u>10,000</u>	<u>10,000</u>
	<u>76,794</u>	<u>60,507</u>	<u>10,000</u>	<u>20,000</u>	<u>20,000</u>

Note: Organic Chemicals Co. is under common control of certain shareholders and directors.

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the years ended 31 December 2016, 2017 and 2018 and the six months ended 2018 and 2019 were as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term benefits	1,385	1,756	4,906	2,536	2,209
Post-employment benefits	156	179	280	97	192
	<u>156</u>	<u>179</u>	<u>280</u>	<u>97</u>	<u>192</u>
	<u>1,541</u>	<u>1,935</u>	<u>5,186</u>	<u>2,633</u>	<u>2,401</u>

37. Disposal of a subsidiary

Pursuant to the Reorganisation, as defined in note 2, the Group underwent the following bundle transactions:

On 28 September 2017, Organic Chemicals Co. transferred 70% equity interests of Taian Havy Group Co., Ltd. to GHW International SCM at a cash consideration of RMB35 million.

On 31 October 2017, GHW International SCM transferred 86.38% equity interests in Organic Chemicals Co. to Nanjing Han He Industrial Co., Ltd., a company under common control of certain shareholders and directors, for a cash consideration of RMB55 million.

After the completion of the aforesaid transactions, Organic Chemicals Co. ceased to be the subsidiary of the Group and the difference between the consideration and the net assets disposed of was considered as the contribution from shareholders.

Analysis of assets and liabilities of Organic Chemicals Co. over which control was lost:

	<i>RMB'000</i>
Non-current asset	
Investment properties	<u>9,845</u>
Current assets	
Trade receivables	641
Other receivables and prepayments	3,055
Amount due from GHW International SCM – consideration receivables from disposal of Taian Havay Group Co., Ltd. (“Taian Consideration”)	35,000
Other amounts due from a related party	17,280
Bank balances and cash	<u>2,423</u>
	<u>58,399</u>
Current liabilities	
Trade payables	1,147
Other payables and accrued charges	5,955
Defined benefit plan	2,375
Amounts due to shareholders	<u>18,889</u>
	<u>28,366</u>
Non-current liability	
Defined benefit plan	<u>19,314</u>
	<u><u>20,564</u></u>

Net gain on disposal of Organic Chemicals Co.

	2017 <i>RMB'000</i>
Consideration received	55,000
Non-controlling interests of Organic Chemicals Co.	2,800
Less: Net assets disposed of	<u>(20,564)</u>
Contribution from shareholders on disposal	37,236
Less: Capital gain tax	<u>(8,900)</u>
Net gain on disposal recognised in equity	<u><u>28,336</u></u>

Net cash inflow on disposal of Organic Chemicals Co.

	2017 <i>RMB'000</i>
Consideration receivable	55,000
Less: Taian Consideration settled on a net basis	(35,000)
Cash and cash equivalent balances disposed of	<u>(2,423)</u>
	<u><u>17,577</u></u>

38. Capital commitments

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the Historical Financial Information in respect of:				
– acquisition of property, plant and equipment	1,384	102	4,760	3,401

39. Pledge of assets

At the end of each reporting period, assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted bank deposits	26,639	43,246	25,850	27,938
Prepaid lease payments	13,826	18,413	18,086	–
Right-of-use assets	–	–	–	12,962
Property, plant and equipment	22,976	33,123	9,051	18,723
Investment properties	7,543	–	–	–
	<u>70,984</u>	<u>94,782</u>	<u>52,987</u>	<u>59,623</u>

40. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt balance, which includes the borrowings, lease liabilities and amounts due to shareholders/former shareholders, net of cash and cash equivalents, and equity balances. Equity balance consists of equity attributable to owners of the Company, comprising share capital, capital reserve, safety reserve, translation reserve, statutory reserve and accumulated losses/retained earnings.

The management of the Group reviews the capital structure on an on-going annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

41. Financial instruments

a. *Categories of financial instruments*

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Financial assets				
Loans and receivables (including cash and cash equivalents)	208,839	222,017	-	-
At amortised cost	-	-	210,443	215,361
At FVTOCI	-	-	13,602	54,700
	<u>208,839</u>	<u>222,017</u>	<u>224,045</u>	<u>270,061</u>
Financial liabilities				
At amortised cost	<u>381,108</u>	<u>366,712</u>	<u>469,669</u>	<u>589,516</u>
The Company				
Financial assets				
At amortised cost	<u>-</u>	<u>-</u>	<u>69</u>	<u>69</u>
Financial Liabilities				
At amortised cost	<u>-</u>	<u>-</u>	<u>13,327</u>	<u>17,876</u>

b. *Financial risk management objectives and policies*

The Group's major financial instruments include restricted bank deposits, bank balances and cash, trade receivables, bill receivables, bill receivables at FVTOCI, other receivables, amount due from a related party, amounts due from immediate holding companies, rental deposits starting from 1 January 2019, trade and bill payables, other payables, borrowings and amounts due to shareholders/former shareholders. The Company's financial instruments include amounts due from shareholders, other payables, and amounts due to subsidiaries. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risk or the manner in which it manages and measure the risks.

(i) Currency risk

Certain bank balances and cash, trade receivables, trade and bill payables, and borrowings are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	As at 31 December		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
U.S.\$	27,504	29,840	37,618	31,023
EUR	2,666	72	13	72
RMB	-	-	1,718	1,073
Liabilities				
U.S.\$	32,836	20,469	13,216	18,084
EUR	1,086	-	213	-
RMB	-	-	-	12,561

Sensitivity analysis

The sensitivity analysis below has been determined based on a 5% increase/decrease in functional currency of respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. The currency risk arising from RMB is considered insignificant and no sensitivity is presented. A positive number below indicates an increase in the Group's post-tax profit, where functional currency of respective group entities had strengthened 5% against the relevant foreign currency. For a 5% weakening of functional currency of respective group entities against the relevant foreign currency, there would be an equal and opposite impact on the profit for the year/period.

	As at December 31		As at 30 June	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Increase (decrease) in the Group's profit after taxation				
- if RMB strengthens against U.S.\$	267	(417)	(975)	(490)
- if RMB strengthens against EUR	(64)	(3)	8	(4)
- if other functional currencies of the relevant group entities strengthen against RMB	-	-	(72)	574

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk for certain financial assets, financial liabilities and lease liabilities, including fixed-rate bank deposits, fixed-rate bank loans and lease liabilities.

The Group is also exposed to cash flow interest rate risk for its interest bearing financial liabilities and certain of its interest bearing financial assets, including bank balances and cash, restricted bank deposits and variable-rate borrowings, which carried interests at variable interest rates.

The Group currently does not have an interest rate hedging policy. The management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arises. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable bank borrowings. The analysis is prepared assuming the variable-rate bank borrowings at the end of each reporting period were outstanding for the whole year and 50 basis points increase or decrease are used. The restricted bank deposits and bank balance are excluded from the sensitivity analysis as the management of the Group considers that the interest rate fluctuation is not significant.

If interest rates have been 50 basis points higher/lower for variable-rate bank borrowings, the Group's profit for years ended 31 December 2016, 2017 and 2018 and the six months ended 2019 would decrease/increase by RMB46,000, RMB86,000, RMB284,000 and RMB149,000, respectively.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Starting from 1 January 2018, the Group performs impairment assessment under ECL model upon the application of IFRS 9 (2017 and 2016: incurred loss model) on trade receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Upon the application of IFRS 9 on 1 January 2018, the Group has applied the simplified approach to measure the loss allowance on trade receivables at lifetime ECL as disclosed in note 20.

The credit risk on bill receivables at FVTOCI are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised upon application of IFRS 9 and for the year ended 31 December 2018 and the six months ended 30 June 2019.

For other receivables with gross carrying amounts of RMB3,153,000, RMB3,691,000 and RMB4,441,000 as at 1 January 2018, 31 December 2018 and 30 June 2019 respectively, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and also available and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of other receivable and deposits.

In the opinion of the directors of the Company, the Group has no significant credit risk for the receivable from the related party because they can closely monitor the repayment of the related party, and the Group assesses that the ECL on these balances is insignificant.

The Group have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balance and restricted bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies, and ECL is insignificant.

The Group has no significant concentration of credit risk on trade and bill receivables and other receivables, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

The Group

At 31 December 2016	Weighted average effective interest rate %	On demand or within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities:						
Trade and bill payables	-	162,310	-	-	162,310	162,310
Borrowings						
- fixed rate	5.22	153,196	-	-	153,196	150,305
- variable rate	4.83	1,358	1,765	7,420	10,543	9,208
Other payables and accrued charges	-	20,442	-	-	20,442	20,442
Amounts due to shareholders	-	38,843	-	-	38,843	38,843
		<u>376,149</u>	<u>1,765</u>	<u>7,420</u>	<u>385,334</u>	<u>381,108</u>
At 31 December 2017						
Non-derivative financial liabilities:						
Trade and bill payables	-	149,552	-	-	149,552	149,552
Borrowings						
- fixed rate	5.33	162,825	-	-	162,825	159,401
- variable rate	4.93	13,580	2,847	4,002	20,429	19,465
Other payables and accrued charges	-	26,328	-	-	26,328	26,328
Amounts due to shareholders	-	11,966	-	-	11,966	11,966
		<u>364,251</u>	<u>2,847</u>	<u>4,002</u>	<u>371,100</u>	<u>366,712</u>
At 31 December 2018						
Non-derivative financial liabilities:						
Trade and bill payables	-	153,308	-	-	153,308	153,308
Borrowings						
- fixed rate	5.90	133,155	-	-	133,155	129,870
- variable rate	5.52	67,240	4,202	-	71,442	68,487
Other payables and accrued charges	-	34,400	-	-	34,400	34,400
Amounts due to shareholders/former shareholders	-	83,604	-	-	83,604	83,604
		<u>471,707</u>	<u>4,202</u>	<u>-</u>	<u>475,909</u>	<u>469,669</u>
At 30 June 2019						
Non-derivative financial liabilities:						
Trade and bill payables	-	165,525	-	-	165,525	165,525
Borrowings						
- fixed rate	5.49	226,885	3,245	40,879	271,009	260,805
- variable rate	5.08	51,519	4,011	10,733	66,263	63,523
Other payables and accrued charges	-	35,178	-	-	35,178	35,178
Amounts due to shareholders/former shareholders	-	64,485	-	-	64,485	64,485
Lease liabilities	5.5	5,751	3,452	4,815	14,018	12,648
		<u>549,343</u>	<u>10,708</u>	<u>56,427</u>	<u>616,478</u>	<u>602,164</u>

The Company

At 31 December 2018	Weighted average effective interest rate %	On demand or within			Total undiscounted cash flows RMB'000	Carrying amount RMB'000
		1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000		
Other payables	-	9,459	-	-	9,459	9,459
Amounts due to subsidiaries	-	3,868	-	-	3,868	3,868
		<u>13,327</u>	<u>-</u>	<u>-</u>	<u>13,327</u>	<u>13,327</u>
At 30 June 2019						
Other payables	-	4,958	-	-	4,958	4,958
Amounts due to subsidiaries	-	12,918	-	-	12,918	12,918
		<u>17,876</u>	<u>-</u>	<u>-</u>	<u>17,876</u>	<u>17,876</u>

Fair value measurement of financial instruments

The following provides information about how the Group determines fair value of various financial assets and financial liabilities.

- (i) Fair value measurement of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair values at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

unobservable	Fair value as				Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of inputs to fair value
	Fair value as at 31 December		at 30 June					
	2016	2017	2018	2019				
Bill receivables at FVTOCI (Note)	RMB'000	RMB'000	RMB'000	RMB'000				
	N/A	N/A	13,602	54,700	Level 3	Discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the bills receivables	Discount rate: 31 December 2018 and 30 June 2019: 3.75% and 4.35%	An increase in the discount rate would result in a decrease in the fair value measurement of the financial assets at FVTOCI, and vice versa

Note: As at 31 December 2018 and 30 June 2019, the carrying amount of the bill receivables at FVTOCI was approximately RMB13,602,000 and RMB54,700,00. In the opinion of the directors of the Company, the changes in unobservable inputs, being the discount rate, would not result in significant change in the fair value of bills receivables at FVTOCI and hence no related sensitivity analysis of fair value measurement is presented.

- (ii) Reconciliation of Level 3 fair value measurements

In the opinion of the directors of the Company, the Group does not have a material fair value change for bill receivables at FVTOCI and hence no related reconciliation of fair value measurement is presented.

- (iii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

42. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amounts due to shareholders/ former shareholders RMB'000	Amount due to a related party RMB'000	Borrowings RMB'000	Dividend payables RMB'000	Accrued issue costs RMB'000	Accrued interest RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2016	53,313	-	147,936	-	-	-	-	201,249
Financing cash flows	(14,470)	-	11,398	-	-	(7,504)	-	(10,576)
Interest expenses	-	-	-	-	-	7,604	-	7,604
Foreign exchange translation	-	-	179	-	-	-	-	179
At 31 December 2016	38,843	-	159,513	-	-	100	-	198,456
Financing cash flows	(7,988)	(17,280)	20,038	(10,479)	(1,102)	(9,399)	-	(26,210)
Interest expenses	-	-	-	-	-	9,624	-	9,624
Foreign exchange translation	-	-	(685)	-	-	-	-	(685)
Dividend declared	-	-	-	75,899	-	-	-	75,899
Accrued issue costs	-	-	-	-	3,325	-	-	3,325
Disposal of a subsidiary (note 37)	(18,889)	17,280	-	-	-	-	-	(1,609)
At 31 December 2017	11,966	-	178,866	65,420	2,223	325	-	258,800
Financing cash flows	(947)	-	18,935	(8,961)	(2,494)	(10,581)	-	(4,048)
Interest expenses	-	-	-	-	-	10,831	-	10,831
Foreign exchange translation	(8)	-	556	-	-	-	-	548
Accrued issue costs	-	-	-	-	2,475	-	-	2,475
Deemed contribution from a shareholder	(444)	-	-	-	-	-	-	(444)
Deemed distribution to shareholders (note 25)	73,037	-	-	-	-	-	-	73,037
At 31 December 2018	83,604	-	198,357	56,459	2,204	575	-	341,199
Adoption of IFRS 16	-	-	-	-	-	-	8,829	8,829
At 1 January 2019 (restated)	83,604	-	198,357	56,459	2,204	575	8,829	350,028
Financing cash flows	(19,139)	-	125,637	(7,059)	(2,263)	(7,253)	(1,993)	87,930
Interest expenses	-	-	-	-	-	7,178	218	7,396
Foreign exchange translation	20	-	334	-	-	-	-	354
Accrued issue costs	-	-	-	-	1,049	-	-	1,049
Inception of leases	-	-	-	-	-	-	6,740	6,740
Termination of lease contracts	-	-	-	-	-	-	(1,146)	(1,146)
At 30 June 2019	64,485	-	324,328	49,400	990	500	12,648	452,351
At 31 December 2017	11,966	-	178,866	65,420	2,223	325	-	258,800
Financing cash flows	(294)	-	18,143	(8,420)	(1,079)	(4,762)	-	3,588
Interest expenses	-	-	-	-	-	4,762	-	4,762
Foreign exchange translation	-	-	123	-	-	-	-	123
Accrued issue costs	-	-	-	-	1,224	-	-	1,224
Deemed contribution from a shareholder	(444)	-	-	-	-	-	-	(444)
At 30 June 2018 (unaudited)	11,228	-	197,132	57,000	2,368	325	-	268,053

43. Particulars of subsidiaries

**As at
31 December
2018 and 30
June 2019
RMB'000**

The Company
– unlisted investment in a subsidiary, at cost

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As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/paid in capital	Equity interest attributable to the Company as at 31 December			30 June 2019	At the date of this report	Principal activities	Notes
				2016	2017	2018				
Directly held										
GOHI Int'l Limited	British Virgin Islands ("BVI") 28 May 2018	BVI	U.S.\$10,000	N/A	N/A	100%	100%	100%	Investment holding	(a)
Indirectly held										
GHW Holdings Limited	Hong Kong 25 June 2018	Hong Kong	HKS1	N/A	N/A	100%	100%	100%	Investment holding	(b)
GHW International SCM	The PRC 18 November 2008	The PRC	RMB 73,031,800	100%	100%	100%	100%	100%	Trading of chemical products	(c)
南京金海威化工實業有限公司 Nanjing Goldenhighway Chemicals Co., Ltd.	The PRC 25 October 1995	The PRC	RMB 40,000,000	100%	100%	100%	100%	100%	Trading of chemical products	(c)
南京金海威國際投資有限公司 Nanjing Goldenhighway Investment Co., Ltd.	The PRC 13 January 2005	The PRC	RMB 10,000,000	100%	100%	100%	100%	100%	Investment holding	(b)
南京瀚商微電子商務有限公司 Nanjing Hanshang Weisou Electronic Commerce Co., Ltd.	The PRC 14 January 2016	The PRC	RMB 1,000,000	100%	100%	100%	100%	100%	Provision of E-commerce service	(b)
天津諾威貿易有限公司 Tianjin Nuowei Trading Co., Ltd.	The PRC 17 May 2013	The PRC	RMB 1,000,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
張家港保稅區海金沙國際貿易有限公司 Zhangjiagang Free Trade Zone Haijinsha International Trading Co., Ltd.	The PRC 30 March 2012	The PRC	RMB 2,000,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
武漢金潤泰化工有限公司 Wuhan Jinruntai Chemicals Co., Ltd.	The PRC 16 February 2011	The PRC	RMB 1,000,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
南京天宇運輸有限公司 Nanjing Tianyu Transportation Co., Ltd.	The PRC 7 May 1999	The PRC	RMB 3,000,000	100%	100%	100%	100%	100%	Provision of delivery service	(i)
廣州金海威貿易有限公司 Guangzhou Goldenhighway Trading Co., Ltd.	The PRC 22 January 2010	The PRC	RMB 2,000,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
泰安岳達物流有限公司 Taian Yueda Logistics Co., Ltd.	The PRC 24 October 2016	The PRC	RMB 8,300,222	100%	100%	100%	100%	100%	Provision of delivery service	(b)
金海威(越南)責任有限公司 GHW (Vietnam) Co., Ltd.	Vietnam 23 July 2013	Vietnam	U.S.S 5,000,000	100%	100%	100%	100%	100%	Manufacture and sale of chemical products	(e)
金海威(越南)化工責任有限公司 GHW (Vietnam) Chemicals Limited Company	Vietnam 7 May 2014	Vietnam	U.S.S 300,000	100%	100%	100%	100%	100%	Trading of chemical products	(e)
Golden Highway International (Hong Kong) Limited	Hong Kong 6 August 2008	Hong Kong	HKS 19,987,364	100%	100%	100%	100%	100%	Trading of chemical products	(g)
GHW USA LLC	United States of America ("USA") 17 March 2015	USA	U.S.S 20,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
GHW Eurochemicals s.r.o.	Slovakia 1 January 2014	Slovakia	EUR 5,000	100%	100%	100%	100%	100%	Trading of chemical products	(b)
Goldray International Enterprises Co., Ltd.	Seychelles 7 January 2016	Seychelles	U.S.\$1	100%	100%	100%	100%	100%	Trading of chemical products	(b)
Nuovomondo Chemicals Private Limited	India 25 March 2011	India	Indian Rupee 100,000	100%	100%	100%	100%	100%	Trading of chemical products	(f)
Star International Saint-Petersburg LLC	Russia 26 March 2007	Russia	Russian Ruble 2,281,591	100%	100%	100%	100%	100%	Trading of chemical products	(b)
Ukrhimformacia Limited Company	Ukraine 27 April 2006	Ukraine	Ukrainian Hryvnia 7,329,110	100%	100%	100%	100%	100%	Trading of chemical products	(b)

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital/paid in capital	Equity interest attributable to the Company as at 31 December			30 June 2019	At the date of this report	Principal activities	Notes
				2016	2017	2018				
Havay Industry Inc.	Canada 23 September 2015	Canada	Canadian Dollar 1,000	100%	100%	100%	100%	100%	Trading of chemical products	(h)
Golden Highway Mexico, S. De R.L. De C.V.	Mexico 10 September 2018	Mexico	U.S.\$49,470	N/A	N/A	100%	100%	100%	Trading of chemical products	(h)
江蘇省信諾醫藥對外貿易有限公司 Jiangsu Xinnuo Pharmaceutical Trading Co., Ltd.	The PRC 5 January 1998	The PRC	RMB 10,000,000	96%	100%	100%	100%	100%	Trading of chemical products	(c)
泰安漢威集團有限公司 Taian Havay Group Co., Ltd.	The PRC 9 November 2010	The PRC	RMB 50,000,000	96%	100%	100%	100%	100%	Manufacture and sale of chemical products	(d)
徐州漢威飼料有限公司 Xuzhou Havay Feeds Co., Ltd.	The PRC 23 July 2003	The PRC	RMB 10,000,000	97%	100%	100%	100%	100%	Manufacture and sale of chemical products	(h)
Organic Chemicals Co.	The PRC 12 December 2000	The PRC	RMB 22,457,694	94%	0%	0%	0%	0%	Property investment	(h)

Notes:

- (a) No statutory audited financial statements of the entity have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there are no statutory audit requirements.
- (b) No statutory audited financial statements of the entity have been prepared as it was newly incorporated and the financial statement have not yet been due to issue.
- (c) The statutory financial statements of the entities for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Nanjing Sanlian Accounting Firm Co., Ltd., a certified public accountant registered in PRC.
- (d) The statutory financial statements of the entity for the year ended 31 December 2016 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprise and were audited by Tai'an Huatai Limited Liability Accounting Firm, a certified public accountant registered in PRC. The statutory financial statements of the entity for the year ended 31 December 2017 and 2018 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprise and were audited by Tai'an Taiyue Federation Accounting Firm, a certified public accountant registered in PRC.
- (e) The statutory financial statements of the entities for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with Vietnamese Accounting Standards and Vietnamese Corporate Accounting System and were audited by RSM Vietnam Auditing & Consulting Company Limited, a certified public accountant registered in Vietnam.
- (f) The statutory financial statements of the entity for the year ended 31 March 2016 were prepared in accordance with Indian generally accepted accounting principles and were audited by Shah Parmar & Mehta, Chartered Accountants, a certified public accountant registered in India. The statutory financial statements of the entities for the period from year ended 2017 were prepared in accordance with Indian generally accepted accounting principles and were audited by Motilal & Associates, Chartered Accountants, a certified public accountant registered in India. The statutory financial statements of the entities for the years ended 31 March 2018 were prepared in accordance with Indian generally accepted accounting principles and were audited by KSPM & Associates, Chartered Accountants, a certified public accountant registered in India. The statutory financial statements of the entities for the years ended 31 March 2019 were prepared in accordance with Indian generally accepted accounting principles and were audited by PARAS THAKKAR & Associates, a certified public accountant registered in India.
- (g) The statutory financial statements of the entity for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with Hong Kong Financial Reporting Standard for private entities and were audited by LKY China Certified Public Accountants (Practising) Hong Kong, a certified public accountant registered in Hong Kong.
- (h) No statutory financial statements have been prepared for these subsidiaries, as there is no statutory audit requirement.
- (i) The statutory financial statements of the entities for the years ended 31 December 2016 and 2017 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Nanjing Sanlian Accounting Firm Co., Ltd., a certified public accountant registered in PRC. No statutory financial statement for the year ended 31 December 2018 has been prepared, as there is no statutory audit requirement.

All subsidiaries now comprising the Group are limited liability companies. Save as Nuovomondo Chemicals Private Ltd. which has adopted 31 March as its financial year end date, the remaining subsidiaries have adopted 31 December as their financial year end date.

44. Reserves of the Company

	Capital reserve RMB'000	Accumulated losses RMB'000
At 25 April 2018 (date of incorporation)	–	–
Loss and total comprehensive expense for the period	–	(7,458)
At 31 December 2018	–	(7,458)
Effect of re-denomination of shares	60	–
Loss and total comprehensive expense for the period	–	(3,500)
At 30 June 2019	<u>60</u>	<u>(10,958)</u>

45. Contingent liabilities

An indirectly wholly-owned subsidiary of the Company, Nanjing Goldenhighway Chemicals Co., Ltd. (“**Nanjing Chemicals**”), was named as one of the defendants in a litigation initiated in USA, which arose in the Group’s ordinary course of business in relation to certain cargoes of goods sold by Nanjing Chemicals (“**Lawsuit**”). The plaintiff claims an amount of U.S.\$1,333,800 plus interest, cost and attorneys’ fees in damages arising from demurrage charges and storage expenses that were alleged consequence of the failure by Nanjing Chemicals and another defendant to take delivery of certain cargoes at the port of Los Angeles in USA. On 12 July 2019, the Group filed a motion with the U.S. court seeking dismissal of the plaintiff’s claims. The plaintiff filed an opposition to the Group’s motion on 30 August 2019, to which the Group are allowed to file a reply by 23 September 2019. Oral argument on the motion is scheduled on 29 October 2019. However the plaintiff dismissed its lawsuit against Nanjiang Chemicals without seeking any monetary contribution from Nanjing Chemicals, and without any court costs. The federal judge executed the order of dismissal of the Lawsuit on 26 November 2019.

After seeking the independent legal advice, the directors of the Company consider that the Lawsuit is, therefore, now concluded with no liability, present or future, for Nanjing Chemicals in relation to the claim alleged by the plaintiff.

46. Directors’ remuneration

The directors estimate that under the current proposed arrangement, the aggregate basis annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by the Group to the directors will be approximately RMB3,537,000 for the year ended 31 December 2019.

47. Events after the reporting period

Saved as disclosed in the report, subsequent to the end of the Track Record Period, the following significant events took place subsequent to 30 June 2019:

Pursuant to written resolutions of the Company’s shareholders passed on 16 December 2019, conditional upon the crediting of the share premium account of the Company as a result of the issue of shares pursuant to the allotment set out in the section headed “Share Capital” in the Prospectus, the directors of the Company had authorised to allot and issue a total of 749,000,000 shares, by way of capitalisation of the sum of approximately HK\$7,490,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company (“Capitalisation Issue”), details are set out Appendix IV to the Prospectus.

On 16 December 2019, the share option scheme of the Company is conditionally approved and adopted by a resolution in writing passed by the shareholders of the Company. Further details of the share options scheme are set out in the section “Appendix IV Statutory and General Information – D. Share Option Scheme”. No options were granted up to the date of this report.

48. Subsequent financial statements

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2019.

The information set forth in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the Track Record Period prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the financial information for six months ended 30 June 2019 set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 as if the Global Offering had taken place on such date.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 following the Global Offering or as at any subsequent dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 as derived from the financial information for six months ended 30 June 2019 set forth in Appendix I to this Prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 RMB'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 30 June 2019 RMB HK\$ (Note 3) (Note 4)	
Based on an Offer Price of HK\$0.51 per Offer Share	104,031	93,205	197,236	0.20	0.22
Based on an Offer Price of HK\$0.65 per Offer Share	104,031	122,486	226,517	0.23	0.25

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2019 is extracted from the financial information for six months ended 30 June 2019 as set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 250,000,000 Offer Shares at the indicative Offer Price of HK\$0.51 (equivalent to RMB0.45) and HK\$0.65 (equivalent to RMB0.58) per Offer Share, respectively, after deduction of underwriting fees and commissions and other listing related expenses paid/payable by the Company (excluding the listing expenses which has been charged to profit or loss up to 30 June 2019), and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates. For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK\$1 to RMB0.89, which was the exchange rate prevailing on Latest Practicable Date with reference to the rate published by the People's Bank of China. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is arrived at on the basis that 1,000,000,000 Shares were in issue assuming that the Global Offering had been completed on 30 June 2019 and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the Over-allotment Option or and any options which may be granted under the Share Option Scheme or (ii) which may be allotted and issued or repurchased by our Company under the general mandates.

- (4) For the purpose of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share, the amount stated in RMB is converted into Hong Kong dollar at the rate of RMB0.89 to HK\$1, which was the exchange rate prevailing on Latest Practicable Date with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of 30 June 2019 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2019.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this Prospectus.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF GHW INTERNATIONAL**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of GHW International (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2019 and related notes, as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 31 December 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the global offering on the Group's financial position as at 30 June 2019 as if the global offering had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 December 2018 and six months ended 30 June 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 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 Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We 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 accountants plan and perform 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 an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 December 2019

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2018 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and its Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 16 December 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls 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). A call may be made payable either in one lump 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof 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 monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, 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, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions 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 Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are 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 to their nominal value.

Neither the Company nor the board is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be 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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has 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 contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members**(i) Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as 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 in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary 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 2 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/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is 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 is 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 as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his term of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is 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

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), 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, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. 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 shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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 purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of 20 years from 4 January 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law 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.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of 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 thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) 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, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the 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**1. Incorporation**

- (a) Our Company is an exempted company incorporated in the Cayman Islands with limited liability on 25 April 2018 under the Companies Law. Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 12 February 2019 and our principal place of business in Hong Kong is at Room 1604, OfficePlus@Sheung Wan, 93-103 Wing Lok Street, Hong Kong. Mr. Wu Wing Hou who resides at Flat 2, 15/F, Yuet Sum Mansion, 2 Western Street, Sai Ying Pun, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notice in Hong Kong.
- (b) As our Company was incorporated in the Cayman Islands, we are subject to the Cayman Islands law and our constitution which comprises the Memorandum and the Articles. A summary of the relevant provisions of the Memorandum, the Articles and certain aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of incorporation was U.S.\$50,000 divided into 50,000,000 Shares of a par value of U.S.\$0.001 each. The following sets out the changes in the share capital of our Company since the date of incorporation:

- (a) Upon incorporation, our Company allotted and issued one share of a par value of U.S.\$0.001 each, credited as fully paid at par, to an Independent Third Party (which then transferred such one share of a par value of U.S.\$0.001 each to Commonwealth B Limited on the same day), and further allotted and issued 4,999,999, 2,519,220 and 2,480,780 shares of a par value of U.S.\$0.001 each, credited as fully paid at par, to Commonwealth B Limited, Commonwealth Happy Elephant Limited and Commonwealth GHW Limited, respectively. The 10,000,000 shares of a par value of U.S.\$0.001 each as mentioned above are collectively referred to as the “**Old Shares**”; and
- (b) On 3 January 2019, for the purpose of redenomination of shares of our Company from U.S.\$ to HK\$, (a) our Company increased the authorised share capital by HK\$100,000,000 divided into 10,000,000,000 Shares of a par value of HK\$0.01 each; (b) allotted and issued 500,000 Shares of a par value of HK\$0.01 each, 237,522 Shares of a par value of HK\$0.01 each, 248,078 Shares of a par value of HK\$0.01 and 14,400 Shares of a par value of HK\$0.01 each to Commonwealth B Limited, Commonwealth Happy Elephant Limited, Commonwealth GHW Limited and Commonwealth Feibear Limited, respectively, for an aggregate price of U.S.\$10,000 (the “**Subscription Price**”); (c) repurchased all the Old Shares for an aggregate price of U.S.\$10,000, which was offset against the Subscription Price; (d) cancelled all the Old Shares following the repurchase and diminished the authorised but unissued share capital of our Company by the cancellation of all the 50,000,000 unissued shares of a par value of U.S.\$0.001 each in the share capital of our Company, and the authorised share capital of our Company became HK\$100,000,000 divided into 10,000,000,000 Shares of a par value of HK\$0.01 each.

Assuming that the Global Offering becomes unconditional, the Shares under the Capitalisation Issue are issued and the Over-allotment Option is exercised in full, immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Share which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$10,375,000 divided into 1,037,500,000 Shares fully paid or credited as fully paid, and 8,962,500,000 Shares will remain unissued.

Other than the Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any Share out of the authorised but unissued share capital of our Company.

Save as disclosed above, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in the share capital of our subsidiaries

Our subsidiaries are set out in the Accountants' Report set out in Appendix I to this prospectus. There had been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholders

Pursuant to the written resolutions of our Shareholders passed on 16 December 2019:

- (a) the Memorandum of Association was adopted with immediate effect;
- (b) the Articles of Association were conditionally adopted with effect from Listing; and
- (c) conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board of the Stock Exchange and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the respective terms of those agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to approve the allotment and issue of the Offer Shares and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors or any such committee thereof were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for the Shares thereunder, to allot, issue and deal with the Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
 - (iii) conditional on the share premium account being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$7,490,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,000,000 Shares for allotment and issue to Shareholder(s) whose name(s) appear(s) on the register of members of our Company at the close of business on 16 December 2019 (or as it/they may direct) in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend scheme or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which will be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of our Company, the date by which the next annual general meeting of our Company is required by the Articles of Association, the Companies Law or any applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which will be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (vi) (vi) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

5. Reorganisation

In preparation for the Global Offering, we underwent the Reorganisation to rationalise our corporate structure, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus.

6. Repurchase of our own securities

This paragraph includes information relating to the repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

The Listing Rules permit our Shareholders to grant to our Directors the general mandate to repurchase Shares which are listed on the Stock Exchange. The general mandate to repurchase Shares is required to be given by way of an ordinary resolution passed by our Shareholders in general meeting.

(b) Shareholders’ approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 16 December 2019, our Directors were granted the general mandate to repurchase up to 10% of the enlarged issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our securities may be listed and which was recognised by the SFC and the Stock Exchange for this purpose. The general mandate to repurchase Shares will expire at the earliest of (i) the conclusion of our Company's next annual general meeting, (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles or any applicable laws of the Cayman Islands to be held; or (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting (the "**Relevant Period**").

(c) Source of funds

Repurchase of Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles and the applicable laws of the Cayman Islands. We may not repurchase Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the Listing Rules. Subject to the foregoing, we may make repurchases out of our profits or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company or out of the share premium account of our Company. Subject to the Companies Law and the Articles, repurchase may also be made out of capital.

(d) Reasons for repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Listing Rules, the Companies Law and other applicable laws of the Cayman Islands. On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the general mandate to repurchase Shares were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) Share capital

The exercise in full of the current general mandate to repurchase Shares, on the basis of 1,000,000,000 Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), could accordingly result in up to 100,000,000 Shares being repurchased by us during the Relevant Period.

(g) **General**

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Share to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the Listing Rules and the laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

None of the core connected persons of our Company has notified us that he or she or it has a present intention to sell his or her or its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

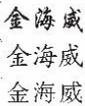
We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus which are or may be material:

- (a) the agreement dated 19 July 2018 entered into between and among Commonwealth Armyfeibear, Hanhe Enterprises, Hanhe Investment and GHW Holdings in respect of the transfer of 100% equity interest in GHW International SCM from Commonwealth Armyfeibear, Hanhe Enterprises and Hanhe Investment to GHW Holdings for an aggregate consideration of RMB73,031,800;
- (b) the trust loan agreement (the "**Trust Loan Agreement**") dated 27 June 2019 entered into between Guangda Xinglong Trusts Co., Ltd* (光大興隴信託有限責任公司) ("**Guangda Xinglong**"), an Independent Third Party, as lender and Havay Group as borrower, pursuant to which Guangda Xinglong agreed to grant a trust loan of an estimate aggregate amount of RMB95 million to Havay Group for a term of three years from the date of drawdown of each advance, and such trust loan shall only be used for Havay Group's replenishment of liquidity;
- (c) the guarantee agreement dated 27 June 2019 entered into between GHW International SCM and Guangda Xinglong, pursuant to which GHW International SCM agreed to guarantee the repayment obligations of Havay Group under the Trust Loan Agreement;
- (d) the Deed of Indemnity;
- (e) the Deed of Non-competition; and
- (f) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, we had registered the following trademarks:

	Trademark	Registered Owner	Trademark number	Class	Place of registration	Expiry date
1		GHW International SCM	304352210	1, 4 and 31 <i>(Note 1,2,9)</i>	Hong Kong	29 November 2027
2		GHW International SCM	304352229	1, 4 and 31 <i>(Note 1,2,9)</i>	Hong Kong	29 November 2027
3	GOLDEN HIGHWAY	GHW International SCM	304352238	1, 4 and 31 <i>(Note 1,2,9)</i>	Hong Kong	29 November 2027
4		GHW International SCM	304352247	1, 4 and 31 <i>(Note 1,2,9)</i>	Hong Kong	29 November 2027
5	GOLDEN HIGHWAY	GHW International SCM	10512092	29 <i>(Note 8)</i>	PRC	13 April 2023
6		GHW International SCM	10512075	29 <i>(Note 8)</i>	PRC	13 April 2023
7	金海威	GHW International SCM	10512046	29 <i>(Note 8)</i>	PRC	27 December 2023
8	GOLDEN HIGHWAY	GHW International SCM	10511980	28 <i>(Note 7)</i>	PRC	13 April 2023
9		GHW International SCM	10511961	28 <i>(Note 7)</i>	PRC	20 April 2023
10	GOLDEN HIGHWAY	GHW International SCM	10511828	24 <i>(Note 6)</i>	PRC	13 April 2023
11		GHW International SCM	10511811	24 <i>(Note 6)</i>	PRC	13 April 2023
12	金海威	GHW International SCM	10511793	24 <i>(Note 6)</i>	PRC	6 July 2023
13	GOLDEN HIGHWAY	GHW International SCM	10511725	20 <i>(Note 5)</i>	PRC	13 April 2023
14		GHW International SCM	10506552	20 <i>(Note 5)</i>	PRC	6 July 2023
15	金海威	GHW International SCM	10506521	20 <i>(Note 5)</i>	PRC	13 April 2023
16	GOLDEN HIGHWAY	GHW International SCM	10506440	19 <i>(Note 4)</i>	PRC	13 April 2023
17		GHW International SCM	10506420	19 <i>(Note 4)</i>	PRC	13 April 2023
18	GOLDEN HIGHWAY	GHW International SCM	10506244	4 <i>(Note 2)</i>	PRC	13 April 2023
19		GHW International SCM	10506225	4 <i>(Note 2)</i>	PRC	13 April 2023
20	GOLDEN HIGHWAY	GHW International SCM	10506177	1 <i>(Note 1)</i>	PRC	6 April 2023
21		GHW International SCM	10506160	1 <i>(Note 1)</i>	PRC	6 April 2023
22	速必得	GHW International SCM	9060554	4 <i>(Note 2)</i>	PRC	27 January 2022

	Trademark	Registered Owner	Trademark number	Class	Place of registration	Expiry date
23		GHW International SCM	9060516	4 <i>(Note 2)</i>	PRC	27 January 2022
24	速必得	GHW International SCM	9060383	1 <i>(Note 1)</i>	PRC	27 January 2022
25	金海威	GHW Chemicals	23283184	1 <i>(Note 1)</i>	PRC	13 March 2028
26	金海威	GHW Chemicals	23283316	5 <i>(Note 3)</i>	PRC	6 June 2028
27	GHW	GHW Chemicals	23283176	1 <i>(Note 1)</i>	PRC	20 March 2028
28	GHW	GHW Chemicals	23283294	5 <i>(Note 3)</i>	PRC	6 June 2028
29		GHW Chemicals	7869680	31 <i>(Note 9)</i>	PRC	13 March 2021
30	金海威	GHW Chemicals	7869644	31 <i>(Note 9)</i>	PRC	13 March 2021
31	金海威	GHW Chemicals	4140132	1 <i>(Note 1)</i>	PRC	6 June 2027
32		GHW Chemicals	4140131	1 <i>(Note 1)</i>	PRC	27 July 2027
33	威康碱 VK ALKALI	Havay Group	19108252	31 <i>(Note 9)</i>	PRC	20 March 2027
34	艾思丽	GHW Investment	10915836	28 <i>(Note 7)</i>	PRC	20 August 2023
35		GHW Investment	10915820	28 <i>(Note 7)</i>	PRC	20 August 2023
36	ACESLEEP	GHW Investment	10915802	28 <i>(Note 7)</i>	PRC	20 August 2023
37	艾思丽	GHW Investment	10910030	24 <i>(Note 6)</i>	PRC	13 September 2023
38	ACESLEEP	GHW Investment	10910008	24 <i>(Note 6)</i>	PRC	20 August 2023
39		GHW Investment	10909987	24 <i>(Note 6)</i>	PRC	27 September 2023
40		GHW Investment	10909829	20 <i>(Note 5)</i>	PRC	20 November 2023
41	艾思丽	GHW Investment	10909813	20 <i>(Note 5)</i>	PRC	27 September 2023
42	ACESLEEP	GHW Investment	10909792	20 <i>(Note 5)</i>	PRC	20 September 2023
43		Hanshang Weisou	30971778	39 <i>(Note 10)</i>	PRC	6 May 2029

Notes:

- The goods covered under class 1 include chemicals for use in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; fire extinguishing and fire prevention compositions; tempering and soldering preparations; substances for tanning animal skins and hides; adhesives for use in industry; putties and other paste fillers; compost, manures, fertilisers; biological preparations for use in industry and science.
- The goods covered under class 4 include industrial oils and greases, wax; lubricants; dust absorbing, wetting and binding compositions; fuels and illuminants; candles and wicks for lighting.

3. The goods covered under class 5 include pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for filling teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
4. The goods covered under class 19 include building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal.
5. The goods covered under class 20 include furniture, mirrors, picture frames; containers, not of metal, for storage or transport; unworked or semi-worked bone, horn, whalebone or mother-of-pearl; shells; meerschaum; yellow amber.
6. The goods covered under class 24 include textiles and substitutes for textiles; household linen; curtains of textile or plastic.
7. The goods covered under class 28 include games and playthings; playing cards; gymnastic and sporting articles; decorations for Christmas trees; children's toy bicycles.
8. The goods covered under class 29 include meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; oils and fats for food.
9. The goods covered under class 31 include agricultural, horticultural and forestry products; live animals; fresh fruits and vegetables, seeds, natural plants and flowers; foodstuffs for animals; malt; food and beverages for animals.
10. The goods covered under class 39 include transport; packaging and storage of goods; travel arrangement; distribution of electricity; travel information; provision of car parking facilities.

(b) Domain name

As at the Latest Practicable Date, we had registered the following domain name:

	Domain name	Registrant	Expiry date
1	goldenhighway-chem.com	GHW International SCM	28 May 2020
2	goldenhighway.com	GHW International SCM	2 December 2022
3	ghwline.com	GHW Chemicals	18 July 2020
4	cholinechloride.net	Havay Feeds	14 August 2021
5	sino-pharmjs.com	Xinnuo Pharmaceutical	10 July 2021
6	havay.com.cn	Havay Group	19 March 2023

(c) Patents

As at the Latest Practicable Date, we were the registered owner of the following patents in the PRC:

	Patent	Type	Owner	Patent number	Application date	Expiry date
1	A method for preparing and producing diethyl sulfate (一種製備硫酸二乙酯的方法)	Invention	Havay Group	ZL201410009115.7	9 January 2014	8 January 2034
2	Choline chloride powder with peanut shell as carrier and preparation and production method thereof (一種以花生殼為載體的氯化膽鹼粉劑及其製備方法)	Invention	Havay Group	ZL201410050853.6	14 February 2014	13 February 2034
3	A production method for isooctanoic acid (一種異辛酸的生產方法)	Invention	Havay Group	ZL201510324617.3	12 June 2015	11 June 2035
4	Temperature control device applicable to betaine substitution reaction (適用於甜菜鹼取代反應的控溫裝置)	Utility model	Havay Group	ZL201821319875.8	16 August 2018	15 August 2028

	Patent	Type	Owner	Patent number	Application date	Expiry date
5	A device for odium salt purification suitable for isooctanoic acid production (一種適用於異辛酸生產的鈉鹽提純裝置)	Utility model	Havay Group	ZL201821319975.0	16 August 2018	15 August 2028
6	A device for high-purity potassium iodide production feeding (一種高純碘化鉀生產投料裝置)	Utility model	Havay Group	ZL201821319974.6	16 August 2018	15 August 2028
7	Device for controlling the clarity of potassium iodide (控制碘化鉀澄清度的裝置)	Utility model	Havay Group	ZL201821319973.1	16 August 2018	15 August 2028
8	Device for carrier loading of choline chloride powder (氯化膽鹼粉劑的載體上料裝置)	Utility model	Havay Group	ZL201821319941.1	16 August 2018	15 August 2028
9	A device for hydrogen discharge suitable for isooctanoic acid production (一種適用於異辛酸生產的放氫裝置)	Utility model	Havay Group	ZL201821319934.1	16 August 2018	15 August 2028
10	A device for automatic dispensing for isooctanoic acid production (一種適用於異辛酸生產的自動分液裝置)	Utility model	Havay Group	ZL201821319932.2	16 August 2018	15 August 2028
11	Device for cooling of choline chloride powder (氯化膽鹼粉劑的降溫裝置)	Utility model	Havay Group	ZL201821319930.3	16 August 2018	15 August 2028
12	Device for carrier and water agent mixing suitable for choline chloride drying (適用於氯化膽鹼乾燥的載體與水劑混合裝置)	Utility model	Havay Group	ZL201821319929.0	16 August 2018	15 August 2028
13	A device for automatic precision batching for polyurethane composite material (一種聚氨酯組料自動化精確配料裝置)	Utility model	Havay Group	ZL201821319928.6	16 August 2018	15 August 2028
14	A device for continuous esterification and rectification for methyl chloroacetate (一種氯乙酸甲酯的連續酯化、精餾裝置)	Utility model	Havay Group	ZL201821319911.0	16 August 2018	15 August 2028
15	A device for hydrogen discharge damping suitable for isooctanoic acid production (一種適用於異辛酸生產的放氫減震裝置)	Utility model	Havay Group	ZL201821319910.6	16 August 2018	15 August 2028
16	Device for automatically controlling the pH value of salt reaction by producing choline chloride (氯化膽鹼生產自動控制成鹽反應PH值的裝置)	Utility model	Havay Group	ZL201821319909.3	16 August 2018	15 August 2028
17	Device for intensive unloading storage for choline chloride carrier (氯化膽鹼載體的集約化卸車儲存裝置)	Utility model	Havay Group	ZL201821319908.9	16 August 2018	15 August 2028
18	Drying device suitable for anhydrous beet pulp (適用於無水甜菜鹼的烘乾裝置)	Utility model	Havay Group	ZL201821319907.4	16 August 2018	15 August 2028
19	Device suitable for pressure control of choline chloride salt formation reaction (適用於氯化膽鹼成鹽反應壓力控制的裝置)	Utility model	Havay Group	ZL201821319906.X	16 August 2018	15 August 2028
20	Highly efficient melting pure MDI device (高效熔化純MDI裝置)	Utility model	Havay Group	ZL201821319872.4	16 August 2018	15 August 2028

Patent	Type	Owner	Patent number	Application date	Expiry date
21 Temperature control device suitable for betaine hydrochloride drying (適用於甜菜鹼鹽酸鹽烘乾的控溫裝置)	Utility model	Havay Group	ZL201821319870.5	16 August 2018	15 August 2028
22 A device for crystallising suitable for potassium iodide (一種適用於碘化鉀的結晶裝置)	Utility model	Havay Group	ZL201821446765.8	5 September 2018	4 September 2028
23 A device for preventing drying and agglomeration of potassium iodide (一種防止碘化鉀烘乾結塊的裝置)	Utility model	Havay Group	ZL201821446095.X	5 September 2018	4 September 2028
24 A device for chlorine gas absorption suitable for calcium iodate production (一種適用於碘酸鈣生產的氯氣吸收裝置)	Utility model	Havay Group	ZL201821446042.8	5 September 2018	4 September 2028
25 A device for the removal of dust during drying of choline chloride (一種適用於氯化膽鹼乾燥的除塵裝置)	Unity Model	Havay Group	ZL201821446764.3	5 September 2018	5 September 2028
26 Chlorine-free device for calcium iodate production (碘酸鈣生產的逐氯裝置)	Utility model	Havay Group	ZL201821457520.5	6 September 2018	5 September 2028
27 Sodium periodate acidification automatic device (高碘酸鈉酸化自動裝置)	Utility model	Havay Group	ZL201821457519.2	6 September 2018	5 September 2028
28 A device for waste heat utilisation suitable for choline chloride drying (一種適用於氯化膽鹼乾燥的餘熱利用裝置)	Utility model	Havay Group	ZL201821457041.3	6 September 2018	5 September 2028
29 Intelligent reaction device for potassium iodide production (碘化鉀生產的智慧化反應裝置)	Utility model	Havay Group	ZL201821457011.2	6 September 2018	5 September 2028
30 Betaine high-efficiency concentrated demineraliser (甜菜鹼高效濃縮除胺裝置)	Utility model	Havay Group	ZL201821463633.6	7 September 2018	6 September 2028
31 A device for betaine hydrochloride crystallising (一種甜菜鹼鹽酸鹽結晶裝置)	Utility model	Havay Group	ZL201821463441.5	7 September 2018	6 September 2028
32 Continuous drying device for sodium selenite (適用於亞硒酸鈉的連續烘乾裝置)	Utility model	Havay Group	ZL201821462504.5	7 September 2018	6 September 2028
33 Energy-saving drying device for betaine hydrochloride (甜菜鹼鹽酸鹽的節能乾燥裝置)	Utility model	Havay Group	ZL201821462258.3	7 September 2018	6 September 2028
34 Continuous neutralisation reaction device for producing betaine (生產甜菜鹼的連續中和反應裝置)	Utility model	Havay Group	ZL201821458848.9	7 September 2018	6 September 2028
35 A device for decolorising suitable for choline chloride aqueous agent (一種適用於氯化膽鹼水劑的脫色裝置)	Utility model	Havay Group	ZL201821466217.1	8 September 2018	7 September 2028
36 A device for continuous drying for anhydrous betaine (一種無水甜菜鹼的連續烘乾裝置)	Utility model	Havay Group	ZL201821466216.7	8 September 2018	7 September 2028
37 A device for processing of choline chloride powder sieve (一種氯化膽鹼粉劑篩上物的處理裝置)	Utility model	Havay Group	ZL201821466211.4	8 September 2018	7 September 2028

Patent	Type	Owner	Patent number	Application date	Expiry date
38 A device for continuous production of choline chloride suitable for ceria carrier (一種適用於二氧化碳載體的氯化膽鹼連續生產裝置)	Utility model	Havay Group	ZL201821466040.5	8 September 2018	7 September 2028
39 A device for the absorption of exhaust during production of choline chloride (一種氯化膽鹼生產廢氣的吸收裝置)	Unity Model	Havay Group	ZL201821466039.2	8 September 2018	8 September 2028
40 Device for powder feeding (給粉裝置)	Utility model	Xinnuo Pharmaceutical	ZL201721233439.4	25 September 2017	24 September 2027
41 A dry storage device for production of choline chloride (一種用於氯化膽鹼生產用的乾燥保存裝置)	Unity Model	Havay Feeds	ZL201822008039.4	3 December 2018	3 December 2028
42 A swing granulator for production of choline chloride (一種用於氯化膽鹼生產用的搖擺顆粒機)	Unity Model	Havay Feeds	ZL201822008522.2	3 December 2018	3 December 2028
43 A uniform mixing device for production of choline chloride power (一種氯化膽鹼粉劑的均勻混合裝置)	Unity Model	Havay Feeds	ZL201822009127.6	3 December 2018	3 December 2028
44 A drying device for production of choline chloride (一種氯化膽鹼生產用烘乾裝置)	Unity Model	Havay Feeds	ZL201822018741.9	4 December 2018	4 December 2028
45 A concentration device for production of choline chloride (一種氯化膽鹼生產用濃縮裝置)	Unity Model	Havay Feeds	ZL201822018864.2	4 December 2018	4 December 2028
46 A classifier for production of choline chloride (一種氯化膽鹼生產用篩選裝置)	Unity Model	Havay Feeds	ZL201822019385.2	4 December 2018	4 December 2028
47 A device for the processing of tail gas during production of choline chloride (一種氯化膽鹼生產用尾氣處理裝置)	Unity Model	Havay Feeds	ZL201822028046.0	5 December 2018	5 December 2028
48 A vibrating classifier for production of choline chloride (一種氯化膽鹼生產用振動篩分機)	Unity Model	Havay Feeds	ZL201822028329.5	5 December 2018	5 December 2028
49 A storage tank for choline chloride products (一種用於氯化膽鹼的成品儲存罐)	Unity Model	Havay Feeds	ZL201822029087.1	5 December 2018	5 December 2028
50 A synthetic device for production of choline chloride (一種用於氯化膽鹼生產用的合成裝置)	Unity Model	Havay Feeds	ZL201822029288.1	5 December 2018	5 December 2028

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests and/or short positions of our Directors in the shares, underlying shares and debentures of our Company or any associated corporation

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short

positions which he/she is taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange, will be as follows:

Director	Company concerned	Nature of interests	Number of Share held <i>(Note 1)</i>	Approximate percentage of interests in the company concerned
Mr. Yin	Our Company	Interest in controlled corporation <i>(Note 2)</i>	553,141,500 Shares ^(L)	55.31415%

Notes:

- The letter "L" denotes our Director's long position in the Shares.
- Among these Shares, (a) 375,000,000 Shares are held by Commonwealth B Limited, which is owned as to 80% by Commonwealth Yanbin Limited which is in turn wholly owned by Mr Yin; and (b) 178,141,500 Shares are held by Commonwealth Happy Elephant Limited, which is owned as to 98.2610% by Commonwealth YYB Limited which is in turn wholly owned by Mr. Yin. By virtue of the SFO, Mr. Yin is deemed to be interested in the 375,000,000 Shares held by Commonwealth B Limited and the 178,141,500 Shares held by Commonwealth Happy Elephant Limited.

2. Interests and/or short positions discloseable under the SFO and our Substantial Shareholders

Please refer to the section headed "Substantial Shareholders" in this prospectus for details of the persons (other than a Director or the chief executive of our Company)/entities which will have an interest or short position in the Shares and 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, which is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

3. Particulars of service agreements and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing on the Listing Date.

Each of our executive Directors is entitled to a basic salary subject to an annual review by the remuneration committee of our Board during the term. In addition, each of our executive Directors is also entitled to a discretionary management bonus to be recommended by the remuneration committee of our Board and as approved by the majority of our Board. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The annual salaries of our executive Directors provided under the service contracts are as follows:

Name	Annual Salary
Mr. Yin Yanbin	RMB960,000
Mr. Zhuang Zhaohui	RMB588,000
Mr. Chen Zhaohui	RMB504,000
Mr. Zhou Chunnian	RMB432,000
Mr. Chen Hua	RMB402,000
Mr. Sun Guibin	RMB360,000

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company under which they have agreed to act as our independent non-executive Directors for an initial term of three years commencing on the Listing Date. The annual directors' fees which our Company intends to pay to all our independent non-executive Directors are as follows:

Name	Annual Director's Fee
Mr. Sun Hongbin	RMB96,000
Mr. Wang Guangji	RMB96,000
Ms. Zheng Qing	RMB96,000

(c) Remuneration of our Directors

- (i) The aggregate of the remuneration paid and benefits in kind granted to our Directors by any member of our Group in respect of the year ended 31 December 2018 is approximately RMB4.3 million.
- (ii) The aggregate remuneration payable to, and benefits in kind receivable by, our Directors by any member of our Group in respect of the year ending 31 December 2019 under the arrangements in force at the date of this prospectus are estimated to be approximately RMB3.5 million.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

D. SHARE OPTION SCHEME**1. Summary of terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing of the Shareholders passed on 16 December 2019:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group.

(ii) Who may join

Our Directors (which expression shall, for the purpose of this subsection D, include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants (“**Eligible Participants**”), to take up options to subscribe for Shares:

- (a) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries (“**Subsidiaries**”) or any entity (“**Invested Entity**”) in which our Group holds an equity interest (“**Eligible Employee**”);
- (b) any non-executive director (including independent non-executive directors) of our Company, any Subsidiary or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of any member of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group, and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the Eligible Participants to the grant of options shall be determined by our Directors from time to time on the basis of our Directors’ opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of Shares

- (a) The overall limit on the number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which dealings in the Shares first commence on the Stock Exchange (i.e. not exceeding 100,000,000 Shares) (the “**General Scheme Limit**”).

- (c) Subject to paragraph (a) above but without prejudice to paragraph (d) below, our Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit 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 options scheme of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (d) Subject to paragraph (a) above and without prejudice to paragraph (c) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in paragraph (c) above to Eligible Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) *Maximum entitlement of each participant*

Subject to paragraph (v)(b) below, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) *Grant of options to connected persons*

- (a) Without prejudice to paragraph (b) below, any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the option).
- (b) Without prejudice to paragraph (a) above, where any grant of options to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. Our Company must send a circular to the Shareholders. The grantee, his associates and all connected persons of our Company must abstain from voting in favour at such general meeting. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme shall be determined at the discretion of our Directors, provided that it shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

- (a) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

- (b) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary share capital of our Company of such nominal amount as shall result from a sub-division, consolidation, re-classification, reduction or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of grant of options

Our Company may not make any offer for grant of options after inside information has come to our knowledge until our Company has announced the information. In particular, our Company may not make any offer 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 under the Listing Rules) for approving our Company’s results for any year, half- year, quarterly or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement.

Our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of its Subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of persistent and serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (a) the grantee of any option (other than an Eligible Employee) or his close associate (or his associates if the grantee is a connected person) has committed any breach of any contract entered into between the grantee or his close associate on the one part and our Group or any Invested Entity on the other part; or (b) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (c) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever, then the option granted to the grantee under the Share Option scheme shall lapse as a result of any event specified in sub-paragraph (a), (b) or (c) above.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by Eligible Participants

If the grantee is a company wholly owned by one or more Eligible Participants:

- (i) paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such adjustment; (ii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to paragraphs (iii)(c) and (d) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the period referred to in paragraph (vi);
- (b) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvii) and (xviii);
- (c) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

(xxiv) Others

- (a) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (b) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (d) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules, the "Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the Note Immediately After the Rule" set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 and other relevant guidance of the Stock Exchange.
- (e) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

2. Present status of the Share Option Scheme**(i) Approval of the Listing Committee required**

The Share Option Scheme, which complies with Chapter 17 of the Listing Rules, is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION

1. Tax and other indemnity

Our Controlling Shareholders (together, the “**Indemnifiers**”) have entered into the Deed of Indemnity to provide the following indemnities in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time).

Pursuant to the Deed of Indemnity, the Indemnifiers have agreed to jointly and severally indemnify each of the members of our Group against the following:

- (a) any liability for Hong Kong estate duty which might be incurred by us by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to us on or before the date on which the Global Offering becomes unconditional (the “**Effective Date**”);
- (b) taxation which might fall on us in respect of any income, profits or gains earned, accrued or received on or before the Effective Date, subject to certain exceptions set out below;
- (c) taxation which may fall on us arising from the Reorganisation payable under the Notice on Strengthening Enterprise Income Taxation on Non-Resident Enterprises with respect to Gains from Equity Transfer* (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) promulgated by the SAT or any event or transaction on or before the Effective Date, subject to certain exceptions set out below;
- (d) any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by us directly or indirectly as a result of and in connection with any non-compliance(s) of our Group with all applicable laws, rules or regulations on or before the Effective Date;
- (e) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the Effective Date; and
- (f) any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by us directly or indirectly as a result of and in connection with (i) any dispute as to the rights to lease and use by our Group as sub-lessee of two adjacent state-owned land parcels (the “**Land**”) of approximately 25.1 mu (畝) in aggregate and the office building (the

“Office Building”) located in Xuzhou, PRC, on which our Group commenced construction of production building (the “Xuzhou Production Building”) for our Xuzhou Production Plant on the Land in 2005, because the landlord had not obtained the land use right certificate (土地使用權證) in respect of the Land and the building ownership certificate (房屋所有權證) in respect of the Office Building and failed to provide the construction planning permit (建設工程規劃許可證) and the construction building permit (建築工程施工許可證); (ii) our Group’s non-compliance in respect of failure to obtain the construction land use permit (建設用地規劃許可證), the construction planning permit (建設工程規劃許可證), the construction building permit (建築工程施工許可證) and the building ownership certificate, as well as to conduct the completion acceptance procedure (竣工驗收), for the Xuzhou Production Building; and (iii) the potential amount of aggregate cost for write off of factory building and fix assets (estimated at RMB2.5 million), in the event of relocation of the Xuzhou Production Plant.

The Indemnifiers will, however, not be liable in respect of any taxation referred to in paragraphs (a), (b) and (c) above:

- (1) to the extent that provision or reserve has been made for such taxation in the audited accounts of our Group for the Track Record Period and to the extent that such taxation is incurred or accrued since 30 June 2019 which arises in our ordinary course of business; or
- (2) to the extent that such taxation falls on us in respect of the accounting period commencing on or after 1 July 2019 unless such taxation would not have arisen but for an act or omission of, or transaction voluntarily effected by the Indemnifiers or us otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Effective Date; or
- (3) to the extent that such taxation would not have arisen but for a voluntary act or transaction carried out or effected (other than pursuant to a legally binding commitment created on or before the date of the Deed of Indemnity) by us after the date of the Deed of Indemnity; or
- (4) to the extent that such taxation arises as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practice thereof by any relevant authority coming into force after the date of the Deed of Indemnity or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
- (5) to the extent of any provision or reserve made for taxation in the audited accounts of our Group up to 30 June 2019 and which is finally established to be an over-provision or an excessive reserve.

Our Directors have been advised that no material liability for estate duty would be likely to fall upon our Company or any of our subsidiaries in the Cayman Islands, the BVI, Hong Kong, the PRC, Seychelles, the United States, Slovakia, Russia, Ukraine, Canada (British Columbia), Mexico, Vietnam and India.

2. Litigation or claims

As at the Latest Practicable Date, save as disclosed in the paragraph headed “Business – Legal Non-compliance and Proceedings – Legal proceedings” in this prospectus, no member of our Group was subject to any actual, pending or threatened litigation or claims of material importance which would have a material impact on our operations, financials and reputation.

3. The Sole Sponsor

Save for the advisory fees in the amount of HK\$4.8 million to be paid to Fortune Financial Capital Limited as the Sole Sponsor in connection with the Listing, the advisory fees to be paid to the Sole Sponsor as our compliance advisers with effect from the Listing Date and the commission as disclosed in the section headed “Underwriting” in this prospectus to be paid to Fortune (HK) Securities Limited for its obligations under the Underwriting Agreements, neither Fortune Financial Capital Limited nor any of its close associates has or may, as a result of the Listing, have any interests in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately RMB27,000 and are payable by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualification of experts

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Listing Rules) who have given their opinions or advice in this prospectus are as follows:

Name	Qualification
Fortune Financial Capital Limited	A licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity
Jingtian & Gongcheng	Legal advisers as to PRC law
Global Vietnam Lawyers LLC	Legal advisers as to Vietnamese law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Montgomery McCracken Walker & Rhoads LLP	Legal advisers as to U.S. law
Loeb & Loeb LLP	Legal advisers as to U.S. and United Nations sanctions law
RadcliffesLeBrasseur	Legal advisers as to European Union sanctions law
Holding Redlich	Legal advisers as to Australian sanctions law
Deloitte Touche Tohmatsu	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
BDO Tax Limited	Tax consultant with respect to transfer pricing review

7. Consents of experts

Each of the experts named in paragraph 6 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

8. Disclaimers

- (a) Taking no account of any Shares which may be taken up or acquired under the Global Offering or the options granted or which may be granted under the Share Option Scheme, our Directors are not aware of any person who, save as disclosed in the section headed “Substantial Shareholders” in this prospectus, will, immediately following the completion of the Capitalisation Issue and the Global Offering, have an interest or a short position in Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;
- (b) Save as disclosed in paragraph 1 of the paragraph headed “C. Further Information about Our Directors and Substantial Shareholders” in this appendix, none of our Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed on the Main Board;
- (c) None of our Directors nor the experts named in paragraph 6 above has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (d) Save as disclosed in note 36 to the Accountants’ Report and in connection with the Underwriting Agreements, the material contracts referred to in the paragraph headed “B. Further Information about Our Business – 1. Summary of material contracts” in this appendix and the service agreements and letters of appointments referred to in the paragraph headed “C. Further Information about Our Directors and Substantial Shareholders – 3. Particulars of service agreements and appointment letters” in this appendix, none of our Directors nor the experts named in paragraph 6 above 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; and
- (e) none of the experts named in paragraph 6 above has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

9. Miscellaneous

- (a) Save as disclosed in the sections headed “History, Reorganisation and Corporate Structure” and “Structure and Conditions of the Global Offering” and the paragraph headed “A. Further Information about Our Group – 2. Changes in the share capital of our Company” in this appendix, within two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries; and
 - (iii) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in our Company or any of its subsidiaries;
- (b) No share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) There has been no material adverse change in the financial position or prospects of our Group since 30 June 2019 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) There has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group;
- (e) There is no arrangement under which future dividends are waived or agreed to be waived;
- (f) There are no founder, management or deferred shares in our Company or any of its subsidiaries;
- (g) Our Group does not have any outstanding convertible debt securities or debentures;
- (h) No securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange;
- (i) All necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
- (j) None of the debt and equity securities of the companies comprising our Group is presently listed on any stock exchange or traded on any trading system.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Exemption from requirement of a property valuation report

For the purpose of Chapter 5 of the Listing Rules, as no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets, this prospectus is not required to include any valuation report of our property interests.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report with respect to all our Group's assets in land or buildings.

12. Bilingual prospectus

The English version and the Chinese version 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).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration are (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms; (b) the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 7. Consents of experts” in Appendix IV to this prospectus; and (c) copies of each of the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about our Business – 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Loeb & Loeb LLP of 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report of our Group from Deloitte Touche Tohmatsu, being our reporting accountants, the text of which is set out in the section headed “Accountants’ Report” in Appendix I to this prospectus;
- (c) the report from Deloitte Touche Tohmatsu, being our reporting accountants, relating to the unaudited pro forma financial information of our Group, the text of which is set out in the section headed “Unaudited Pro Forma Financial Information of the Group” in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three years ended 31 December 2018 and the six months ended 30 June 2019;
- (e) the service agreements and appointment letters referred to in the paragraph headed “Statutory and General Information – C. Further Information about our Directors and Substantial Shareholders – 3. Particulars of service agreements and appointment letters” in Appendix IV to this prospectus;
- (f) the material contracts referred to in the paragraph headed “Statutory and General Information – B. Further Information about our Business – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (g) the written consents referred to in the paragraph headed “Statutory and General Information – E. Other Information – 7. Consents of experts” in Appendix IV to this prospectus;
- (h) the legal opinions issued by Jingtian & Gongcheng, being the legal advisers to our Company as to PRC law;
- (i) the legal opinions issued by Global Vietnam Lawyers LLC, being the legal advisers to our Company as to Vietnamese law;
- (j) the legal opinion issued by Montgomery McCracken Walker & Rhoads LLP, being the legal advisers to our Company as to U.S. law;
- (k) the letter of advice prepared by Conyers Dill & Pearman, being the legal advisers to our Company as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law as referred to in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (l) the legal opinion issued by Loeb & Loeb LLP, being the legal advisers to our Company as to U.S. and United Nations sanctions law;

- (m) the legal opinion issued by RadcliffesLeBrasseur, being the legal advisers to our Company as to European Union sanctions law;
- (n) the legal opinion issued by Holding Redlich, being the legal advisers to our Company as to Australian sanctions law;
- (o) the transfer pricing review report issued by BDO Tax Limited, being the tax consultant of our Company with respect to transfer pricing review;
- (p) the Industry Report issued by Frost & Sullivan, the summary of which is set forth in the section headed “Industry Overview” in this prospectus;
- (q) the Companies Law; and
- (r) the Share Option Scheme.

